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1969–1976

VOLUME XXXI

FOREIGN ECONOMIC POLICY, 1973–1976

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Foreign Relations of the United States, 1969–1976

Volume XXXI

Foreign Economic Policy, 1973–1976

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Preface

The *Foreign Relations of the United States* series presents the official documentary historical record of major foreign policy decisions and significant diplomatic activity of the United States Government. The Historian of the Department of State is charged with the responsibility for the preparation of the *Foreign Relations* series. The staff of the Office of the Historian, Bureau of Public Affairs, under the direction of the General Editor of the *Foreign Relations* series, plans, researches, compiles, and edits the volumes in the series. Secretary of State Frank B. Kellogg first promulgated official regulations codifying specific standards for the selection and editing of documents for the series on March 26, 1925. These regulations, with minor modifications, guided the series through 1991.

Public Law 102–138, the Foreign Relations Authorization Act, established a new statutory charter for the preparation of the series which was signed by President George H.W. Bush on October 28, 1991. Section 198 of P.L. 102–138 added a new Title IV to the Department of State's Basic Authorities Act of 1956 (22 USC 4351, et seq.).

The statute requires that the *Foreign Relations* series be a thorough, accurate, and reliable record of major United States foreign policy decisions and significant United States diplomatic activity. The volumes of the series should include all records needed to provide comprehensive documentation of major foreign policy decisions and actions of the United States Government. The statute also confirms the editing principles established by Secretary Kellogg: the *Foreign Relations* series is guided by the principles of historical objectivity and accuracy; records should not be altered or deletions made without indicating in the published text that a deletion has been made; the published record should omit no facts that were of major importance in reaching a decision; and nothing should be omitted for the purposes of concealing a defect in policy. The statute also requires that the *Foreign Relations* series be published not more than 30 years after the events recorded. The editors are convinced that this volume meets all regulatory, statutory, and scholarly standards of selection and editing.

Structure and Scope of the Foreign Relations *Series*

This volume is part of a subseries of volumes of the *Foreign Relations* series that documents the most important issues in the foreign policy of the administrations of Richard M. Nixon and Gerald R. Ford. This volume documents U.S. foreign economic policy from 1973 to 1976, focusing on international monetary policy, economic summitry, trade policy, commodity policy, and North-South relations. Readers interested in U.S. energy policy and the implications of the 1973 and 1979 oil crises should consult *Foreign Relations,* 1969–1976, volume XXXVI, Energy Crisis, 1969–1974 and volume XXXVII, Energy Crisis, 1974–1980. Readers interested in stockpile policy should consult *Foreign Relations,* 1969–1976, volume XXXV, National Security Policy, 1973–1976. For U.S. economic relations with a particular country or region, readers should consult the relevant geographically focused volume of *Foreign Relations*; for example, the U.S.-European Community relationship, burdensharing, and East-West trade policy are all documented in *Foreign Relations,* 1969–1976, volume 15, part 1, Eastern Europe, and part 2, Western Europe. Finally, for the organization of the foreign economic policy making process, readers should consult *Foreign Relations,* 1969–1976, volume XXXVIII, Foundations and Organization of Foreign Policy, 1973–1976.

Focus of Research and Principles of Selection for Foreign Relations, *1969–1976, volume XXXI*

This volume has a tightly defined understanding of foreign economic policy, one that focuses on three significant areas: international monetary relations, international trade, and efforts to redress global economic inequalities. The section on international monetary policy and economic summitry focuses on the aftermath of the collapse of the fixed exchange rate regime envisioned at the 1944 Bretton Woods conference. It includes documents on the monetary crisis of February and March 1973; efforts to reform the international monetary system, with particular emphasis on the issues of exchange rate flexibility and the future of gold; and the creation of the G–7 summit. The section on trade policy, more than any other section in this volume, demonstrates the influence of domestic politics on foreign economic policy; this is particularly clear in the documents on the 1973 decision to impose export controls and the White House's efforts to secure passage of a major piece of trade reform legislation, the Trade Act of 1974. This section also includes documents on the beginnings of a new round of negotiations under the General Agreement on Tariffs and Trade, with particular emphasis on the role of agriculture in those negotiations, as well as foreign fears of U.S. protectionism. The final section, on commodity policy and North-South issues, documents the approach of the Nixon and Ford administrations to the persistent economic disparities between the industrialized nations of the North and the less developed countries of the South; it also explores U.S. attempts to grapple with the global trade in primary commodities in a post-1973 oil embargo world.

Like all recent *Foreign Relations* volumes in the Nixon-Ford subseries, the emphasis of this volume is on policy formulation, rather than the implementation of policy or day-to-day diplomacy. As in other volumes in this subseries, the National Security Council and the Department of State were major players in the policy making process; in this volume, however, they are joined by the Department of the Treasury (which played a key role in the formulation of international monetary and North-South policies) and the Federal Reserve Board (which exercised an important influence on the international monetary policy making process).

Editorial Methodology

The volume is divided into three compilations: international monetary policy, trade policy, and commodity policy and North-South relations. Within each compilation, documents are presented chronologically according to Washington time. Memoranda of conversation are placed according to the time and date of the conversation, rather than the date the memorandum was drafted.

Editorial treatment of the documents published in the *Foreign Relations* series follows Office style guidelines, supplemented by guidance from the General Editor and the chief technical editor. The documents are reproduced as exactly as possible, including marginalia or other notations, which are described in the footnotes. Texts are transcribed and printed according to accepted conventions for the publication of historical documents within the limitations of modern typography. A heading has been supplied by the editors for each document included in the volume. Spelling, capitalization, and punctuation are retained as found in the original text, except that obvious typographical errors are silently corrected. Other mistakes and omissions in the documents are corrected by bracketed insertions: a correction is set in italic type; an addition in roman type. Words repeated in telegrams to avoid garbling or provide emphasis are silently corrected. Words or phrases underlined in the source text are printed in italics. Abbreviations and contractions are preserved as found in the original text, and a list of abbreviations is included in the front matter of each volume.

Bracketed insertions are also used to indicate omitted text that deals with an unrelated subject (in roman type) or that remains classified after declassification review (in italic type). The amount and, where possible, the nature of the material not declassified has been noted by indicating the number of lines or pages of text that were omitted. Entire documents withheld for declassification purposes have been accounted for and are listed with headings, source notes, and number of pages not declassified in their chronological place. All brackets that appear in the original text are so identified in footnotes. All ellipses are in the original documents.

The first footnote to each document indicates the source of the document, original classification, distribution, and drafting information. This note also provides the background of important documents and policies and indicates whether the President or his major policy advisers read the document.

Editorial notes and additional annotation summarize pertinent material not printed in the volume, indicate the location of additional documentary sources, provide references to important related documents printed in other volumes, describe key events, and provide summaries of and citations to public statements that supplement and elucidate the printed documents. Information derived from memoirs and other first-hand accounts has been used when appropriate to supplement or explicate the official record.

The numbers in the index refer to document numbers rather than to page numbers.

Advisory Committee on Historical Diplomatic Documentation

The Advisory Committee on Historical Diplomatic Documentation, established under the Foreign Relations statute, reviews records, advises, and makes recommendations concerning the *Foreign Relations* series. The Advisory Committee monitors the overall compilation and editorial process of the series and advises on all aspects of the preparation and declassification of the series. The Advisory Committee does not necessarily review the contents of individual volumes in the series, but it makes recommendations on issues that come to its attention and reviews volumes as it deems necessary to fulfill its advisory and statutory obligations.

Presidential Recordings and Materials Preservation Act Review

Under the terms of the Presidential Recordings and Materials Preservation Act (PRMPA) of 1974 (44 USC 2111 note), the National Archives and Records Administration (NARA) has custody of the Nixon Presidential historical materials. The requirements of the PRMPA and implementing regulations govern access to the Nixon Presidential historical materials. The PRMPA and implementing public access regulations require NARA to review for additional restrictions in order to ensure the protection of the privacy rights of former Nixon White House officials, since these officials were not given the opportunity to separate their personal materials from public papers. Thus, the PRMPA and implementing public access regulations require NARA formally to notify the Nixon Estate and former Nixon White House staff members that the agency is scheduling for public release Nixon

White House historical materials. The Nixon Estate and former White House staff members have 30 days to contest the release of Nixon historical materials in which they were a participant or are mentioned. Further, the PRMPA and implementing regulations require NARA to segregate and return to the creator of files private and personal materials. All *Foreign Relations* volumes that include materials from NARA's Nixon Presidential Materials Staff are processed and released in accordance with the PRMPA.

Nixon White House Tapes

Access to the Nixon White House tape recordings is governed by the terms of the PRMPA and an access agreement with the Office of Presidential Libraries of the National Archives and Records Administration and the Nixon Estate. In February 1971, President Nixon initiated a voice activated taping system in the Oval Office of the White House and, subsequently, in the President's Office in the Executive Office Building, Camp David, the Cabinet Room, and White House and Camp David telephones. The audiotapes include conversations of President Nixon with his Assistant for National Security Affairs, Henry Kissinger, other White House aides, Secretary of State Rogers, other Cabinet officers, members of Congress, and key foreign officials. The clarity of the voices on the tape recordings is often very poor, but the editor has made every effort to verify the accuracy of the transcripts produced here. Readers are advised that the tape recording is the official document; the transcript represents an interpretation of that document. Through the use of digital audio and other advances in technology, the Office of the Historian has been able to enhance the tape recordings and over time produce more accurate transcripts. The result is that some transcripts printed here may differ from transcripts of the same conversations printed in previous *Foreign Relations* volumes. The most accurate transcripts possible, however, cannot substitute for listening to the recordings. Readers are urged to consult the recordings themselves for full apprecation of those aspects of the conversations that cannot be captured in a transcript, such as the speakers' inflections and emphases that may convey nuances of meaning, as well as the larger context of the discussion.

Declassification Review

The Office of Information Programs and Services, Bureau of Administration, conducted the declassification review for the Department of State of the documents published in this volume. The review was conducted in accordance with the standards set forth in Executive Order 12958, as amended, on Classified National Security Information and applicable laws.

The principle guiding declassification review is to release all information, subject only to the current requirements of national security as embodied in law and regulation. Declassification decisions entailed concurrence of the appropriate geographic and functional bureaus in the Department of State, other concerned agencies of the U.S. Government, and the appropriate foreign governments regarding specific documents of those governments. The declassification review of this volume, which began in 2005 and was completed in 2009, resulted in the decision to make a minor excision of less than a paragraph in 1 document.

The Office of the Historian is confident, on the basis of the research conducted in preparing this volume and as a result of the declassification review process described above, that the record presented in this volume presented here provides an accurate and comprehensive account of U.S. foreign economic policy from 1973 to 1976.

Acknowledgments

The editor wishes to acknowledge the assistance of officials at the Nixon Presidential Materials Project of the National Archives and Records Administration (Archives II), at College Park, Maryland. The editor also wishes to acknowledge the Richard Nixon Estate for allowing access to the Nixon presidential recordings and the Richard Nixon Library & Birthplace for facilitating that access. Thanks are due to the Historical Staff of the Central Intelligence Agency, who were helpful in arranging full access to the files of the Central Intelligence Agency. John Haynes of the Library of Congress was responsible for expediting access to the Kissinger Papers. The editor was able to use the Kissinger Papers, including the transcripts of telephone conversations, with the kind permission of Henry Kissinger. Finally, the editor wishes to thank the staff of the Gerald R. Ford Presidential Library, particularly Geir Gundersen, Karen Holzhausen, Donna Lehman, and Helmi Raaska, for their valuable and tireless assistance.

Kathleen B. Rasmussen collected the documents, made the initial selections, and annotated the documents she chose. The volume was completed under the supervision of Luke Smith, Chief of the Europe and General Division, and Edward C. Keefer, General Editor of the series. Dean Weatherhead coordinated the declassification review under the supervision of the Chief of the Declassification and Publishing Division, Susan C. Weetman. Kristin Ahlberg, Keri Lewis, and Aaron W. Marrs did the copy and technical editing. Breffni Whelan prepared the index.

Bureau of Public Affairs
December 2009

Ambassador Edward Brynn
Acting Historian

Contents

Sources

Sources for the Foreign Relations *Series*

The *Foreign Relations* statute requires that the published record in the *Foreign Relations* series include all records needed to provide comprehensive documentation of major U.S. foreign policy decisions and significant U.S. diplomatic activity. It further requires that government agencies, departments, and other entities of the U.S. Government engaged in foreign policy formulation, execution, or support cooperate with the Department of State historians by providing full and complete access to records pertinent to foreign policy decisions and actions and by providing copies of selected records. Most of the sources consulted in the preparation of this volume have been declassified and are available for review at the National Archives and Records Administration.

The editors of the *Foreign Relations* series have complete access to all the retired records and papers of the Department of State: the central files of the Department; the special decentralized files ("lot files") of the Department at the bureau, office, and division levels; the files of the Department's Executive Secretariat, which contain the records of international conferences and high-level official visits, correspondence with foreign leaders by the President and Secretary of State, and memoranda of conversations between the President and Secretary of State and foreign officials; and the files of overseas diplomatic posts. All the Department's indexed central files through July 1973 have been permanently transferred to the National Archives and Records Administration at College Park, Maryland (Archives II). Many of the Department's decentralized office (or lot) files covering the 1969–1976 period, which the National Archives deems worthy of permanent retention, have been transferred or are in the process of being transferred from the Department's custody to Archives II.

The editors of the *Foreign Relations* series also have full access to the papers of Presidents Nixon and Ford, and other White House foreign policy records. Presidential papers maintained and preserved at the Presidential libraries and the Nixon Presidential Materials Project at Archives II include some of the most significant foreign affairs-related documentation from the Department of State and other Federal agencies, including the National Security Council, the Central Intelligence Agency, the Department of Defense, and the Joint Chiefs of Staff. Dr. Henry Kissinger has approved access to his papers at the Library of Congress. These papers are an important source for the Nixon-Ford subseries of *Foreign Relations*.

Research for this volume involved special access to restricted documents at the Nixon Presidential Materials Project, the Ford Library, the Library of Congress, and other agencies. While all the material printed in this volume has been declassified, some of it is extracted from still classified documents. The staffs of the Nixon Presidential Materials Project and the Ford Library are processing and declassifying many of the documents examined for this volume, but they may not be available in their entirety at the time of publication.

The presidential papers of the Nixon and Ford administrations are the best source of high-level decision making documentation for U.S. foreign economic policy from 1973 to 1976. At the Nixon Library facility at the National Archives and Records Administration in College Park, Maryland, a number of collections from the National Security Council (NSC) files are relevant to research on foreign economic policy. Within the main NSC collection, the Agency Files (particularly the Treasury and Council on International Economic Policy files), Country Files—Europe (especially those files related to France and the Federal Republic of Germany, but also the files on the United Kingdom, Italy, and Canada), and Subject Files all contain important documentation; the Backchannel Messages, Presidential Correspondence, and VIP Visits also proved fruitful. The Country Files—Europe—General series within the Henry A. Kissinger Office Files contains some useful material, particularly on the March 1973 monetary crisis. The NSC Institutional Files (H-Files) contain records on high-level meetings, requests for studies, and presidential decisions; they provided crucial documentation on the two National Security Study Memoranda printed in this volume. Another useful series of files at the Nixon Library is the White House Special Files, Staff Member and Office Files; here the President's Office Files (both the President's Handwriting and President's Meeting File) and the President's Personal File (Memoranda from the President) are key. Both the White House tapes and the Kissinger telephone conversation transcripts provided important insights into the thinking of Nixon, Kissinger, Shultz, and other top U.S. officials, particularly during the monetary crises of February and March 1973. The President's Daily Diary, in the White House Central Files, is useful for tracking the President's daily schedule.

The National Security Council material at the Ford Library is organized into categories similar to those at the Nixon Library, many of which are useful when considering U.S. foreign economic policy. The Presidential Subject Files contain good documents on issues such as gold, trade, and food, while the Presidential Country Files for Europe and Canada contain some useful documents, particularly on France. The Trip Briefing Books and Cables of President Ford collection contains documents on the 1975 and 1976 economic summits at Rambouillet and Puerto Rico, respectively, as well as the December 1974

U.S.-French meeting at Martinique. The Memoranda of Conversations collection spans almost the entirety of the 1973 to 1976 period, making it an important resource not only for the Ford era, but for the Nixon era as well. The Kissinger–Scowcroft West Wing Office Files were invaluable on topics such as the Jackson-Vanik amendment and the trade bill, the 1976 economic summit, and issues associated with France, the Federal Republic of Germany, and the United Kingdom. The NSC International Economic Affairs Staff files filled in a number of gaps in the documentary record, particularly on the 1975 and 1976 economic summits. The Institutional Files, NSC "NS" Originals File contained some useful documents, as did the Scowcroft Daily Work File; note that the latter, however, is a large chronological file that requires a good deal of patience to review. The NSC Institutional Files, which is separate from the primary National Security Adviser collection, contain documents related to one of the National Security Study Memoranda printed in this volume. The Ford Library also holds a number of other important collections useful to research on foreign economic policy. The President's Daily Diary is an invaluable resource for following the President's daily work schedule. The President's Handwriting File, arranged by subject, yielded important documents on gold, food aid, and the 1975 and 1976 economic summits. Arthur Burns's Papers, particularly the Federal Reserve Board Subject File, provide a wealth of information on U.S. gold policy. The L. William Seidman Files proved useful on topics such as food, commodities, agriculture, trade, and the economic summits, while the Alan Greenspan Files, in the U.S. Council of Economic Advisors Records, contain good documents on the Economic Policy Board. Finally, the Ford Library has a microfiche set of the William Simon Papers, which are housed in their original form at Lafayette College in Easton, Pennsylvania.

The Kissinger Papers at the Library of Congress are valuable, although the majority of the material relevant to economic policy is duplicated at the National Archives. The best documents on foreign economic policy in the Kissinger Papers were found in the Geopolitical File (particularly the files on France) and the Subject File.

In September 1973, Henry Kissinger became Secretary of State. The same year, the Department phased out the old subject-numeric Central Files, replacing them with an electronic system, the State Archiving System (SAS), which has been transferred to the National Archives and is part of the online Access to Archival Databases (AAD). Some of the most tightly held telegrams are not on the electronic system, but appear only on microfilm reels; the same is true of all non-telegram documents, such as memoranda of conversation, letters, briefing papers, and memoranda to principals. A number of Department of State lot files are also of special value: the records of Henry Kissinger (E5403); the Transcripts of Henry Kissinger's Staff

Meetings with his principal officers at the Department of State (E5177); Secretary of State Henry Kissinger's Telephone Conversations (Department of State, Electronic Reading Room, Transcripts of Kissinger Telephone Conversations); the Records of the Office of the Counselor, Helmut C. Sonnenfeldt (E5339); and the files of Winston Lord, the Director of the Policy Planning Staff (E5027). The Office Files of William Rogers (E5439) contain a handful of important documents on the February 1973 monetary crisis.

Two final collections worthy of special note in documenting U.S. foreign economic policy are the Records of the Council on International Economic Policy and the Records of the Department of the Treasury. The Records of the Council on International Policy form a subcollection in a larger record group, RG 429, Records of Organizations in the Executive Office of the President, and contain useful documents on topics such as trade, commodities, and food. The records of the Department of the Treasury, RG 56, are an absolutely crucial resource. Two Treasury collections in particular proved invaluable in the research of this volume: the General Subject Files of Under Secretary of the Treasury for Monetary Affairs Paul Volcker and the Records of the Secretary of the Treasury George Shultz. The George Shultz records, it should be noted, also contain a wealth of important original material from the tenure of Secretary of the Treasury John Connally.

Unpublished Sources

National Archives and Records Administration, College Park, Maryland

RG 56, Records of the Department of Treasury

Executive Secretariat, General Subject Files of Paul Volcker, Under Secretary of the Treasury for Monetary Affairs
Executive Secretariat, Records of the Deputy Secretary of the Treasury
Executive Secretariat, Records of Secretary of the Treasury George Shultz

RG 59, Records of the Department of State

Lot Files.

S/P Files, Entry 5207 (Lots 77 D 112 and 77 D 114); Policy Planning Staff, Director's Files (Winston Lord), 1969–1977

S/S Files, Entry 5177 (Lot 78 D 443); Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977

S/S Files, Entry 5339 (Lot 81 D 286); Records of the Office of the Counselor, Helmut C. Sonnenfeldt, 1955–1977

S/S Files, Entry 5403; Records of Secretary of State Henry Kissinger, 1973–1977

S/S Files, Entry 5439 (Lot 73 D 443); Office Files of William Rogers, 1969–1973

RG 429, Records of Organizations in the Executive Office of the President

Records of the Council on International Economic Policy
- Records of Executive Committee Meetings
- Records of Senior Review Group Meetings
- Study Memoranda

Nixon Presidential Materials Project, National Archives and Records Administration, College Park, Maryland

Kissinger Telephone Conversation Transcripts (Telcons)

National Security Council Files
- Agency Files
- Backchannel Messages
- Country Files—Europe
- Country Files—Far East
- Institutional Materials
- Presidential Correspondence
- Presidential/HAK Memcons
- Subject Files
- VIP Visits

NSC Files, Henry A. Kissinger Office Files
- Country Files—Europe—General

NSC Institutional Files (H-Files)
- Meeting Files, Senior Review Group Meetings
- Minutes of Meetings, NSC Meeting Minutes
- Minutes of Meetings, Senior Review Group
- Policy Papers, National Security Decision Memorandums
- Study Memorandums, National Security Study Memorandums

White House Central Files
- President's Daily Diary
- Staff Member & Office Files, Council of Economic Advisers, Herbert Stein

White House Special Files, Staff Member & Office Files
- John D. Ehrlichman
- Peter M. Flanigan
- H.R. Haldeman
- President's Office Files: President's Handwriting; President's Meetings File
- President's Personal File: Memoranda from the President; Name/Subject File

White House Tapes

Gerald R. Ford Presidential Library, Ann Arbor, Michigan

Arthur Burns Papers
- Federal Reserve Board Subject File

National Security Adviser Files
- Institutional Files, IF/NS File for the President
- Kissinger–Scowcroft West Wing Office Files

Memoranda of Conversations
NSC International Economic Affairs Staff Files
NSC Meeting Minutes
Presidential Agency Files
Presidential Country Files for East Asia and the Pacific
Presidential Country Files for Europe and Canada
Presidential Files of NSC Logged Documents
Presidential Name File
Presidential Subject File
Scowcroft Daily Work Files
Trip Briefing Books and Cables of President Ford

National Security Council Institutional/Historical Records

President's Daily Diary

President's Handwriting File

L. William Seidman Files

Economic Policy Board Subject Files
Seidman Subject File
Name Files
Foreign Trips Files

William Simon Papers

U.S. Council of Economic Advisors Records

Alan Greenspan Files: Federal Agency Correspondence; White House Correspondence; Subject File; Economic Policy Board Meetings

Library of Congress, Washington, DC

Papers of Henry A. Kissinger

Department of State
Geopolitical File
Record of Schedule
Subject File

Central Intelligence Agency

Executive Registry Files

Job 79–M00467A
Job 80–M01048A
Job 80–M01066A

Office of Economic Research Files

Job 80–B01495R

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Abbreviations and Terms

ACP, African, Caribbean, and Pacific countries
ADB, Asian Development Bank
AFL–CIO, American Federation of Labor-Congress of Industrial Organizations
AID, Agency for International Development

B/D, barrels per day
BIS, Bank for International Settlements
BOP, balance of payments
BP, British Petroleum
BTN, Brussels Tariff Nomenclature

C–20, Committee of 20 (Committee on Reform of the International Monetary System)
CAP, Common Agricultural Policy
CARE, Cooperative for Assistance and Relief Everywhere
CARITAS, Carias Internationalis (Catholic relief and development organization)
CCC, Commodity Credit Corporation
CDU, Christian Democratic Union (Federal Republic of Germany)
CEA, Council of Economic Advisers
CGFPI, Consultative Group on Food Production and Investment
CGIAR, Consultative Group on International Agricultural Research
CIA, Central Intelligence Agency
CIEC, Conference on International Economic Cooperation
CIEP, Council on International Economic Policy
CIEPDM, Council on International Economic Policy Decision Memorandum
CIEPSM, Council on International Economic Policy Study Memorandum
CIF, cost, insurance, and freight
COB, close of business
COLC, Cost of Living Council
COMECON, Council for Mutual Economic Assistance
CPCC, Commodity Policy Coordinating Committee
CPI, consumer price index
CPR, Chinese People's Republic
CSCE, Conference for Security and Cooperation in Europe

D, Democrat; Democratic
DC, developed country
D-mark, deutschmark
DISC, Domestic International Sales Corporation
DM, deutschmark
DOD, Department of Defense
d.v., deo volente (God willing)

E, Office of the Under Secretary of State for Economic Affairs
EB, Bureau of Economic and Business Affairs, Department of State
EC, European Community
ECOSOC, United Nations Economic and Social Council
EEC, European Economic Community
EFTA, European Free Trade Association
EOB, Executive Office Building

EPB, Economic Policy Board
EUR, Bureau of European Affairs, Department of State
EUR/CE, Office of Central European Affairs, Bureau of European Affairs, Department of State
Exdis, exclusive distribution only
EXIM; EX-IM, Export-Import Bank

FAA, Foreign Assistance Act
FAO, Food and Agriculture Organization (United Nations)
FEA, Federal Energy Administration
FR, Federal Reserve
FRB, Federal Reserve Board
FRG, Federal Republic of Germany
FY, fiscal year

G–5, Group of Five (Federal Republic of Germany, France, Japan, United Kingdom, United States)
G–10, Group of Ten (Belgium, Canada, Federal Republic of Germany, France, Italy, Japan, Netherlands, Sweden, United Kingdom, United States)
G–77, Group of 77, group of developing countries established at the conclusion of the first United Nations Conference on Trade and Development in 1964
GAB, General Agreement to Borrow
GAO, Government Accountability Office
GATT, General Agreement on Tariffs and Trade
GDP, gross domestic product
GNP, gross national product
GOF, Government of France
GOJ, Government of Japan
GPS, George P. Shultz
GSA, General Services Administration
GSP, Generalized System of Preferences

HAK, Henry A. Kissinger
Hakto, designation for a message or telegram from Henry Kissinger

IDA, International Development Association
IDB, Inter-American Development Bank
IEA, International Energy Agency
IEP, International Energy Program
IFAD, International Fund for Agricultural Development
IFC, International Finance Corporation
IFI, international financial institution
IFPRI, International Food Policy Research Institute
IFRG, International Food Review Group
IFSS, International Fertilizer Supply Scheme
ILO, International Labor Organization
IMF, International Monetary Fund
IMG, International Monetary Group
IO, Bureau of International Organization Affairs, Department of State
IRB, International Resources Bank
ISAC, Industry Sector Advisory Committee
ITC, International Trade Commission
IWA, International Wheat Agreement
IWC, International Wheat Council

JFY, Japanese fiscal year

LDC, less developed country
LDP, Liberal Democratic Party (Japan)
LDX, long distance xerography
Limdis, limited distribution
LOS, Law of the Sea

MAP, Military Assistance Program
MASF, Military Assistance Services Funded
MBFR, Mutual and Balanced Force Reductions
memcon, memorandum of conversation
MFA, Multifiber Arrangement
MMBD, millions of barrels per day
MNC, multinational corporation
MNE, multinational enterprise
MSA, most seriously affected countries
MSP, minimum safeguard price
MTN, multilateral trade negotiations

Niact, Night action
NIEO, New International Economic Order
Nodis, no distribution
NSDM, National Security Decision Memorandum
NSSM, National Security Study Memorandum
NTB, non-tariff barrier
NTM, Non-Tariff Measures Group (General Agreement on Tariffs and Trade)

OAPEC, Organization of Arab Petroleum Exporting Countries
OAS, Organization of American States
OBE, overtaken by events
OCS, outer continental shelf
OECD, Organization for Economic Cooperation and Development
OMA, orderly marketing agreement
OMB, Office of Management and Budget
OPEC, Organization of Petroleum Exporting Countries
OPIC, Overseas Private Investment Corporation

PAV, Paul A. Volcker
Permrep, permanent representative
P.L. 480, Public Law 480
PRC, People's Republic of China
Prepcom, preparatory committee
Prepcon, preparatory conference

QR, quantitative restriction
Quadriad, economic advisory body consisting of the Secretary of the Treasury, the Chairman of the Council of Economic Advisers, the Chairman of the Federal Reserve System Board of Governors, and the Director of the Office of Management and Budget

R, Republican
R&D, research and development
reftel, reference telegram

reps, representatives
rpt, repeat

S, Office of the Secretary of State
S/PC, Planning and Coordination Staff, Department of State
S/S, Executive Secretariat, Department of State
SALT, Strategic Arms Limitation Talks
SEC, Securities and Exchange Commission
Secto, series indicator for telegrams from the Secretary of State while away from Washington
Septel, separate telegram
SDR, Special Drawing Rights (International Monetary Fund)
SEC, Securities and Exchange Commission
SPD, Social Democratic Party (Federal Republic of Germany)
SRG, Senior Review Group
Stabex, Système de Stabilisation des Recettes d'Exportation (European Community)
Stadis, distribution only within the Department of State
STR, Office of the Special Trade Representative
SYG, Secretary General

telcon, telephone conversation
TNC, Trade Negotiations Committee (General Agreement on Tariffs and Trade)
Tohak, designation for a telegram or message sent to Henry Kissinger
Tosec, series indicator for telegrams to the Secretary of State while away from Washington
TRA, Trade Reform Act
TUC, Trades Union Congress

UNCTAD, United Nations Conference on Trade and Development
UNDP, United Nations Development Programme
UNGA, United Nations General Assembly
UNICEF, United Nations Children's Fund
USDA, United States Department of Agriculture
USDel, United States Delegation
USEC, United States Mission to the European Community
USG, United States Government
USNATO, United States Mission to the North Atlantic Treaty Organization
USOECD, United States Mission to the Organization for Economic Cooperation and Development
USUN, United States Mission to the United Nations

VAT, value-added tax
VRA, voluntary restraint agreement

W&M, Ways and Means Committee, House of Representatives
WBG,World Bank Group
WFC, World Food Conference
WHO, World Health Organization

Persons

Andreotti, Giulio, Italian Prime Minister from February 1972 until July 1973 and from July 1976 until August 1979

Apel, Hans, West German Minister of Finance from 1974

Ash, Roy, Assistant to the President and Director, Office of Management and Budget from February 1973 until February 1975

Bahr, Egon, West German Minister for Special Affairs until 1974; West German Minster of Economic Cooperation from 1974 until 1976

Barber, Anthony, British Chancellor of the Exchequer until March 1974

Barré, Raymond, member, General Council of the Bank of France, 1973; French Minister of Foreign Trade, January–August 1976; French Minister of Economy and Finance from August 1976; French Prime Minister from August 1976

Bennett, Jack F., Deputy Under Secretary of the Treasury for Monetary Affairs until 1974; Under Secretary of the Treasury for Monetary Affairs from 1974 until 1975

Boerma, Addeke Hendrick, Director-General, Food and Agriculture Organization until 1975

Brandt, Willy, West German Chancellor until May 1974

Brennan, Peter J., Secretary of Labor from February 1973 until March 1975

Brezhnev, Leonid, General Secretary of the Communist Party of the Soviet Union

Bryant, Ralph, Director, Division of International Finance, Board of Governors, Federal Reserve System until 1975

Buffum, William B., Assistant Secretary of State for International Organization Affairs from February 1974 until December 1975

Bull, Stephen B., Staff Assistant to the President until 1973; Special Assistant to the President and Appointments Secretary from 1973 until 1974

Burns, Arthur, Chairman, Board of Governors, Federal Reserve System

Bush, George H.W., Director of Central Intelligence from January 1976

Butz, Earl, Secretary of Agriculture until 1976

Callaghan, James, British Secretary of State for Foreign and Commonwealth Affairs from March 1974 until April 1976; British Prime Minister from April 1976

Casey, William J., Under Secretary of State for Economic Affairs from February 1973 until March 1974; President and Chairman, Export-Import Bank from 1974 until 1976

Cheney, Richard, Deputy Assistant to the President from 1974 until 1975; Assistant to the President and White House Chief of Staff from 1975

Cole, Kenneth R., Jr., Executive Director, Domestic Council from 1973 until 1975; Assistant to the President for Domestic Affairs from 1974 until 1975

Colombo, Emilio, Italian Minister of Finance from July 1973 until March 1974; Italian Minister of the Treasury from March 1974 until July 1976

Connally, John B., Jr., Secretary of the Treasury from February 1971 until June 1972

Connor, James, Secretary to the Cabinet from January 1975; White House Staff Secretary from June 1975

Cook, Richard, Deputy Assistant to the President for Legislative Affairs from 1972 until 1973

Cooper, Charles, Deputy Assistant to the President and staff member, National Security Council from 1973 until 1974; Assistant Secretary of the Treasury for International Affairs from 1974 until 1975

Crosland, Anthony, British Secretary of State for Foreign and Commonwealth Affairs from April 1976

Dale, Francis L., Representative to the European Office of the United Nations in Geneva and Chief of Mission to the European Office of the United Nations and Other International Organizations from December 1973 until July 1976

Dam, Kenneth, Assistant Director for National Security and International Policy, Office of Management and Budget until 1973; Executive Director, Council on Economic Policy, 1973

Davignon, Étienne, Director-General for Policy, Belgian Ministry of Foreign Affairs; Chairman of the Governing Board (Official Level), International Energy Agency from November 1974

Davis, Jeanne, staff secretary, National Security Council

De Clercq, Willy, Belgian Vice Prime Minister and Minister of Finance from 1973 until 1974; Belgian Minister of Finance from 1974

Dent, Frederick, Secretary of Commerce from 1973 until 1974; Special Representative for Trade Negotiations from 1975

Dinitz, Simcha, Israeli Ambassador to the United States

Dobbins, James, Special Assistant to the Counselor of the Department of State from 1975 until 1976

Dobrynin, Anatoly, Soviet Ambassador to the United States

Duisenberg, Willem Frederik, Dutch Minister of Finance

Dunlop, John, Director, Cost of Living Council from 1973 until 1974; Secretary of Labor from March 1975 until January 1976

Dunn, John M., Executive Director, Council on International Economic Policy from 1975

Eagleburger, Lawrence, Executive Assistant to the Secretary of State from 1973 until 1977; Deputy Under Secretary of State for Management from 1975 until 1977

Eberle, William, Special Representative for Trade Negotiations until 1975; Executive Director, Council on International Economic Policy from 1974 until 1975

Ehrlichman, John, Assistant to the President for Domestic Affairs until April 1973

Eisenhower, Julie, daughter of Richard and Pat Nixon

Eliot, Theodore, Executive Secretary of the Department of State until 1973

Ellerman, A. Denny, staff member, National Security Council

Emminger, Otmar, Vice-President, Central Bank of the Federal Republic of Germany

Enders, Thomas O., Assistant Secretary of State for Economic and Business Affairs from July 1974 until December 1975; Ambassador to Canada from December 1975

Fellner, William J., member, Council of Economic Advisers from 1973 until 1975

Flanigan, Peter, Assistant to the President for International Economic Affairs until 1974; Executive Director, Council on International Economic Policy from 1972 until 1974

Ford, Gerald R., Republican Representative from Michigan until 1973; House of Representatives Minority Leader until 1973; Vice President from December 6, 1973, until August 9, 1974; President from August 9, 1974, until January 20, 1977

Fourcade, Jean-Pierre, French Minister of Economy and Finance from May 1974 until August 1976

Fox, Lawrence A., Deputy Assistant Secretary of Commerce for International Economic Policy

Friderichs, Hans, West German Minister of Economics

Friedman, Milton, Professor of Economics, University of Chicago

Fukuda Takeo, Japanese Minister of Finance from November 1973 until July 1974; Japanese Vice-Prime Minister and Director General, Economic Planning Agency from December 1974 until November 1976

Gaja, Roberto, Italian Ambassador to the United States from 1975

Gardner, Stephen, Deputy Secretary of the Treasury from 1974 until 1976

Genscher, Hans-Dietrich, West German Minister of Foreign Affairs and Vice-Chancellor from 1974

Gergen, David, Special Assistant to the President from 1973 until 1974; Special Consultant to the Secretary of the Treasury from 1974 until 1975; Special Assistant to the White House Chief of Staff from 1975 until 1976; Special Counsel to the President for Communications, 1976; Director, White House Office of Communications from 1976 until 1977

Giscard d'Estaing, Valéry, French Minister of Economy and Finance until May 1974; French President from May 1974

Glitman, Maynard W., Deputy Assistant Secretary of State for International Trade Policy from 1974 until 1976

Goodman, Richard J., Associate Administrator, Foreign Agricultural Service, Department of Agriculture

Greenspan, Alan, Chairman, Council of Economic Advisers from 1974

Greenwald, Joseph A., Representative to the European Communities until January 1976; Assistant Secretary of State for Economic and Business Affairs from February until September 1976

Gromyko, Andrei, Soviet Minister of Foreign Affairs

Gunning, David M., staff member, Council on International Economic Policy

Haig, Alexander M., Jr., General; Deputy Assistant to the President for National Security Affairs until 1973; Army Vice-Chief of Staff, 1973; Assistant to the President and White House Chief of Staff from May 1973 until September 1974; Commander in Chief, European Command, and Supreme Allied Commander, Europe from 1974

Haferkamp, Wilhelm, Vice-President, Economic and Financial Affairs, European Commission

Haldeman, H.R., Assistant to the President and White House Chief of Staff until 1973

Hannah, John, Administrator, Agency for International Development until October 1973; Executive Director, United Nations World Food Council from 1975

Hansen, Roger, Special Assistant to the Special Representative for Trade Negotiations, 1973; Deputy Assistant Special Representative for Trade Negotiations, 1974

Hartman, Arthur A., Assistant Secretary of State for European and Canadian Affairs from January 1974

Hartmann, Robert, Counselor to the President from 1974

Healey, Denis, British Chancellor of the Exchequer from 1974

Heath, Edward, British Prime Minister until March 1974

Hijzen, Theodorus, Deputy Director-General for External Relations, European Commission

Hinton, Deane R., Assistant Director, Council on International Economic Policy until 1973; Deputy Director, Council on International Economic Policy from 1973 until 1974; Ambassador to the Democratic Republic of the Congo from June 1974 until June 1975; Representative to the European Communities from January 1976

Hormats, Robert D., staff member for International Economic Affairs, National Security Council until 1973; senior staff member for International Economic Affairs, National Security Council from 1974

Humphrey, Hubert, Democratic Senator from Minnesota

Hunt, Sir John, British Secretary of the Cabinet from 1973

Hyland, William G., Director, Bureau of Intelligence and Research, Department of State from January 1974 until November 1975

Ingersoll, Robert S., Ambassador to Japan until November 1973; Assistant Secretary of State for East Asian Affairs from January until July 1974; Deputy Secretary of State from July 1974 until March 1976

Jackson, Henry (Scoop) M., Democratic Senator from Washington

Jackson, John, General Counsel, Office of the Special Representative for Trade Negotiations from 1973 until 1974; Acting Deputy Special Representative for Trade Negotiations, 1974

Javits, Jacob K., Republican Senator from New York

Jobert, Michel, French Minister of Foreign Affairs from April 1973 until May 1974

Johnson, Lyndon B., President of the United States from November 22, 1963, until January 20, 1969

Jones, Jerry, White House Staff Secretary from April 1974 until June 1975

Katz, Julius L., Deputy Assistant Secretary of State for International Resources and Food Policy until 1974; Deputy Assistant Secretary of State for Economic and Business Affairs from 1974 until 1976; Assistant Secretary of State for Economic and Business Affairs from September 1976

Kehrli, Bruce A., Special Assistant to the President from 1973 until 1974

Kelly, William B., Jr., Senior Economic Advisor, Office of the Special Representative for Trade Negotiations until 1973; Assistant Special Representative for Trade Negotiations from 1973 until 1976

Kendall, Donald, President and Chief Executive Officer, PepsiCo, Inc.

Kennedy, Richard T., Deputy Assistant to the President for National Security Council Planning from 1973 until 1975

Kissinger, Henry A., Assistant to the President for National Security Affairs until November 1975; Secretary of State from September 22, 1973, until January 20, 1977

Klasen, Karl, President, Central Bank of the Federal Republic of Germany

Korologos, Tom, Deputy Assistant to the President for Legislative Affairs until 1975

Kosygin, Alexei, Soviet Prime Minister

Larosiere, Jacques de, Director of the Treasury, French Ministry of Economy and Finance from 1974

Long, Olivier, Director-General, General Agreement on Tariffs and Trade

Long, Russell B., Democratic Senator from Louisiana; Chairman, Senate Committee on Finance

Lord, Winston, staff member, National Security Council until 1973; Special Assistant to the Assistant to the President for National Security Affairs until 1973; Director, Policy Planning Staff, Department of State from 1973

Lynn, James T., Assistant to the President and Director, Office of Management and Budget from February 1975

MacAvoy, Paul, member, Council of Economic Advisers from 1975 until 1976

Macdonald, David R., Assistant Secretary of the Treasury for Enforcement, Operations, and Tariff Affairs from 1974 until 1976

Macdonald, Donald, Canadian Minister of Finance from 1975

MacEachen, Allan J., Canadian Secretary of State for External Affairs from 1974 until 1976

Malmgren, Harald B., Deputy Special Representative for Trade Negotiations until 1975

Mansfield, Michael J., Democratic Senator from Montana; Senate Majority Leader

Marsh, John O., Jr., Counselor to the President from 1974

Martin, Edwin, Senior Advisor to the Secretary of State and Coordinator of U.S. participation in the United Nations World Food Conference from January 1974; Deputy Chairman, U.S. Delegation to the United Nations World Food Conference, November 1974

Maw, Carlyle E., Legal Adviser, Department of State from November 1973 until July 1974; Under Secretary of State for International Security Affairs from July 1974 until September 1976

McFarlane, Robert (Bud), Military Assistant to the Assistant to the President for National Security Affairs from 1973 until 1975; Executive Assistant to the Assistant to the President for National Security Affairs from 1975 until 1976; Special Assistant to the President for National Security Affairs from 1976

McGovern, George, Democratic Senator from South Dakota

McNamara, Robert, President, World Bank

Meany, George, President, American Federation of Labor and Congress of Industrial Organizations

Miki Takeo, Japanese Prime Minister from December 1974 until December 1976

Mills, Wilbur, Democratic Representative from Arkansas; Chairman, House of Representatives Committee on Ways and Means until 1975

Mitchell, Sir Derek, Second Permanent Secretary (Overseas Finance), British Treasury from 1973

Miyazawa Kiichi, Japanese Minister of Foreign Affairs from 1974 until 1976

Moro, Aldo, Italian Prime Minister from November 1974 until July 1976

Nixon, Richard M., President of the United States from January 20, 1969, until August 9, 1974

Ohira Masayoshi, Japanese Minister of Finance from July 1974 until 1976

Ortoli, François-Xavier, President, European Commission

Ossola, Rinaldo, Deputy Director General, Bank of Italy until 1975; Director General, Bank of Italy from 1975 until 1976; Italian Minister of Foreign Trade from 1976

Parker, Daniel, Administrator, Agency for International Development from October 1973

Parsky, Gerald, Special Assistant to the Under Secretary of the Treasury until 1973; Executive Assistant to the Deputy Secretary of the Treasury and Administrator, Federal Energy Office from 1973 until 1974; Assistant Secretary of the Treasury for Trade, Energy, and Financial Resources Policy Coordination from 1974 until 1975; Assistant Secretary of the Treasury for International Affairs from 1976

Passman, Otto, Democratic Representative from Louisiana; Chairman, House of Representatives Foreign Aid Appropriations Subcommittee

Pearce, William, Deputy Special Representative for Trade Negotiations from 1974

Pickering, Thomas, Special Assistant to the Secretary of State and Executive Secretary, Department of State from 1973 until 1974

Pierre-Brossolette, Claude, French Director of the Treasury until 1974; Assistant to the French President from 1974

Pöhl, Karl-Otto, State Secretary, West German Federal Ministry of Finance

Pompidou, Georges, French President until April 1974

Porter, Roger B., Executive Secretary, Economic Policy Board from 1974

Ramsbotham, Peter E., British Ambassador to the United States from 1974

Renner, John, Deputy Assistant Secretary of State for International Trade Policy from 1972 until 1974

Ribicoff, Abraham A., Democratic Senator from Connecticut

Richardson, Elliot L., Secretary of Defense, 1973; Attorney General from May 1973 until October 1973; Ambassador to the United Kingdom from February 1975 until January 1976; Secretary of Commerce from February 1976

Robinson, Charles W., Under Secretary of State for Economic Affairs from December 1974 until April 1976; Deputy Secretary of State from April 1976

Rodman, Peter, staff member, National Security Council

Rogers, William D., Assistant Secretary of State for Inter-American Affairs, from October 1974 until June 1976; Under Secretary of State for Economic Affairs from June until December 1976

Rogers, William P., Secretary of State until September 1973

Rumor, Mariano, Italian Prime Minister from July 1973 until November 1974; Italian Minister of Foreign Affairs from November 1974 until July 1976

Rumsfeld, Donald, Permanent Representative on the Council of the North Atlantic Treaty Organization from February 1973 until December 1974; Assistant to the President and White House Chief of Staff from September 1974 until November 20, 1975; Secretary of Defense from November 20, 1975

Rush, Kenneth, Deputy Secretary of State from February 1973 until May 1974; Counselor to the President for Economic Policy from May 1974 until September 1974; Ambassador to France from September 1974

Sauvagnargues, Jean, French Minister of Foreign Affairs from May 1974 until August 1976

Schlesinger, James R., Director of Central Intelligence from February until July 1973; Secretary of Defense from July 1973 until November 19, 1975

Schmidt, Helmut, West German Minister of Finance until May 1974; West German Chancellor from May 1974

Scowcroft, Brent, Lieutenant General, USAF; Deputy Assistant to the President for National Security Affairs from April 1973 until November 3, 1975; Assistant to the President for National Security Affairs from November 3, 1975, until January 20, 1977

Seevers, Gary, Special Assistant to the Chairman, Council of Economic Advisers until 1973; member, Council of Economic Advisers from 1973 until 1975

Seidman, L. William, Assistant to the President for Economic Affairs from 1974

Shultz, George P., Secretary of the Treasury until May 1974

Simon, William E., Deputy Secretary of the Treasury from February 1973 until May 1974; Administrator, Federal Energy Office, from December 1973 until April 1974; Secretary of the Treasury from May 1974

Sisco, Joseph, Under Secretary of State for Political Affairs from February 1974 until June 1976

Soames, Sir Christopher, Commissioner for External Affairs, European Economic Community

Sonnenfeldt, Helmut, senior staff member, National Security Council until 1974; Counselor of the Department of State from 1974

Springsteen, George S., Deputy Assistant Secretary of State for European Affairs until 1974; Special Assistant to the Secretary of State and Executive Secretary of the Department of State from 1974 until 1976

Stein, Herbert, Chairman, Council of Economic Advisers until 1974

Tanaka Kakeui, Japanese Prime Minister until December 1974

Timmons, William E., Assistant to the President for Legislative Affairs until 1974

Trudeau, Pierre Elliott, Canadian Prime Minister

Truman, Edwin, staff member, Board of Governors, Federal Reserve System

Van Lennep, Emile, Secretary-General, Organization for Economic Cooperation and Development

Vanik, Charles, Democratic Representative from Ohio

Volcker, Paul A., Under Secretary of the Treasury for Monetary Affairs until 1974; President, Federal Reserve Bank of New York from August 1975

Volpe, John A., Ambassador to Italy

Von Staden, Berndt, West German Ambassador to the United States

Wallich, Henry C., member, Board of Governors, Federal Reserve System from 1974

Widman, F. Lisle, Deputy Assistant Secretary of the Treasury for International Monetary Affairs from 1975

Wilson, Harold, British Prime Minister from March 1974 until April 1976
Witteveen, H. Johannes, Managing Director, International Monetary Fund from 1973
Wolff, Alan, Deputy General Counsel, Office of the Special Representative for Trade Negotiations from 1973 until 1974; General Counsel, Office of the Special Representative for Trade Negotiations from 1974

Yeo, Edwin, III, Under Secretary of the Treasury for Monetary Affairs from 1975
Yeutter, Clayton, Assistant Secretary of Agriculture for Marketing and Consumer Services from 1973 until 1974; Assistant Secretary of Agriculture for International Affairs and Commodity Programs from 1974 until 1975; Deputy Special Representative for Trade Negotiations from 1975

Foreign Economic Policy, 1973–1976

International Monetary Policy; Economic Summitry

The End of Fixed Exchange Rates, January–March 1973

1. Editorial Note

As 1973 began, President Richard Nixon's advisers were divided over the urgency of the need for progress in the negotiations to reform the international monetary system. In July 1972, the International Monetary Fund Board of Governors had established a Committee on Reform of the International Monetary System. The C–20, as the committee came to be called, had held its inaugural Ministerial meeting in September and met at the Deputies' level in September and November. Also in September, at the annual meeting of the IMF and World Bank Boards of Governors, Secretary of the Treasury George Shultz had unveiled a proposal to reform the international monetary system. For the text of Shultz's speech, see *The New York Times,* September 27, 1972, page 70. See also *Foreign Relations,* 1969–1976, volume III, Foreign Economic Policy, 1969–1972; International Monetary Policy, 1969–1972, Documents 242 and 243.

A February 1–2, 1973, visit to the United States by British Prime Minister Edward Heath prompted administration officials to set down their thoughts on the status of the monetary negotiations. Neither Shultz nor National Security Council staff member Robert Hormats stressed the need for quick progress in the briefing materials they prepared for the visit. Peter Flanigan, President Nixon's Assistant for International Economic Affairs, and Arthur Burns, Chairman of the Federal Reserve Board, argued the importance of quicker progress. In a January 26 memorandum, Hormats noted this division to Henry Kissinger, the President's Assistant for National Security Affairs: "Shultz' memorandum to you does not share Burns' stress on the urgency of moving ahead on monetary reform. It concentrates more on the substance of our position and reflects some optimism that it is being more fully understood and appreciated. Burns in the past has proved to be a fairly keen observer of the European climate on monetary affairs, and his views should be taken seriously. However, notwithstanding this, there is validity in the position that we should not be rushed into merely patching up the system, but should achieve a major and sustainable reform." (National Archives, Nixon Presidential Materials, NSC Files, Box 942, VIP Visits, UK (Prime Minister Heath) Visits to the US, February 1–2, 1973 [1 of 3])

Similarly, in another January 26 memorandum to Kissinger, Hormats wrote: "Burns, in a suggested set of talkers, wants the President to convey a sense of urgency about the slow pace of progress and press Heath to get the Europeans to move faster. He believes that, given the weakness of the US balance of payments, the system is crisis prone. If a crisis were to develop the environment for reform negotiations would deteriorate. Shultz conveys no sense of urgency and places more stress on obtaining our substantive objectives." (Ibid., Box 290, Agency Files, U.S. Treasury, Vol. III, Jan. 1972–Sept. 18, 1973) Burns's suggested talking points are attached to a January 24 letter to Kissinger. (Ibid., Box 942, VIP Visits, UK (Prime Minister Heath) Visits to the US, February 1–2, 1973 [1 of 3]) Flanigan's and Shultz's briefing materials are in the President's briefing book. (Ibid.) The detailed talking points on monetary reform appended to a January 31 memorandum from Kissinger to the President concerning the Heath visit are more in keeping with Shultz's position than Burns's. (Ibid.)

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2. Letter From the Chairman of the Federal Reserve System Board of Governors (Burns) to President Nixon[1]

Washington, February 1, 1973.

Dear Mr. President:

I have sent Henry some notes bearing on your conversations with Mr. Heath.[2] Since your meeting with the Prime Minister is getting under way today, I am sending you this supplementary note directly.

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[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Personal Files, Box 6, Name/Subject File, Burns, Arthur. No classification marking. A stamped notation on the first page indicates the President saw it. Copies were sent to Shultz and Kissinger.

[2] Burns's January 24 letter to Kissinger is summarized in Document 1.

A jittery atmosphere has prevailed in exchange markets since the Italian announcement (January 22) of their dual-exchange system[3] and the Swiss decision (January 23) temporarily to float the Swiss franc. These official actions and the market response to them underline the fragility of confidence—about international monetary and trading arrangements in general, and more particularly about the U.S. balance of payments and the strength of the dollar. The dollar has again been under attack in recent days; that is still the condition today, and further serious deterioration is feared by our New York bank tomorrow.

As long as a large disequilibrium in world payments persists and as long as there is little international agreement on the ground rules governing monetary and trading relationships, we should not be surprised if exchange markets become disorderly or if economic policies of individual nations become more nationalistic. Indeed, given the present leisurely pace of international discussions on monetary reform and on reductions in trade barriers, there is real danger that events will overtake governments and lead to international trouble.

I feel it is important that you alert Prime Minister Heath to this danger, and urge him to do what he can to push Europe forward into serious trade and monetary negotiations aiming at a constructive, outward-looking position.

The United States has provided leadership in the monetary area. So far, we have not been joined sufficiently by others, although Britain has gone further in this direction than any other country. The meeting of the Deputies of the "Group of Twenty," just concluded,[4] made virtually no progress.

Sincerely yours,

Arthur F. Burns[5]

[3] On January 20, the Italian Government announced that on January 22 it would split its foreign exchange market in two: one market for the purchase of lire for current account transactions where the lira's value would remain relatively fixed, another for the purchase of lire for capital account transactions where the lira's value would be allowed to float.

[4] The C–20 Deputies met in Paris January 23–25.

[5] Burns signed "Arthur" above his typed signature.

3. Conversation Among President Nixon, Secretary of the Treasury Shultz, and the Chairman of the Federal Reserve System Board of Governors (Burns)[1]

Washington, February 6, 1973.

[Omitted here is discussion unrelated to international monetary policy.]

Burns: Now, I was going to talk about something else, but there was a trip to Japan, but the—that trip, in view of the foreign exchange problem, George is going to tell you about plans that we've been discussing. I have—it's been discussed with the Japanese; with Tanaka and with Sasaki, the head of their central bank.[2]

Nixon: Yeah.

Burns: They're waiting for word from me, and I will just tell them I will as soon as I can, but I have [unclear]—

Nixon: Well, it's good that you go.

Burns: I'll go later on, but this isn't quite—

Nixon: Take your time.

Burns: —this isn't quite the time. And I'll check with you before I go, because I want to be sure—

Nixon: Incidentally, I was going to tell you: Henry is going to stop in, stop in Japan for a 4-hour—3- or 4-hour visit with Tanaka on the way back,[3] but he won't be going into this sort of thing. But, we're touching base with them, so if you could get over there some time, it'd be useful.

Shultz: When will Henry—when will Henry go to Japan?

Nixon: May 9th—8th, 8th, 8th—

Burns: [unclear] Before George gets going on the foreign exchange crisis that—which we face, let me give you just a few figures. This is taking on very sizable proportions. Since January 22nd, when it began, the outflow of dollars amounts to $4.3 billion, and 2.6 of that has gone to Germany, and the rest is scattered. So, it's no long—and today, today the Germans took in a billion and a half; so, it has accelerated.

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[1] Source: National Archives, Nixon Presidential Materials, White House Tapes, Oval Office, Conversation 851–4. No classification marking. According to the President's Daily Diary, Nixon met with Shultz and Burns in the Oval Office from 5:11 to 6:10 p.m. (Ibid., White House Central Files) The editor transcribed the portion of the conversation printed here specifically for this volume.

[2] Tadashi Sasaki was the Governor of the Bank of Japan.

[3] Kissinger traveled throughout Asia, February 7–20, with stops in Bangkok, Vientiane, Hanoi, Hong Kong, Beijing, and Tokyo.

Nixon: They took a billion and a half?

Burns: Well, I should keep my [unclear]—

Nixon: So, what do we do about it?

Shultz: Mr. President, [unclear] talked about this a little while ago, a few days ago, and we did agree to modest intervention. Not so much on the grounds that we thought we should go all out on that, but rather that we should have evidence that we had done our part to—

Nixon: Um-hmm.

Shultz: —have things be stable. And we've done that, although we still have not yet used up all of our $200 million that we decided to lay out for ourselves. In fact, I think we've used about $37 million of it so far. But, we have had a number of meetings involving Arthur, Herb Stein, Paul Volcker, myself, Bill Rogers, Bill Casey just sat in on the most recent ones, and Peter Flanigan has been our—

[unclear exchange]

Shultz: We pretty much agree among ourselves that this speculative flurry that we now see, whether it passes or not, is based on reality. The reality is that our trade deficit is very large—$6 billion or so this year. It has slowed down, as was expected. We expect it will go down next year. But even so, the reality is we have a gigantic trade deficit, and we have a very large balance of payments deficit, however one wants to measure it.

Nixon: Um-hmm.

Shultz: We don't think that's going to go away in a hurry. Therefore, we feel that there is this underlying situation that needs correction, and the Smithsonian Agreement[4] basically didn't do it, in part because it wasn't large enough, in part because there are all sorts of offsets that countries have used, and in part because it's deteriorated. As—the British, now, have an exchange rate this is below where they started in the Smithsonian, so that they not only are back to where we started from, but below that. So, for all of those reasons, it seems to this group that we have a situation that's out of balance. We have talked about a package of things that might be done that has the following ingredients, and there are variations on each one of these, but I'll summarize the line that is sort of the prevailing view. It would call for, first of all, a devaluation by the U.S. on the order of 6½ percent or so, and then a special effort with the Japanese to get them to revalue by that amount, so that the net for the Japanese would be 15 percent, or 13 percent, and

[4] In December 1971, representatives of the G–10 countries, meeting at the Smithsonian Institution in Washington, agreed to realign the relative values of their currencies. See *Foreign Relations*, 1969–1976, volume III, Foreign Economic Policy, 1969–1972; International Monetary Policy, 1969–1972, Document 221.

with respect to the rest of the world, we would have a devaluation by the U.S. This involves persuading the Europeans, particularly, to stand still and not try to, to counter any move they think we might make, as well as persuading the Japanese to revalue when we devalue. We think that the—if that were done, if we made that effort, it would be harder to persuade the Japanese than it would be the Europeans, is sort of the assessment of the situation. But, nevertheless, there is a reasonable prospect that that would happen. We feel that if that were done just by itself, people might very well view that and say, "Well, you did that once, and it didn't seem to work very well. So, why are you just doing that again and not searching elsewhere for things that could be done?" And they might even point to our, our plan and say, "In the plan, it calls for revaluations and devaluations of this kind when a basic imbalance is clear, but it also suggests that we should do other things than just change the exchange rates." So, we would put as a second part of this program an announcement that we do intend to go forward with trade legislation before the Congress that would allow, would permit, give the President authority to negotiate in a manner that would help to expand world trade, but at the same time, have very strong provisions in it that would protect our workers and our businesses and would enable us to bargain for a fair deal in world trade. It would also have in it a provision through which you could declare a balance of payments emergency and impose a surcharge. We think that if we were in a position to tell the Japanese that, that would have quite some impact on their willingness to go along with revaluation, without anything.

Nixon: Hmm.

Shultz: At any rate, we would have a trade package, which could be stated in a speech in a general way. And our thought about it is that if this comes rapidly, that we should say, or we might say, rather than the meeting with [unclear] that we're going to consult with members of Congress, and with labor, business, and so forth, about our ideas before locking them in concrete and presenting them, so that we would have a chance to rally support for it rather than just announcing it. Although, I would say that we have made a great deal of headway since the last time you and I talked. Last week, we had a lengthy go-around on it, and we have a pretty good talking paper now. That announcement spells out reasonably well what we have in mind, that we're prepared.

Nixon: Hmm.

Shultz: There is concern about the implications of these moves for the gold market. And to some extent, in a perverse way, I guess, Paul Volcker, in particular, feels that people may suspect that somehow or other we are interested in getting the price of gold up—I guess because we have so much of it—and that we are afraid to sell any. Of course, we're constrained by our, by our agreement with other central banks against selling gold at market rate,[5] and since our private position has been that we're willing to do this if others agree, we should make that public and say that we're quite willing to, when and if we think it's appropriate, to sell gold on the private market. If that's what others want to do, put ourselves in a position to talk with them about that. And this would, on the one hand, show that we're not trying to hold on to this forever, and at the same time, it probably would have the effect of not permitting a large increase in the price of gold since we've had quite a lot of it—

Burns: Hmm. And, also—

Nixon: [unclear]—

Burns: And, also, we were respecting an international agreement. We'd do it only if the others want to do it.

Nixon: Um-hmm.

Burns: We're not going do it by ourselves.

Shultz: We might tail on to this, although this is a relatively minor item, but it's something to talk about—it's in the Republican platform—the right of private citizens of the U.S. to—

Nixon: Yeah.

Shultz: —sell gold. That's something that the conservative community, particularly—

Nixon: Gold traders.

Shultz: —would be interested in. But this is something we could or couldn't do to [unclear]—

Burns: [unclear]—

Shultz: —in the package at this point. And, finally, with respect to our capital controls program that we've been struggling to get rid of, which you promised to get rid of back in 1968—[6]

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[5] In March 1968, the central bank governors of Belgium, the Federal Republic of Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States agreed to establish a two-tier market for gold: that is, central bankers would continue to buy and sell gold among themselves at the official gold price but would no longer engage in transactions in the private gold market, thus allowing the private market price to fluctuate.

[6] On January 1, 1968, President Lyndon B. Johnson announced a series of measures designed to address the U.S. balance of payments deficit; among the measures were new restraints on U.S. foreign direct investment. For the text of Johnson's statement, as well as his remarks on the balance of payments program at a press conference held that same day, see *Public Papers: Johnson, 1968–1969,* Book I, pp. 1–13. On October 3, 1968, the Republican National Committee issued a statement by candidate Richard Nixon vowing to rescind these restraints. (*The New York Times*, October 4, 1968, p. 1)

Nixon: Arthur told me to say it.

Shultz: Well, he was right and—

Nixon: That's right.

Shultz: —it's hard to do.

Nixon: That's right.

Shultz: Now, we might say, "Now, we're trying to establish a general equilibrium right here, and we are going to phase these controls out over a period of time," and now some end-date in a year or two years from now, let's put that forward as a program. We have—now, all of these things are broadly consistent with our international monetary and trade plans we've put forward; that is, this is behavior that is in accord with what we said a nation should do when there is definite evidence of an imbalance. And we also said that not only should a nation that is running a deficit do something, but nations that are running a surplus should also do something—we make that particularly strong with the Japanese. So, that is sort of the nature of the problem. It may—the immediate crisis may or may not pass.

Nixon: What—

Shultz: We think that it will recur and that, that perhaps this week, or sometime very soon, we should be prepared to take action that is in the nature of leadership on this.

Nixon: What would be the timetable on that? You mean, like, like this week? You mean, like—

Burns: Tomorrow.

Nixon: —next week?

Burns: Tomorrow.

Nixon: Make a speech tomorrow?

Shultz: Well—

Burns: No. No speech.

Nixon: Oh, [unclear]—

Shultz: We have—we have—

Nixon: Oh, the action? [unclear] right now—

Shultz: We have, we—we have these things to do. We have—

[unclear exchange]

Nixon: Things like that, right now.

Shultz: We have—we have to try to get the Japanese to agree. We think that's probably the first port of call.

Nixon: So, you can tell that—you can tell them categorically that I decided to ask for legislation to impose a surtax. Declare that, if you need that—

Shultz: Now, that would have some impact.

Nixon: —that's one club.

Shultz: And, then, right on the heels of the Japanese, discussion with the Europeans. We think we should try to do this in the space of about three days, or something like that—

Nixon: Um-hmm.

Shultz: —because there is a, I would say, quite a high probability that there'll be leaks as this goes on.

Nixon: Hmm. That's an understatement.

Shultz: Particularly with the Japanese thing, too; it's been very leaky. And then, we should be prepared to move ahead.

Nixon: Well, let's come again now with regard to [unclear]. What did you have in mind in terms of when Congressional leaders—you see, Congressional leaders, a lot of them, George, are going to be taking off Thursday,[7] you know, for this silly thing [unclear]. It's not silly Republicans, but they all take off. You could get to them, but [unclear] when you talk about, for example, getting speechwriters, or something, what did you have in mind? Or, do you have a speechwriter only when you have something to present to the Congress [unclear]—?

Shultz: Right. Well, there are, there are, in a sense, these timing points. There's one point in time in which you decide, "All right, let's do this."

Nixon: Um-hmm.

Shultz: Then, there's an elapsed time, while we try to get our trading partners to go along with it.

Nixon: Um-hmm.

Shultz: Relatively short vista.

Nixon: [unclear] on the monetary side?

Burns: No—

Shultz: Right, well, monetary side—

[unclear exchange]

Shultz: —knowing—knowing the fact that you have made the decision—

Nixon: Well, right—

Shultz: —that you're not going to [unclear] sit here.

Nixon: Right.

Shultz: You're going to go ahead with the trade legislation whether they like that or not.

Nixon: Um-hmm.

[7] February 8.

Shultz: You're proposing this exchange rate realignment.

Nixon: Hmm.

Shultz: If they don't go along with it, then we're not convertible into gold, and we will announce what we think proper exchange values are, and they will have to struggle in their currency markets, and we won't help them any. But that's a—that is a—

Nixon: Arthur, what is your feeling about getting rid of controls? You know, about a year ago, you had thought that we shouldn't move on that. Are you, are you—do you feel we can now?

Burns: I'd phase them out—

Nixon: You would?

Burns: —and announce a schedule, but I would do it over 2 or 3 years; would indicate, you see, that they're going to be phased out and indicate the period. [unclear]—

Nixon: What about the gold thing? Now, I—now, what about the gold thing? Do you—does that bother you [unclear]?

Burns: No, the only thing that would bother—

Nixon: I mean the purchase of gold—the right of the private citizen to purchase gold.

Burns: Oh, I think—I think that's a silly business.

Nixon: You wouldn't put it in?

Burns: No, I wouldn't. But, I don't know that I would—I don't know that I would fight awfully hard against it. It could, you see—it's silly; it could be counterproductive in a minor way, because—

Nixon: That's what I heard—

Burns: —people might want to accumulate gold and would be importing gold, and thereby—

Nixon: Yeah.

Burns: —worsening our balance of payments. But, if you saw some political advantage—I doubt it. I think they've—you know, the number of people who worry about this, I don't think—I doubt if one [unclear]—

Nixon: Well, first, the number of people that understand it is very small.

Burns: One one-hundredth of one percent.

Nixon: Yeah. Well—

Burns: I wouldn't [unclear]—

Nixon: —let's come to the, the main—

[unclear exchange]

Nixon: Oh, yes.

Burns: Central banks having now the power or willingness to sell off into private hands, because that means, you see, a gradual dismantling of gold in the international monetary system.

Nixon: What we're talking about now, then, is a decision with regard to devaluation by 6½ percent.

Shultz: And a drive to get the Japanese to match it.

Nixon: And you—you all agree this is what should happen—should be done?

Shultz: Well, there's some—on that, there is a variation on the theme that is not favored by the group, but which is nevertheless, I think, an important variation. And that is to say, and we wouldn't have to consult with anybody about this, that we think the dollar is still overvalued, and that exchange rates should change, and they should change by something like this amount, and that that's our view, and we're not going to engage in any intervention or whatnot. In other words, more or less float the dollar and try to force others to let it float. Now—

Nixon: You don't like that?

Shultz: Arthur doesn't like that at all.

Burns: [unclear]—

Nixon: [laughs] I know. I—

[unclear exchange]

Shultz: I'm not sure, I'm not sure that I'd like it, but, after I—

Nixon: You'd lean that way normally, but not now?

Shultz: I—I have my inclinations. I think the, the principal argument for it is that when you set another set of parities, then there is a—at least an implicit—

Nixon: Then where do you go from there?

Shultz: —suggestion that you're going to defend those reasonably, so—

Nixon: Like we were going to defend the Smithsonian rates. Yeah.

Shultz: And, when—and our trade picture won't improve dramatically. And we could come up against another crisis if people get in the habit of pushing us over. So that, just as the British had these successive devaluations that were not, not too successful, they now have a float,[8] which they regard as much more successful, because a float basically insulates you against this kind of speculative rate. The rate just moves rather than, the, there being an accumulation of dollars going in here, or going out of there. So, that is, that is an advantage to the floating system. Now, I would have to say, the basic plan

[8] The British pound had been floating since June 1972.

we've put forward envisaged discrete exchange rate changes in a situation like ours, for a country like us, so that to float would not be fully consistent with our plan, even though we envisaged other countries possibly doing it.

Nixon: The problem, too, with the—the British can do that; it doesn't make a great deal of difference to the world. And Asia; it still doesn't make a great deal of difference—

Burns: That's the problem.

Nixon: But if we do it—

Shultz: Right.

Nixon: —it does make a great deal of difference. And I just—

Burns: [unclear]—

Nixon: And I think it's just too much of a "To hell with the rest of the world" as a policy—

Burns: That's exactly right; it would be regarded as economic belligerency on our part against everybody else.

Nixon: The way that it has to be presented, George, you understand, on this 6? percent, and so forth, is—you remember, we got by with the August 15th thing by pointing out this doesn't affect the value of your dollar and so forth.[9] The average person doesn't know a damn thing about this; it's the stock market people and international monetary people. But, the way it has to be presented is that the dollar, at the present time—that we are doing this because American goods are at a disadvantage, in an unfair advantage in the world market, and that's due to the fact that the dollar is overvalued as against other currencies. And so, we are trying to—we're change—we're making this change in order to get, again, American goods in a competitive position. You know, if you go back and [unclear] the August 15th, for the rhetoric at least—

[unclear exchange]

Shultz: —the trade package to go with it.

Nixon: The trade package is—

Shultz: That describes the spirit—

[unclear exchange]

Nixon: And the trade package should be one that should be—but should be, in its rhetoric, tilted very hard for protection. And what we

[9] A reference to President Nixon's August 15, 1971, announcement of his New Economic Policy, which included suspension of the dollar's gold convertibility and the imposition of a 10 percent surcharge on dutiable imports. In his remarks, the President discussed "the bugaboo of what is called devaluation" and its implications for the American people. The text of the President's announcement is in *Public Papers: Nixon, 1971*, pp. 886–891.

do, of course, tilt it—what we do, however, being as expansive as possible, so that—because, basically, I do not believe in a, in a totally protective, or a—I mean [unclear] and neither of you are. I believe in protection for certain purposes, and the Congress certainly does, but if we have to move, if we can move other nations to trade, why we should move in that direction. If they don't want to, if they're going to protect, though, we've got to do, too.

Shultz: Well, that was [unclear]—

Nixon: Is that the way you—?

Shultz: —you managed that tone in your speech at the IMF,[10] and that was found in the plan, but I think we could afford to lay that out a little heavier than this.

[unclear exchange]

Burns: Another—another ingredient in any such statement would be a re-emphasis of the importance of curbing inflation, and what we are doing about it, because this is one—this is perhaps the major weapon that we have for re-establishing our position in international trade. We have price stability, whereas other countries are inflating.

Nixon: But if we have price stability, Arthur, here, why then, is the value [unclear] the dollar overvalued, then?

Burns: Well, you know, we haven't had it long enough. And the difference between us and the other countries has not been so great. So you, so you accent the importance. I would use this opportunity, and maybe, maybe you can—maybe we can, at that time, want to announce something on the price front, you know? In any case, a re-emphasis of your determination to curb inflation, the—as a way of raising—

Shultz: There is one small thing that we could announce, which would not mean too much, but it's something the Congress has talked about a lot; namely, a requirement that large firms and unions give thirty days notice before they change a wage or a price. That doesn't change the structure of the system at all except that it imposes an additional reporting requirement. And, at least, has the sound of [unclear].

Nixon: Yeah.

Burns: Have you been asked about that?

Shultz: No, that didn't come up in the testimony—

Burns: What would you say if you were asked in testimony? This may come my way tomorrow.[11]

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[10] On September 25, 1972, President Nixon addressed the annual IMF and World Bank Boards of Governors meeting. For the text of his remarks, see *Public Papers: Nixon, 1972*, pp. 907–911.

[11] Burns testified before the Senate Banking Committee on February 7.

Shultz: I think that it is, it is something that we can do within the framework of the law.

Burns: Sure.

Shultz: And—

Nixon: And that we are—

Shultz: —we would prefer to have it left as an open possibility. We may do it, or we may not.

Burns: Hmm.

Shultz: If the Congress wants to suggest that they like that idea, we'd be very interested in that—

Nixon: We would be—why don't you put it this way: "We'd be very interested in the views of the Congress on this." Let them say—that, we are—as far as the administration is concerned, that we—that is one of the devices we have under consideration, but we're also—we'd be interested if they—you know, they all talk about wanting responsibility [unclear]. I mean, maybe they think it's a good idea or not a good idea.

Shultz: I think the thing we would want to avoid, though, is having them put it in the law as some [unclear]—

Nixon: A requirement. That's right. That's right.

Shultz: Then we'd lose our flexibility.

Nixon: We want to be flexible on it. But I would, it wouldn't bother me any to require if—

Burns: Hmm.

Nixon: No, unless the reporting would just be for prices, I think it would be an enormous [unclear].

Shultz: Well, the—that's one of the things. It leads to a—

Nixon: [unclear]

Shultz: —gigantic paperwork burden.

Nixon: Jesus.

Shultz: And we are trying to wean the business community away from an attitude of overdependence and reliance on government all the time. [unclear]—

Nixon: What would concern me would be the price—the paperwork on the price side. The wage side wouldn't be that much, but the price side—phew! [unclear]

Shultz: We would have to have some—we could have some [unclear] on that.

Nixon: All right.

Shultz: We—we've talked about it, and we've thought about it, and I think you and I talked about it a little bit—

Nixon: Yeah.

Shultz: —and so it was considered, and we, we felt we didn't want to do it. But it isn't a big thing. We could put something like that in the speech. The trouble with putting it in a speech like this is that, well, that it isn't a—

Nixon: Not 'til we [unclear]—

Shultz: —it isn't a piece on, on the scale of the other pieces in importance.

Burns: Hmm.

[unclear exchange]

Nixon: —pretty much be basically a one-subject thing dealing with the international monetary, trade and [unclear] certainly, the—what we are doing [unclear]. But don't, don't mix it up too much.

Burns: Hmm.

Nixon: And, just, just zero in on the one problem and handle it.

Burns: You, you understand, Mr. President, the—you could be criticized on the ground that part of this plan is a repetition of what we did before.

Nixon: Sure.

Burns: And, therefore, your old policy didn't work, Mr. President. I think that's why you need this trade piece as part of the package.

Nixon: Trade?

Burns: Yeah. That has to be [unclear] great emphasis.

Nixon: Um-hmm.

Burns: That's the new product.

Nixon: You mean the [unclear]—you mean the trade aspect in terms of being able to stop imports?

Burns: No—well, sure; the authority to approach and negotiate both ways, either to liberalize or to stiffen.

Nixon: Whereas, the other time, all we did was impose a surcharge. Right?

Burns: That's right.

Shultz: Which we then took off when we were able to negotiate changing—

Nixon: Changing the exchange rates.

Burns: And, in retrospect—in retrospect, you took it off a little too fast for it—

Nixon: Yeah, we were under a lot of heat from the [unclear]—

Burns: Yeah. But, the—but we couldn't have gotten the agreement without it and—

Nixon: And we bought a little time.

Burns: Yeah.

Nixon: What about an international—is the time ever going to come, in the 3 years and 11 months we have left here, to have an international monetary—arrangement that's going to mean anything? We don't want to just lurch from crisis to crisis.

Burns: Hmm. Well [unclear]—

Shultz: Although I think this actually could—

Burns: This could—

Shultz: —help move the thing along, in the sense that—

Burns: Crises have a function.

Shultz: —we are—

Nixon: Yes.

Shultz: —we are moving—in this plan, we are moving in parallel with what we propose. And, to the extent that we are able to improve our balance of payments and trade and trade position, we're clearing up one of the greatest problems in the monetary system; namely, the big overhang of the U.S. The problem, you see, has to get solved before you can put any machinery into place as a—sort of a stable [unclear] proposition.

Nixon: Um-hmm.

Burns: Mr. President, let me plant a thought in your mind. If the—

Nixon: [unclear]

Burns: The—I don't know how these conversations are going to go. On trade, I'm very much discouraged. On monetary reform, well, we're proceeding at a snail's pace—no, no—

Nixon: Um-hmm?

Burns: —sense of urgency. This crisis may give us a strong lever, and we may move forward as a result. But, we can't be sure. The way my thinking has been running is that, you know, you send the Eberles of this world—I don't mean Eberle as an individual—

Nixon: I know.

Burns: —I meant having that function, and they get together, and they wrestle, and they debate, and they just irritate one another and get nowhere. Now, I'm afraid that's the mood. The—my own thinking has been running in this direction more and more; in that trade, monetary reform, and defense—international security, will all have to be handled together and will have to be done at the summit level. But, to handle it at that level, we—we've got to be more fully prepared, I would say, than we are at the moment, because if you go in to a summit conference, you will want to be very sure as to precisely the point where you want to come out and then know the margin for—that could be negotiated out—

Nixon: Negotiate.

Burns: But, we want to try and work these things out. You see, they're related. But I would not be surprised if, in the end, it would have to be done that way, and I just mention this as something you might want to keep in the back of your mind in the months ahead.

Nixon: By a summit, do you mean just the Big Six? Japan, Italy—

Burns: Yes. Right—

Nixon: France, Germany, England, and the U.S. And Canada—?

Burns: And maybe, and maybe—and maybe not even the Big Six. Maybe the Big Four or Five; you know, the rest will fall in to place.

Nixon: Japan, England, France, Germany, U.S. Right. That's it.

Burns: Well, now, you take the Smithsonian Conference; it's a very good indication. Your meeting with Pompidou, you know, that really settled the thing.[12] Sure, a lot of things to work out after that, but they all fell into place. Without that, we'd be lost. The Finance Ministers would have met and continued meeting; we would have gotten nowhere. And I think our strongest card is the—we don't have strong cards on trade, considering the way the world is organized.

Nixon: It's against us.

Burns: Well—

Nixon: And for themselves.

Burns: Well, for themselves; I think that's a better way of putting it.

Nixon: That's right.

Burns: And, on the monetary side, well, our strong card is defense. We are protecting the world, and they know it.

Nixon: Yeah, and they don't want to pitch in—

Burns: It's a hard card for you to play, and they know that, but this is something that you, and you alone, can best evaluate at the right time.

Nixon: [pause] Well, let's begin by saying that we'll go forward with your 6½, 6½ business. That's obvious, right? You've reached that decision, too?

Shultz: That's—yes [unclear]—

Nixon: Gone that far today. All right?

Shultz: Have gone that far sort of by nature of—

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[12] President Nixon and French President Pompidou held a summit meeting in the Azores December 13–14, 1971, where they laid the foundation for the monetary agreement concluded by the G–10 at the Smithsonian Institution later that month. See *Foreign Relations*, 1969–1976, volume III, Foreign Economic Policy, 1969–1972; International Monetary Policy, 1969–1972, Documents 219–220.

Nixon: Yeah.

Shultz: —free market [unclear]—

Nixon: Yeah. Yeah. All right. Well, I think it's responsible. So, we go with 6½, 6½. With the Japanese, use the stick in the closet to the effect that I have decided to ask for legislation that will provide, as you know, the imposition of a surcharge. And also, the—what was that other thing you were talking about? The—if the market is flooded—?

Shultz: The safeguard system.

Nixon: The safeguard system. We gotta—we put that in there, too?

Shultz: Yes, sir, that's in—

Nixon: Might as well stick it all in. And then, beyond that, in terms of—you will do some consulting, is that right, now, with the Congressional people? Or have you done a lot of it already?

[unclear exchange]

Burns: Well, we can't—

Nixon: Can't consult—

Burns: —can't consult Congress on devaluation.

Shultz: Yeah, we can consult on the trade.

Nixon: On the trade—oh, actually, I meant trade.

Burns: Oh—

Nixon: On the devaluation, you've got to dicker on, right now.

Shultz: On the trade, we ought—

Nixon: How will you handle the devaluation? Who do you talk to? The—the Japanese Ambassador here? Or does our Ambassador talk to them?

Burns: No—

Shultz: I think we probably have to send Volcker to Japan—

Nixon: Yeah.

Shultz: —to talk to their Finance Minister and, no doubt, Tanaka.

Nixon: Yeah.

Shultz: And we have a draft letter—[13]

Nixon: Uh-huh?

Shultz: —suggested for you to show—

Nixon: Sure.

Shultz: —to Tanaka—

Nixon: [unclear]—

Shultz: —that emphasizes your concern about this and dispatches Volcker or whomever you decide—

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[13] Presumably a reference to Document 4.

Nixon: Right. Right.

Shultz: —to—

Nixon: Then who goes—then somebody else goes to England and Germany—?

Shultz: Yes, somebody else, because one person can't go around [unclear]—

Nixon: And all this is over the next 3 or 4 days, right?

Shultz: Could go immediately in this 3 or 4 days. Or, we could wait, though—

[unclear exchange]

Shultz: We tend to lose leadership capacity—

Nixon: Yeah.

Shultz: —when we wait—

Nixon: Yeah.

Shultz: —particularly if the crisis heats up. If it passes, then we're—

Burns: Hmm.

Shultz: —we have a little bit more running room. [unclear]—

Nixon: Well, all right, you've—let me say that on that decision, you fellows will just have to meet. I—your judgment will be better than mine in all this, as to whether [unclear]—there are no political problems involved. It wasn't—it wasn't like it was, you know, with the other thing—we had the French to worry about, and the British to worry—we don't give a damn about any of them politically, now. The Japanese sensitivities—to hell with them. Let's go right ahead.

Shultz: Well, I think the process of going around this way will make this—

Nixon: Um-hmm.

Shultz: —much different from the others. It means that if—

Nixon: When will you be ready for the—when will you be ready if you have to on the business of some sort of a Presidential statement? That would not be next week, I presume. Not that soon and—

Burns: Could be.

Shultz: Could be next week.

Burns: Could be next week.

Shultz: Could be next—

Nixon: 'Cause I will be in California next week, because I meet Kissinger from—coming in from Japan on the 19th, Monday.

Shultz: Uh—

Nixon: Well, somebody better get busy on that.

Shultz: Well—or, if we may be able to move this in time, I take it you would prefer to not to do it quite so fast if—unless [unclear]—

Nixon: Well, I would prefer—I would prefer not to do it; I would prefer not to go all out on trade. [unclear]—the matter of financing doesn't bother me at all. I mean, the monetary thing; that should be done. But, in terms of going out on sort of a, a reckless basis next week, saying, "Here is a brand new trade thing because of the crisis, and dee-dee-dee-dee-dee [etc.]." I don't like the feel of that. I would prefer to do that in a more deliberate way. But, but if we—but, if it's necessary to do it next week in order to accomplish the monetary thing, we'll do it next week. That's the way I would look at it.

Shultz: We think there's a big advantage, both to the monetary move and to getting the trade business going right, to put them together in a package. We—we need to do some consulting on the trade business. George Meany called this morning and invited—

Nixon: Um-hmm.

Shultz: —me down for this weekend, and as soon as I can come. And I talk about Bill,[14] and he said he'd love have to have Bill come down. We can look forward to talking with him about it.

Nixon: What about—

[unclear exchange]

Shultz: I—I haven't got those dates yet.

Nixon: [unclear]—

Burns: George, why can't we carry out some conversations this week with key Congressmen on the trade issue?

Shultz: We can.

Nixon: Trade issue won't help.

Shultz: We're in position now; we've got a reasonable agreement—

Nixon: Well, I think I'm seeing Burns tomorrow—possibly. Is that, is that what you would recommend? Or, you did not know about that?

Shultz: You mean Mills?

Burns: Mills.

Nixon: Sorry. I meant—

Shultz: No, I just—I didn't know about that, but—

Nixon: [unclear]—

Burns: Wilbur Mills—Wilbur—seeing Wilbur Mills? Oh, that's fine.

Nixon: Yeah, I just want to be sure that we're ready to see him, that you've suggested we go to—Arthur had a suggestion that—

Shultz: I didn't, but I think it's a good idea. I would like Burns—

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[14] Not further identified.

Nixon: [unclear]—

Shultz: —to be present if you're going to see him.

Nixon: All right. All right.

Shultz: Now, we have these tax problems that he'll want to talk about, and we haven't had a chance to get your thinking on that.

Nixon: All right, fine. Fine. Fine.

Shultz: When, when is the Mills meeting, Mr. President?

Nixon: They're trying to set it up this Saturday—tomorrow afternoon, sometime.[15] Does that fit in with yours?

Shultz: Well, it would, yes, because I'll be testifying in the morning.

Nixon: Yeah.

Shultz: As I understand, it we're scheduled to talk about tax issues in the afternoon—

Nixon: Yes, at 3, I take it—

Shultz: So, if we had him after that, that would be good.

[Bull entered at an unknown time after 5:11 p.m. Bull left at an unknown time before 6:03 p.m.]

Nixon: [unclear] I'd like to have Arthur there, but we can't impose on his independence.[16]

[Omitted here is discussion unrelated to international monetary policy.]

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[15] See Document 157.

[16] In a conversation with Nixon on February 8, Shultz said: "But at any rate, we've got to see what happens in Bonn, and so on. And, maybe they will agree to our deal, and maybe they won't. If they don't, then, you remember, our plan is to just go ahead and make a unilateral announcement that we think the exchange rates are not in line, and make a statement to the IMF along those lines and say, 'We're not going to do anything that will try to hold exchange rates that we think are obsolete.' And that will just cause the markets to go absolutely nutty [laughs], and I think it will force their hand. It will be acrimonious. It will not be as good as having worked it out, but we're in the position of saying, 'Look, we tried to work it out with you. And if—we have done this minor intervention ourselves'—and I took quite a beating on that yesterday—but the purpose of doing it is to be able to say to the Germans, 'Look, this thing is out of kilter. You've spent billions of dollars, and we put some money in, and we put some good faith into this thing, and that just shows you that we couldn't stop it.' So, I think that we're in a good talking position that way." (National Archives, Nixon Presidential Materials, White House Tapes, Oval Office, Conversation 853–12)

4. Letter From President Nixon to Japanese Prime Minister Tanaka[1]

Washington, undated.

Dear Mr. Prime Minister:

The renewed disturbances in currency markets in recent days forcibly bring to our attention the need to deal effectively with the remaining deep-seated imbalances in world payments. Because the continued Japanese–United States imbalance is so central to this problem, I am impelled to contact you directly, and with a sense of great urgency.

I believe the time has come for decisive action, including specifically a realignment of the dollar-yen relationship of the required magnitude. I fear that delay in this matter can only gravely risk long-lasting damage to the fabric of open international economic cooperation.

My sense of urgency is founded in large part in the thought that, in the face of continuing pressures on our trade position and on the eve of major trade negotiations, the world faces a turning point with respect to the solution. By forceful action, we can together control events in a manner that will preserve our open trading relationship, contribute to our mutual prosperity, and provide strong support for our vital relationships in other areas. In contrast, failure to act in a positive spirit and with great vigor could leave us without defense against these forces in every country, including the United States, that would fragment the world economy and drive us apart.

In the circumstances, I have asked Mr. Paul Volcker, Under Secretary of the U.S. Treasury for Monetary Affairs, to fly to Tokyo tonight to relate in fuller detail our thinking, and particularly the reasons for our conclusion that action must be taken immediately in the exchange rate field if we are to remain in command of the situation.

I know you have thought long about these matters, and I look forward to a prompt and positive resolution. It is vitally important that Japan and the United States as the Free World's two strongest economic powers move forward together to solve this crisis.[2]

Sincerely,

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[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, President's Handwriting, Box 20, Feb 1–15, 1973. Confidential; Limdis.

[2] President Nixon added the last sentence by hand. The original, which is presumably the text to be submitted to Tokyo, is unsigned.

5. Memorandum of Conversation[1]

Tokyo, February 8, 1973, 9:30 p.m.

PARTICIPANTS

Kiichi Aichi—Minister of Finance
Takashi Hosomi—Special Advisor to Finance Minister
Koichi Inamura—Vice Minister for International Finance
Shigemitsu Kuriyama—Councillor, Minister's Secretariat (Interpreter)

Paul Volcker—Undersecretary of The Treasury
Ambassador Robert S. Ingersoll
Sam Y. Cross—Department of The Treasury
James J. Wickel—Second Secretary (Interpreter)

SUBJECT

Monetary Situation

Minister Aichi and his aides greeted Undersecretary Volcker and his party at the entrance of the Finance Ministry Residence and quickly escorted them inside to the drawing room.

Following minimal formalities, Undersecretary Volcker referred to the President's letter to Prime Minister Tanaka[2] and thanked Minister Aichi for receiving him on such short notice. He explained that extreme urgency of the monetary problem required action this weekend, and dictated his visit on short notice. The fact that the United States wished to consult Japan first, ahead of any other nation, should reveal the urgency confronting Japan for two reasons: (1) Japan accounts for the greatest part of the United States trade deficit, which underlies their bilateral, and the world's multilateral difficulties; and (2) the United States and Japan, the two strongest economic powers, have a common responsibility to resolve this problem. He said that the President has already indicated his own strong feelings on these points in his letter to Prime Minister Tanaka. If the United States and Japan could not resolve this problem, he concluded, then no one could.

Minister Aichi responded that Prime Minister Tanaka and he have studied the substance of the President's letter carefully, and understand his present position clearly.

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[1] Source: National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 5, Japan (General). Secret; Nodis. Drafted on March 15 by Wickel. A notation at the top of the first page reads: "Uncleared by Undersecretary Volcker." A handwritten notation below this reads: "No." The meeting took place at the Finance Minister's residence.

[2] Document 4.

Undersecretary Volcker without adding anything to the President's letter, emphasized that the President does have strong convictions about the United States relationship with Japan in the context of this world situation, under which the monetary crisis is merely the surface manifestation of a great problem facing all countries. We have come to the turning point, he warned, and either we manage the situation or it manages us.

Minister Aichi asked the Undersecretary to confirm that his visit to Tokyo is being kept confidential.

Undersecretary Volcker replied that we are trying to keep it confidential, but cautioned that there could be a problem if his absence is noted in Washington; his absence would be prolonged because he also hoped to visit Europe after leaving Japan.

Minister Aichi agreed with some animation that it would be good for him to go on to Europe, particularly Germany.

Undersecretary Volcker expressed the frank reservation that it would be pointless for him to go to Europe without reaching a satisfactory agreement in Tokyo.

Minister Aichi said that the purpose of this confidential meeting is to exchange views frankly and in light of the Undersecretary's mission he hoped to have "significant discussions" this evening.

Undersecretary Volcker thanked him, and said that he would speak bluntly and in confidence. He also asked that everything he might say this evening be reported frankly to Prime Minister Tanaka.

First of all, Undersecretary Volcker described the situation as we viewed it, emphasizing two aspects. (1) There is a monetary disturbance, and until the causes of disequilibrium are corrected, these disturbances would continue. European and American financial communities both feel strongly that Japan accounts for the largest part of the United States deficit, and while we appreciate Japan's attempts to take actions to preclude a disturbance, nevertheless, we and the world feel that Japan has undertaken an impossible task. The imbalance has caused the disturbance, and because Japan is dealing with it by passing dollars on to the rest of the world, its effect appears elsewhere. That is why the President feels strongly that there are serious political (apart from any economic) implications arising from this disequilibrium, which in turn affect the monetary market.

(2) He explained that the domestic problems he faces loom large in the President's thinking because they affect our external relations. For example, the new Trade Bill being drafted for submission to the Congress soon will certainly face difficulties in the Congress, and will become both a focus for debate and a symbol indicating whether the United States continues on the path of open economic relations with the world, or whether it will be forced to take another path. The de-

bate could go either way, and he warned that we could be pushed unwillingly along the other path if our economic problems are not resolved. He simply could not overstate public and Congressional pressures to have the Administration answer one simple question: "What are you going to do about the balance of trade and payments problems now that the dollar is under attack?" The implied threat is that the Congress will do something if the Administration does not. However, the basic question does have an answer, which is why he is in Tokyo. It would not be an easy answer, but he knew of no other for the United States and Japan to deal with the trade imbalance and the disruption of the monetary market it causes.

With the above as background, Undersecretary Volcker said that the President is prepared to announce an answer this weekend, provided Japan and the Europeans agreed. In broad terms, the President is prepared to outline an answer which would include monetary actions within the framework of the general proposals we have made to move the world along the path of greater cooperation. Therefore, we feel that it is essential, just as Japan must feel it essential, to inquire whether Japan thinks it can be done.

With respect to trade matters, Undersecretary Volcker explained that the authority which the President must secure from the Congress to conduct new trade negotiations should be broad, going beyond tariff negotiations. Multilateral safeguards have been mentioned in our own preliminary internal discussion of this legislation, and we consider it essential that the trade legislation include authority to impose specific import surcharges for BOP purposes, consistent with our monetary proposal. Having outlined this background for the monetary decision we would have to make, he explained that, if we were successful with our monetary decision, we would not wish to see the Congress focus on these safeguard provisions only and forget about the other trade expansion considerations.

In all frankness, Undersecretary Volcker predicted that the Administration would not be able to tell the Congress that it should not try to resolve the situation in its own way, if we fail to resolve the monetary crisis, if we continue to hear the news on TV that the dollar is still under attack, if we cannot provide a better answer to redress the disequilibrium in trade, and if we have no other solution. He explained that it was with this sense of urgency that the President wrote to Prime Minister Tanaka.

Minister Aichi thanked him for this frank presentation on the United States domestic situation, which he would have requested in any case before reviewing Japan's domestic situation. He asked what measures the United States intends to take on the trade bill, and the monetary crisis. He recognized that no resolution is in sight yet, despite Japan's efforts to rectify its trade imbalance with the United States, but now that dollars have begun to flow into Europe as well as Japan, he imagined that the United States would be concerned about restoring confidence in the dollar, and might even be considering devaluation.

Undersecretary Volcker, responding directly to this "appropriate question," appreciated that whatever we might do would not lead to a cure overnight. The possibility of perversity in the results underscored the need to take actions which could clearly be seen to be adequate over the long run, since there would be no immediate effect in real terms visible in our BOP. The Smithsonian Realignment had been a great achievement in the right direction but the fact could not be hidden from the market that it was inadequate.

Apart from any question of its adequacy, Minister Aichi responded instantly that Japan is observing the Smithsonian Agreement, and is supporting the dollar in the Tokyo foreign exchange market.

Getting to the point, Minister Aichi said that the President stressed the urgency of the situation in his letter to Prime Minister Tanaka; so has the Undersecretary this evening. If the measures he wished to discuss would not have an immediate effect on the trade imbalance, he could only conclude that Undersecretary Volcker had flown to Tokyo to make a monetary request of Japan, and asked frankly what it might be.

Undersecretary Volcker said that he could respond with all the conviction he had. First, Japan is the largest source of the United States deficit; second, Japan is not the only source of the United States deficit; and third, we recognize where we wish to go in the monetary area in the long run. Therefore, he concluded that a large realignment is necessary between the dollar and the yen, and between the yen and the other leading currencies. Germany (one of Japan's leading competitors) has already revalued upward several times. What he wished to propose this evening is a division of responsibility, under which both the United States and Japan each would make a difficult decision.

Minister Aichi replied that Japan sees no need to revalue the yen upward. In fact, he hoped to continue working toward the system of international cooperation on which a start was made at the Smithsonian. Frankly speaking, he could not agree with the Undersecretary's proposal, because he believed that the monetary problem should be resolved on the basis of multilateral consultations to be conducted later. Even though this may not seem ideal from the Undersecretary's point of view, he promised to work to build a definitive consensus in such consultations among the leading nations. He also stressed that he anticipated that the deficit nations, as well as the surplus nations, would bear some responsibility in achieving a solution.

Undersecretary Volcker pointed out that this is not what he proposed. All he asked for is agreement on specifics in terms of quantities and an order of magnitude of rate exchanges we could both agree to now as the key to resolving the situation upon us. We could, of course, continue to work toward a cooperative system. Now, however, in the context of our vision we are prepared to meet half-way, and he emphasized most strongly that we need a major change now. Therefore, he proposed a 10–20, or 10–10 formula, because it seemed to us that a 50–50 sharing would be both politically and economically defensible, on condition the Europeans stood still, which is what he intended to explore in Europe in the next day or two.

Minister Aichi replied that he had asked for the United States views, but could not make a detailed statement on their merits only on the basis of one or two hours discussion this evening. Therefore, he wished to limit his response to an expression of appreciation for these views, which were stated very frankly.

Undersecretary Volcker described some additional aspects as subsidiary but important. One major problem we face in the long term evolution of the monetary system is the high price of gold, which leads to spirals in the exchange system, giving rise directly to the monetary difficulties we wish to resolve. Therefore, he said that we would also be prepared to announce publicly our position on gold (as we described it in our previous meeting[3]) and would be prepared to agree jointly to a two-tier system, on the selling side only. We would thus go back to the regular IMF rule, and would sell gold in the market, at prices and at times of our own choosing. This aspect relates not only to Japan, but to the need to secure support in Europe, particularly from a certain country.

One final aspect raised by Undersecretary Volcker was not crucial to Japan, but would indicate the path was wished to take in the long run: any action we take on the exchange rate front should be accompanied by a reiteration of our interest in phasing out capital controls.

Undersecretary Volcker concluded his remarks saying that he would promptly see whether he could get the key European nations to agree to this concept, that is, if this concept is agreeable to Japan, particularly the first point related to exchange rates, and if we have reached a consensus on the amounts. Our own thinking is that it would be faster to do this without a meeting of the G–10.

Undersecretary Volcker warned that our alternatives are few—they amount to one. Of course, we could take no action and leave everything to the market, in which case we could expect to see continuing

[3] Not further identified.

market disturbances and additional floats, the exact opposite of what must be done to reduce our BOP deficit.

Minister Aichi thanked him (with restrained temper) for this very concise "demand" and pointed out firmly that there is a proper order for doing things. As Japan's Finance Minister he could not have refused to hear what the United States wished to say, despite the short notice given. He emphasized that Japan, in its own view, recognized that it could not maintain its economy without the cooperation of the United States, in terms of which philosophy it has always done its utmost to take into account the United States position.

Undersecretary Volcker commented that Germany absorbed $3 billion in two or three days. By way of objective observation, not criticism, he did not believe that Germany could continue to buy dollars. Perhaps tomorrow, or the day after, Germany would have to change its policy. If Germany decides to float he asked whether Japan is prepared to do the same.

Minister Aichi said that Japan's position is that it could not consider revaluing the par value of the yen without first floating for a period of time to determine its true market value. He explained that the Diet is now sharply debating the JFY 73 (beginning April 1) draft budget, which is based on the present rate. If the yen were revalued before the budget passed, the GOJ would have to withdraw its draft budget, which under Japan's parliamentary practice would require the GOJ to resign en bloc. The impact on the United States would be great if the GOJ were to collapse in this fashion. He explained that he has been seeking to postpone the C–20 Meeting until April in the expectation that the draft budget would be adopted by March 31.

Minister Aichi said that Japan is watching the German situation closely, and if the German authorities act to end the disturbance by closing the exchange market, Japan would also close its exchange market and float for a considerable period of time to determine the true market strength of the yen versus other currencies.

Minister Aichi stressed that the first priority of the GOJ is to pass its own budget. Following that, at the C–20 meeting, he would consult individually with the key countries, in confidence and not as part of the plenary meeting, about rate realignment. It was in this sense that he said earlier that there is a proper order for doing things. He could not make any further statement, but assured the Undersecretary of his deep concern over rate alignment (apart from the extent of any change in the rate). Above all, he wished to work out a satisfactory adjustment against the dollar, but he was concerned that the other nations, especially Germany, might not agree on the rates the Undersecretary proposed. Of course, he added, he has been discussing this with the Germans. He assumed that the Undersecretary could gauge the depth of his concern with the rate question, and concluded by stating that in principle he "understood" the Undersecretary's statement.

Undersecretary Volcker appreciated the Minister's two points. His own presence in Tokyo, without talking to any other nations, should show how strongly we wished to work out a solution in close cooperation with Japan in our common broader interests, for together we shared an extremely difficult, mutual problem. He could not be more conscious of the timing (even without knowing the timing of Japan's budget) for he warned that we have only a few hours at best to reach a solution, which would be difficult under the best of circumstances. He recalled former FRB Chairman Martin's[4] pithy saying: "the market waits on no man, no President and no Prime Minister" and warned that we now have that kind of a monetary situation. He saw two difficulties with the Minister's approach, and was certain that Germany (and not just Germany) could not do what the Minister implied without creating the very kind of political disaster for us in Europe which we are all trying to avoid: the problem would arise within the EC with Germany's freedom to act and respond being sharply constricted. The danger, at best, would be a proliferation of the kind of controls, with disastrous political by-products that we are seeking to avoid. Second, from our point of view, without pleading poverty or weakness on Germany's behalf, he said that Germany is in a different position than Japan. Germany's BOP are close to equilibrium, and it has a small surplus on current account. Further, Germany must worry about its trading partners, for example, having already revalued upward 30% against the Franc. While we do have a general problem with Europe including Germany, the United States could not single out Germany. He said that he is not speaking in terms of ideology; his practical concern whether Japan floats, or doesn't, is that speculation against the yen would make the rate move differently, and may well give a misleading indication of its true market value, because of Japan's intensive controls on capital. If Japan were to float the yen for six months, or a year or two, a true rate would emerge, but a short-lived float would give a misleading picture. He questioned seriously whether we could live through the period between now and the C–20 Meeting without serious political and economic consequences. We seek a harmonious effect, not haggling over rates in the context of antagonism, which would not produce a solution in harmony. We could discuss the proper levels, but he pleaded that Japan consider fully a "clean" not a "dirty" solution,[5] one not based on ideology and preconceptions.

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[4] William McChesney Martin, Jr., was Chairman of the Federal Reserve Board of Governors from 1951 until 1970.

[5] A "dirty float" involves government actions aimed at managing the value of the national currency. A "clean float" is one in which there is no government intervention.

Undersecretary Volcker said that he had only one decision to make tonight, whether to go to Europe, and if so, when. He would be prepared, if it were considered desirable on an overall basis, to stay over in Tokyo until tomorrow morning. He thought that the Minister's comments indicated that it might be desirable to stay over.

Undersecretary Volcker added one comment, that the President's willingness to take the initiative on the United States side is tied to the trade bill. He could not predict how the President might feel a month from now, if Japan floated later. With a float now there would be no compelling need for us to take action to resolve the monetary situation with the wrong tool.

Minister Aichi heatedly denied that the GOJ would consider a "dirty float." Rates should be adjusted among the governments, and he said that the float would provide useful data for the GOJ to adjust the rate later, although it would not be an absolute indicator for a new yen rate. He said that the Undersecretary has been very frank. It is not that he does not understand, but in general, he did not know what Japan would do. If the United States wished to argue its political circumstances, then he felt that it should also consider Japan's political circumstances, noting that both Ambassador Ingersoll and Mr. Wickel were well aware of these. Since Japan does not consider it necessary to revalue the yen, to do so by yielding to United States pressure would cost the GOJ its political life. With respect to timing, he said that the budget would not be passed for at least another 50 days. He explained that he and Prime Minister Tanaka have already discussed the President's letter in great detail, and he has listened to the Undersecretary's proposal this evening; no matter how many more hours he were to wait in Tokyo, the Minister said that he could not go beyond what he has already said. He asked the Undersecretary to understand his answer.

Since this meeting is absolutely confidential, Minister Aichi was able to say that it should be obvious that Prime Minister Tanaka and he are agreeable to discussing a rate change with the United States, but that the timing is all important. First they must get the budget through the Diet. Even before receiving the President's letter he said that they had decided firmly that they did not wish to take the great decision to float the yen before April 1.

Undersecretary Volcker replied that he appreciated this response fully in both senses, the difficulty on the GOJ side and the forthcoming nature of the proposal. What he feared, however, is that it did not take into account the fact that this is not merely a bilateral problem: it also represents a difficult situation with respect to Europe, and he was not clear how this kind of a solution would fit into that part of the problem. Conceivably, it could aggravate it, because it would place a great burden on Germany.

On the contrary, Minister Aichi felt the reverse to be true. He reasoned that international cooperation is important, and Germany must make the first move; if Japan did so, it might push Germany into a crisis; Germany is facing a dollar rush, and thus should float first; Japan would follow suit, and thus support international cooperation. Should Japan move first he feared that Germany would have to face even greater problems, and Holland as well. Frankly, he hoped that the Undersecretary would go on to Bonn to talk to the Germans about their floating first. If there is any good news that he could give the Undersecretary, it is this.

Undersecretary Volcker assured him that the Germans have a different view.

Minister Aichi said he was speaking in the abstract; no doubt the Undersecretary has more information, but even on a theoretical basis his views are the opposite of the Undersecretary's.

Undersecretary Volcker said that he is troubled by the Minister's earlier point. In economic terms, which affected political relations, it is not the Germans who have a major imbalance; it is correct that Germany is exposed to the pressure of an inflow of dollars, in part because it has the freest market. It is ironic that having a free market puts pressure on a country and makes it suffer, which could turn it to restrictions and the consequent political antagonisms.

Minister Aichi replied that Germany is under pressure, but that it contradicts the facts to say that Japan is hurting Germany. He then asked whether the Undersecretary felt that Germany would revalue immediately.

Undersecretary Volcker said that he looked to Germany reasonably to take the lead in Europe to keep the EC nations from devaluing along with the United States. While he has not yet talked to the Germans, he felt that it is reasonable to expect this. He wished to explore with the Germans what United States devaluation they could get the Europeans to live with but in all candor, he would have difficulty in going to the Germans and telling them they must float. The Germans would find that such action would place them in direct political antagonism with their EC partners, with all the consequences that would imply. There are a number of problems, not with Germany, but with France.

Minister Aichi said that he understood. If the United States can get the agreement of the Europeans, he agreed that Japan would float the yen.

Undersecretary Volcker asked where the yen would float: Ivory soap floats to the top of the water, but Palmolive floats down. He said that the basic economic situation requires Japan to do more than Europe and if the Minister agrees to that basic point, and to the precise amounts, he thought he could gain European approval. As a basic concept, he hoped that the Minister would agree to the idea that the United States and Japan would share the burden.

Minister Aichi stated as the basic concept that Japan and the United States would share the burden in principle. He asked the Undersecretary to understand fully the damaging effect of any discussion of rate changes on the Diet deliberations, and therefore asked that he keep any understanding between Japan and the United States in strict confidence, without mentioning it in Europe. Since the GOJ has repeatedly declared in the Diet that a rate change is out of the question, he reiterated that any discussion of specific rates would have to await the passage of the budget.

Undersecretary Volcker said that he understood, but pointed out that this approach would leave the United States exposed.

Minister Aichi said that this kind of important problem is one for Prime Minister Tanaka and himself to keep in mind. Nonetheless, in principle a yen/dollar adjustment would have to await passage of the budget. In principle he agreed with the concept of sharing the responsibility, but all he could say now is that he has listened to the United States views, and that the GOJ would study the question of the yen rate later.

Undersecretary Volcker noted, in this connection, that he has heard that Japanese export contracts are being written at the rate of 270–1, probably assuming no adjustment in European rates, in an area in which the United States and Japan compete. He said that we have been discussing a rate lower than 270–1, for that rate would not move the yen up much in comparison to Europe.

Mr. Inamura explained that the prevailing rate for all contracts is not 270–1, although there are some individual cases of this rate.

Undersecretary Volcker said that he too understood that it is being used only in some contracts.

Turning to the question of the amount, Undersecretary Volcker said that our economists say that a 10–10 ratio is the minimal appropriate change. There may be no need to listen to everything the economists say, in all due respect to their perfection, but still, their advice could not be ignored. We do know for a fact that the Japan–United States trade imbalance is important in adjusting other rates, and that Japan's competitor is not the United States, it is Europe; thus we assume that Japan would not wish to revalue vis-à-vis Europe. His proposal would not, he felt, represent an insuperable magnitude, in terms of Japan's relations with Europe. Yet, the foreign exchange markets are all based on the dollar, when the dollar is moving.

Minister Aichi reiterated that the timing is seriously affected by Japan's domestic political environment, which he has already described. Noting that Japan and the United States have moved closer, in principle, he asked the Undersecretary to talk to the Europeans, in confidence, and inform Japan of the results, in confidence. He suggested that this evening's discussion be left at this point, recalling that he agreed earlier in this conversation that Japan would float, if Germany floated first, and that after the GOJ passed its budget, Japan would consult on a rate adjustment.

Undersecretary Volcker objected to this on the basis of two practical problems. Should he go to Europe and hold discussions as the Minister suggested, we would have a problem. If he were later to discuss in confidence with the Minister how his confidential discussions in Europe went, the train would pull out and we would be left in the dark as to where Japan would end up. It is one thing to pull out of the station if we know where the next station is, or even if we only know which way the tracks are going.

With respect to a suitable destination, Minister Aichi said that the Undersecretary could discuss the readjustment of rates in Europe, on the basis of his confidence that the GOJ would go along as soon as the GOJ budget passes; he also authorized him to state in Europe that Japan "has listened carefully to the United States views." He asked for the Undersecretary's views on this kind of destination.

Undersecretary Volcker asked whether he could say on behalf of the United States (subject to any information given to the Minister after his discussions in Europe) that Japan agrees in principle that a 50–50 share is the correct principle. Of course, this would depend, in part, on how much we do but he promised to inform Japan about that. However, he wanted to be able to say that Japan would take a reasonable share.

Minister Aichi said that Japan and the United States were involved in a triangular relationship with Europe, and that Europe should also bear a reasonable share.

Undersecretary Volcker agreed, conditionally, with one exception over which he has no control; he would argue forcefully, but could not guarantee what Italy would do. The UK, he noted, already is floating, and with the possibility of a clean float would probably move up against the dollar, but he could not guarantee Italy. Also he would have to negotiate with the others. He also wished to be certain about the magnitude we have in mind, and added that he would have to consult on the way home, before leaving Anchorage to decide whether to return to Washington, or to continue on to Europe. He said that he is inclined to go to Europe at present, provided the general approach under discussion is acceptable to the United States Government, and recognizing that there would be an interim period of uncertainty. He could go to Europe, and try to get the Europeans to stand still for a move by the United States, in the general neighborhood of the Smithsonian agreement, with our share a bit larger, if the Europeans did not move, and if we could talk to Japan about adjusting the rate after its budget passed, leaving to our discretion the closing of the Tokyo market and the floating of the yen.

Minister Aichi replied that Japan would go along if the Undersecretary could persuade the Europeans to stand still. He also suggested that the United States not devalue.

Undersecretary Volcker interrupted to say that we would have no desire to devalue if Europe doesn't stand still. He wished to negotiate with the Europeans a United States devaluation of the same general range of the Smithsonian agreement, but asked again if he could be confident that Japan would float, during the interim period, until the GOJ budget was passed, and more importantly, whether the yen would float up from its present par value equivalent to the amount of our own devaluation. The eventual dollar/yen rate change would have to be twice the extent of our own devaluation, with the yen rate against the Franc, Guilder and Mark to be determined by Japan's float.

Minister Aichi qualified this statement, saying that Japan would not float immediately after the dollar is devalued, and would not be guided absolutely by the market in setting a new exchange rate—the interim results of the float would merely provide useful data in discussing a new fixed rate in what he warned is a "highly political decision."

Undersecretary Volcker appreciated that it would be difficult for the Minister to be more precise, but hoped that he also appreciated that the United States could be not left overly uncertain. He feared that in the short time between now and April we could not be sure when the market might demonstrate a new rate, which would depend on attitudes and speculation abroad. Between now and April, he suggested, Japan float no further than the market would accept.

Minister Aichi understood, and agreed that we had no way of knowing what circumstances would obtain under a float. He emphasized again, that fixing a new rate represents a highly political decision for the GOJ, for which the yen float would merely provide data. In effect, he explained that he is saying that he has listened carefully to the Undersecretary's proposal.

Undersecretary Volcker supposed, as a general plan, that Japan would float; the President would consult within our government, saying that he has been informed that Japan would float, the other governments would stand still, and that he is confident that the yen rate would float to a level of suitable equilibrium; the President would not say that the GOJ has agreed to do so, but would express his own belief with conviction that he is confident that to fix a rate at two times the amount of the United States devaluation.

Minister Aichi protested that the GOJ would be plunged into extreme difficulty if the President were to state that Japan would revalue.

Undersecretary Volcker replied that the President could say that he expects equilibrium to result.

Minister Aichi protested again that the President should not make difficult what the GOJ is trying to do.

Undersecretary Volcker argued that we thus face a dilemma. Japan has its political difficulties, but we also have political and economic difficulties, and could take no action, he warned, without the self-confidence that the GOJ would allow the yen to float up to a level of equilibrium, and that we have some idea of what that level is. As a hypothesis, he suggested that we should know where that level lies, if the GOJ would determine it, but not announce it.

Minister Aichi said that if Japan should close the market and float some technical adjustments might be needed.

Undersecretary Volcker said that we have to know where the final station is. For the political and economic settlement we seek, we need a package: in our view, a 9% devaluation with Europe standing still and Japan matching us, would produce a rate of 260–1, but he warned that we could not negotiate with Europe without knowing what Japan would do. Therefore, if Japan agrees in principle to a 50–50 sharing, in the Minister's frame of reference, we would need some positive assurance about the final station.

Minister Aichi responded that he could say only that the GOJ has listened carefully to his views on 50–50 sharing, but was adamant about not being able to comment on specific rates.

Undersecretary Volcker asked him if he had listened to the American proposal of a 50–50 sharing "with sympathy."

Minister Aichi said that it is his impression that 18% is too great.

Undersecretary Volcker, in consideration of the mild tone of this response, asked whether he was "appalled" by the numbers in our proposal.

Minister Aichi professed that he was not appalled, just "Volcker shocked."

Undersecretary Volcker pointed out that the question of the USG waiting for the GOJ budget to pass was not on the table. The response should be that the whole matter is crucial, in the United States' view. We are at the crossroads, and should embark on the path to a solution in a positive light, to help repel those forces which could make us look inward. We should lay the groundwork in trade, and economic and security matters for the kind of constructive evolution we seek. If this approach is [un]acceptable, and a 50–50 sharing is not realized, he feared that there would be a grave danger that we would be forced back onto the other road which we did not wish to take. He knew that Japan has some trade protection, on the elimination of which he assumed that we would continue to explore approaches, and that Europe has trade limitations which limit Japan. Referring to Europe, he promised that we would continue to press for more relaxation between Japan and Europe, which is our common interest. However, he emphasized that a monetary decision must be reached this weekend; it would depend on his negotiations in Europe, but he did not wish to go there unless he was assured of U.S.-Japan cooperation, and had assurances about the station we are heading toward.

Minister Aichi said that he had exhausted what it is possible for him to say in response.

Undersecretary Volcker, to be certain where these talks stood, summarized as follows: the Minister could contemplate action to float the yen this weekend (i.e., close the exchange market) and then allow the yen to float, clean, until after the budget passes.

Minister Aichi explained that the GOJ has insisted in its responses to questions in the Diet that it would not revalue, and asked that the Undersecretary understand clearly that Prime Minister Tanaka could not revalue.

Undersecretary Volcker said that he recognized, and sympathized with these political and economic wishes; he understood that it would be politically delicate to delineate a new rate during the float.

Minister Aichi said that any mention of rates during the Diet debate of the budget is strictly tabu for the GOJ, but added that the GOJ would initiate a study.

Undersecretary Volcker, referring to the Minister's response that he was "Volcker-shocked" protested that he is a mild person.

Minister Aichi jokingly said that it had been a "tall" shock, like the Undersecretary.

Undersecretary Volcker expressed satisfaction that we have identified our common problem in this discussion.

Minister Aichi, raising a separate point, said that Ambassador Ingersoll and Mr. Wickel, being present in Japan, are well aware that the pro-U.S. elements within the GOJ are under attack in the Diet now, as they were in the past, even with respect to ratification of the Okinawa Reversion Agreement.[6] He pointed out that he and others in the GOJ who share this pro-U.S. point of view also believe in the philosophy

[6] The Okinawa Reversion Agreement, signed by the United States and Japan in June 1971, laid out the terms for the reversion of the Ryukyu Islands and the Daito Islands to Japan from the United States. It entered into force in May 1972. (23 UST 446; TIAS 7314)

that Japan cannot stand alone, without the cooperation of the United States.

Undersecretary Volcker said that he would discuss the revaluation package with the President and Secretary Shultz, which may leave the President in the position to make a difficult political decision now with respect to dollar devaluation and the trade bill. It could leave him exposed to the possibility that two months from now this package could be found inadequate. Even so, to accept a movement in the opposite direction would be impossible. Therefore, he must probe for assurances that the President would not be left in that exposed position: we would take one road now and could not turn back. In view of the international requirements, he warned, we cannot fail.

Undersecretary Volcker also said that the Smithsonian Realignment was not a failure, even though inadequate, because it represented the best political compromise possible at that time. This time, however, he warned again that we could not fail to reach a sound economic decision; to do so could have undesirable political consequences.

Minister Aichi said that the GOJ would make "a maximum decision," but its budget must be passed first. Should it get out in the Diet before the budget passes that he had agreed to a revaluation, or even if it appeared that he had done so, the GOJ would fall, and the strength of the LDP would be reduced drastically. Viewed even in terms of internal conditions within the LDP, this would be impermissible.

Undersecretary Volcker agreed that this is a difficult decision, but explained that we are being forced to act by the market. At this crossroad decisive action is called for. He understood and said that he would try to consider the Minister's political problem. Now, however, he would return to his plane, and consider whether to fly to Europe. He realized that Japan and the United States could not make a final decision without knowing the European attitudes, but the first question to answer is whether it is even worth exploring the possibilities with the Europeans. In any case, this is not his own decision to make, but added that he would be in touch through Ambassador Ingersoll, or otherwise, on what to do. However, he cautioned that this subject could not be discussed on the telephone. If he could discuss the range of the amounts the Minister has in mind, however, he felt that he might well go on to Europe.

Minister Aichi, noting that the Undersecretary had already come down to 9% from his opening bid of 10% in just three hours, reiterated that the final quantity should be negotiated.

Undersecretary Volcker discouraged him, saying that he is not sure that this is the best answer. Turning to a mechanical point, he asked what to say if his absence from Washington should be noticed. Something would have to be said in that case, but he hoped that his absence would go unnoticed. If it were noticed, he explained that the Treasury would announce that he had gone to Tokyo to review the situation personally, and briefly, with the GOJ.

Minister Aichi protested that this would violate the condition for agreeing to this meeting here, that it be kept strictly confidential. He noted that the Japanese are already keenly aware of United States pressures for revaluation, and suggested that the Undersecretary simply respond that he is going to Germany.

Undersecretary Volcker replied that this would raise a question of credibility. While he did not propose to say anything himself, he reiterated that the Treasury would simply state that he is away on a brief trip to Japan to discuss the situation.

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6. Letter From the West German Chargé d'Affaires Ad Interim in the United States (Noebel) to President Nixon[1]

Washington, February 9, 1973.

Dear Mr. President:

I have the honour to transmit to you the following message from the Federal Chancellor:

"Dear Mr. President:

"The development on the Exchange Markets during the last days, the consequences of which the Federal Republic of Germany more than any other country had to suffer, is of great concern to me. The Federal Republic of Germany has fulfilled its obligations under the Smithsonian Agreement in letter and spirit. You know, Mr. President, that my government has, beyond that, by two revaluations of the DM and by its actions in the institutions of the European Common Market as well as on other occasions shown understanding for the necessities of international solidarity.

"The critical development on the exchange markets is to a large extent based on purely speculative movements. The Federal Government is not prepared to be put under pressure by that and will not take actions which are not appropriate according to the objective data of the German current account.

[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Personal Files, Box 16, Name/Subject File, Volcker, Paul. No classification marking. The original, which is marked "Provisional Translation," has several handwritten revisions which have been incorporated into the text.

"The Government of the Federal Republic of Germany has, therefore, instructed the Deutsche Bundesbank to continue the interventions. By that it became possible to keep the rate of the US $ on the Frankfort Exchange Market at the lower intervention point of 3.15 DM. This policy of the Federal Government would without doubt be facilitated if it would be supported by corresponding actions of the American monetary authorities. I fully appreciate that this has already been done to a certain extent; in spite of this, the Dollar rate at the New York Exchange repeatedly fell below DM 3.14 by which additional incentives for Dollar outflows into the Federal Republic of Germany were created. I would appreciate if the American monetary authorities would, in the future, do everything in their power to support the Dollar rate which—as I believe—would be in the spirit of the Smithsonian Agreement and would certainly contribute to the calming down of the markets.

"Needless to say, that I also deem it urgently necessary that a reform of the international monetary system has to take place. I expressed this again in my message at the beginning of the new term of my Government on January 18, 1973.[2] Representatives of the Federal Government have emphasized this constantly, on other occasions and thus emphasized the cooperative attitude of the Federal Republic in this question.

"Furthermore, in my view, decisions are necessary which would contribute to the further liberalization of world trade. I see, however, the danger that instead of this, further restrictions of the free movements of goods and capital will be the consequences of the critical movements on the exchange markets.

"If we do not succeed in stabilizing the present situation on the exchange markets by joint and rapid action, the future development would lead to dangerous political consequences. The cohesion of the Free World would be endangered economically, psychologically and, finally also politically at a moment when in view of the present negotiations between East and West it is of utmost importance to negotiate on the basis of the unity of the Western countries. I believe that those who bear political responsibility have at present a special responsibility to avoid such a development.[3]

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[2] Brandt was re-elected Chancellor of the Federal Republic of Germany in December 1972. There is a report on his government's January 18, 1973, policy statement in *The New York Times,* January 19, 1973, p. 10.

[3] In a February 9 conversation with Rogers, West German Foreign Office State Secretary Karl Moersch stressed his government's "hope that the US will intervene in the current monetary crisis. He said that the Europeans needed the time which this would afford to reach agreement among themselves. If they had to act under great pressure there could be unfortunate political consequences which could prejudice the excellent cooperation which exists in other fields such as CSCE and MBFR." (Telegram 26260 to Bonn, February 12; National Archives, Nixon Presidential Materials, NSC Files, Box 687, Country Files, Europe, Germany (Bonn), Vol. XIII, January–September 1973)

"Given these reasons, I would propose, Mr. President, that the authorized representatives of our countries should meet if possible immediately in order to discuss the monetary and trade situation and search for solutions. In the meantime, Finance Minister Helmut Schmidt will—this very evening—discuss the situation with the French Government.

Cordially,

Yours

s. Willy Brandt."[4]

I avail myself of this opportunity to renew to you, Mr. President, the assurance of my highest consideration.

Hans H. Noebel

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[4] On February 9, in telegram Tohak 52, Scowcroft sent a copy of this letter to Kissinger, who was traveling from Thailand to Laos. Scowcroft noted that a copy of the letter had been sent to Shultz, who would "be taking action on this problem." A copy was also sent to Rogers, who was scheduled to meet with West German Foreign Office State Secretary Moersch later that morning (see footnote 3 above). (National Archives, Nixon Presidential Materials, NSC Files, Box 754, Presidential Correspondence 1969–1974, Germany Willy Brandt, 1972)

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7. Notes of a Telephone Conversation Between Secretary of the Treasury Shultz and the Under Secretary of the Treasury for Monetary Affairs (Volcker)[1]

February 10, 1973, 7:30 a.m.

1. Volcker presented 3 alternatives:

a. Joint float
b. No action
c. Our plan

2. Schmidt squirmed but attracted to our plan and is now checking with Brandt.

3. Volcker emphasized German responsibilities to stand still plus be persuasive with others, including gold and capital controls.

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[1] Source: National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 1, 1973 Devaluation. No classification marking. Shultz, who was in Washington, drafted these notes on his conversation with Volcker, who was in Bonn.

4. Did not pin down precise amounts but talked in terms of 10–20 and loosely in terms of Smithsonian amounts.

5. Germans want to be sure to stem speculative tide so that favors large change.

6. Joint float not completely ruled out—not forthcoming on F+B−B discussion[2] but Volcker assumes they talked inclusively about joint float.

7. Germany still strongly resisting individual float.

8. G.[3] not looking for confrontation with Japan and don't want to upset Pompidou before election.[4] Would prefer problem went away but Volcker emphasized that tough decisions are necessary.

9. Barber and Giscard being asked to stand by.

10. Some question in Schmidt's mind about whether Volcker is speaking for U.S.—may need reassurance, possibly from the President to Brandt.

[2] Not further identified. The reference to the possibility of a joint float implies that this refers to an intra-European discussion. On February 9, the British, French, and West German Ministers of Finance had met in Paris.

[3] Apparently a reference to the Federal Republic of Germany.

[4] National elections in France were scheduled for March 4 and 11.

8. Notes of a Telephone Conversation Between Secretary of the Treasury Shultz and the Under Secretary of the Treasury for Monetary Affairs (Volcker)[1]

February 10, 1973, 9:10 a.m.

1. Brandt regards our proposal as serious and deserves to be weighed seriously, but he is unwilling to say he will back it until he had talked with EC partners. He was in touch with them yesterday.

2. Schmidt and Volcker agreed to Brandt's doing so, giving Volcker enough time to get to London first.

3. Volcker going on to London, then Paris.

4. Volcker suggests President to Brandt message:

[1] Source: National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 1, 1973 Devaluation. No classification marking. Shultz, who was in Washington, drafted these notes on his conversation with Volcker, who was in Bonn.

I am aware of the course of the conversation between Minister Schmidt and Mr. Volcker. I know none of the alternatives are free of problems for you or for us. But I firmly believe a constructive solution can be found in the interests of an open world economy with the Federal Republic playing a leading role.

5. Note danger of Pompidou reaction on Gold.

6. Volcker to emphasize usefulness of dropping our capital controls—in terms of doubtful effect and possible impact on inflows.

7. Volcker thinks something in neighborhood of 9% is doable in Europe—could mean some alteration of 50–50 with Japan, since they are unlikely to go below 260.

9. Telegram From the Department of State to the Embassy in the Federal Republic of Germany[1]

Washington, February 10, 1973, 2358Z.

26157. For Ambassador only.

1. Please deliver following message from President Nixon to Chancellor Brandt early Sunday morning, February 11:

"Dear Mr. Chancellor:

"I appreciate your constructive message on international monetary developments. Especially welcome is your recognition of the urgent necessity for progress toward international monetary reform.

"As you know, through market intervention by the Federal Reserve, we have collaborated in recent days in the effort to prevent the development of disruptive conditions in international markets. We have undertaken this intervention even though we had undertaken no commitment for such intervention at the Smithsonian.[2]

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 754, Presidential Correspondence 1969–1974, Germany Willy Brandt, 1972. Secret; Immediate; Nodis. Drafted by Bennett and Scowcroft and approved by Wright and Eliot (S/S). Drafts of this telegram that are substantively the same as the version that was sent (with the exception of the two instances noted below) were cleared by Shultz, Haldeman, Ehrlichman, and Burns. (Ibid.) A March 2 note indicates that Brandt's February 9 letter to Nixon "was sent out to HAK by wire on Feb. 9, and never went through the system. Shultz did the reply and it was transmitted by General Scowcroft (LDX to State) on Feb. 10." (Ibid.) Brandt's letter is in Document 6.

[2] The draft of the telegram cleared by Shultz, Haldeman, Ehrlichman, and Burns contains an additional sentence, which was struck out by hand: "Yesterday, in the light of your message, the Federal Reserve, in consultation with the Treasury, continued its efforts in the face of increasingly adverse conditions in the market."

"In these circumstances, I had come to the same conclusion as you on the importance of our authorized representatives working together immediately to find solutions. It was for this reason that I dispatched Paul Volcker on his trip to Tokyo and Europe on Wednesday. He is fully cognizant of my thinking on these matters, and I am sure he has explained to you the ideas which I have authorized him to put forth on my behalf.[3]

"Secretary Shultz has reported to me on Volcker's conversations with Minister Schmidt.[4] On the basis of that report, I am confident that—with the Federal Republic of Germany playing a leading role—the nations of the world can reach prompt agreement on a solution which will not only overcome present difficulties, but will clearly represent a decisive step toward the common objective of an open world economy.

"Sincerely, Richard Nixon"

Rogers

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[3] The draft of the telegram cleared by Shultz, Haldeman, Ehrlichman, Burns, and State does not contain the phrase "on my behalf."

[4] On February 10, Haldeman commented in his diary that the President "doesn't want to get into the international monetary thing with Shultz. He keeps calling to report." (*Haldeman Diaries: Multimedia Edition*) The President, who was at the San Clemente Western White House, did not speak to Shultz on February 10. (National Archives, Nixon Presidential Materials, White House Central Files, President's Daily Diary)

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10. Notes of a Telephone Conversation Among Secretary of the Treasury Shultz, the Deputy Under Secretary of the Treasury for Monetary Affairs (Bennett), and the Under Secretary of the Treasury for Monetary Affairs (Volcker)[1]

February 11, 1973, 9 a.m.

PAV reported that he had a long, rough, and tough session with the French Finance Minister Giscard d'Estaing.

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[1] Source: National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 1, 1973 Devaluation. No classification marking. Shultz presumably took the notes on the conversation. Volcker was in Paris; Shultz and Bennett were in Washington.

PAV had stressed that a turning point had been reached. He said we seem to have three options:

1. Do nothing, i.e. attempt to maintain present parities
2. A joint European float plus a Japanese float
3. The U.S. proposals: a U.S. devaluation, plus a substantial Japanese revaluation.

Giscard said that the French, British, and Germans had been discussing concerted European non-intervention in dollars (what we would call a joint float) to be explained as a European effort to construct its own monetary system after a breakdown of the dollar.

Giscard accused the U.S. of not doing enough recently to support the existing exchange rate pattern and of not living up to our obligations under the Smithsonian Agreement. He alternated between strong statements and conciliatory words.

Volcker stated that we had not failed to live up to our Smithsonian obligations. At the Smithsonian, we had undertaken to contribute to stability through restraint of price increases and since that time we had had a record of which we are far from ashamed. Furthermore, a joint European float would be fine with the U.S., and it would be consistent with the evolution of international monetary arrangements.

Giscard stated, in relation to the U.S. proposals, that a 10% devaluation would be all right, but not more. He recognized that the Japanese would have a problem in moving outside of a multilateral framework and that Europe and the U.S. would have to join together to insure Japanese revaluation.

Giscard asked repeatedly whether, after a realignment, the U.S. would begin to live up to its Smithsonian obligations and institute at least some form of partial convertibility.

Volcker replied strongly that we would not. We would restore convertibility only when it could be sustained and only when our payments position was strong. That is not now.

Giscard stated that France was determined to have an aircraft producing industry and that if we devalued by as much as 10%, France would have to put on a 5% import tariff on aircraft.

Volcker said such a move by France would inevitably raise the question whether the U.S. shouldn't raise its tariff on automobiles to the European and Canadian level. An agreement on an aircraft tariff increase for France could not possibly be included in a monetary agreement. France could bring the subject into trade negotiations if it wanted to, but to bring the matter up in monetary negotiations would create the wrong kind of atmosphere. (Later Volcker learned that the European Community countries had some time ago voluntarily suspended their tariff on imported aircraft to assist their state-owned airlines. Recently the French have been urging restoration of the tariff. Under the GATT, the Community could legally restore the tariff without being obligated to pay compensation to the U.S.)

Giscard also expressed concern about the U.S. proposal to allow authorities to sell gold into private markets, arguing that this is a long-range reform proposal which should not be decided in a short term exchange rate agreement.

Volcker pointed out the U.S. was merely proposing a return to the literal legal framework for gold in the IMF articles.

Giscard pointed out that the French really are not directly affected by the current monetary turmoil and could just stand aside.

Volcker replied that U.S. could also adopt the same posture, but we felt a cooperative approach would be beneficial.

Giscard then quickly responded that the choice really lies between options 2 and 3. The technical problems of the European float could be solved in a couple of days. There is no real exchange rate misalignment in Europe. The DM may be undervalued by 2 or 3 points but that is not a problem. There are 2 requirements for the 3rd option: the U.S. must resume some form of partial convertibility in line with U.S. obligations under the Smithsonian, and the U.S. must not try to eject gold from the system. Giscard's first reaction to Volcker's mention of the proposed removal of U.S. controls was, like Schmidt's and Barber's, that he didn't know that we had any. Later he said he didn't like precipitous abandonment of U.S. controls and that removal of French controls would be impossible.

Giscard tried to end the meeting with Volcker on a friendly note and said he would not rule out the 3rd option. He said he would discuss the subject further with Barber and Schmidt but first would have a discussion with Pompidou.

At some point in the conversations Giscard said bitterly that the U.S. doesn't follow the rules as evidenced, for example, in U.S. handling of Schweitzer.[2] He also repeatedly lamented that the C–20 discussions were going nowhere and that the U.S. was being unfair in its trade demands.

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[2] The United States opposed the appointment of Pierre-Paul Schweitzer, IMF Managing Director since 1963, to a third 5-year term as Managing Director at the end of his second term in September 1973. This was a controversial decision. At the September 1972 annual meeting of the IMF and World Bank, "Giscard d'Estaing, noting the support Schweitzer had received from previous speakers, said, 'In an international organization governed by democratic principles, it would be inconceivable that the attitude thus taken by the great majority should ultimately be disregarded.' " (Robert Solomon, *The International Monetary System, 1945–1976*, p. 225. See also de Vries, *The International Monetary Fund, 1972–1978,* Volume II, pp. 1002–1004)

On the phone Volcker noted that Giscard had repeatedly made strong statements and then backed away. In Volcker's judgment the discussions had not revealed any weakness in the U.S. position.

Secretary Shultz instructed Volcker to continue putting forth all the components of the U.S. plan as previously discussed.

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11. Letter From the Japanese Ambassador to the United States (Ushiba) to Secretary of State Rogers[1]

Washington, undated.

Dear Mr. Secretary,

The following message was received from Tokyo at 7:30. February 12th, 1973, Washington time:

"Yen will float for the time being. At the time when the domestic situation allows it, particularly after the finalization of the budget of the fiscal year 1973 in April, the central rate of yen against U.S. dollar will be revised to Y264 : $1."

This rate would mean a revaluation of yen against U.S. dollar of more than 8 + 8 = 16%, and nearer to 17%, and was decided personally by Prime Minister Tanaka.

It is urgently requested that this matter be kept strictly confidential by the U.S. and European countries concerned.

Please let me know as soon as possible your government's view, so that I can advise Tokyo promptly.

With best regards,

Yours sincerely,

N. Ushiba

[1] Source: National Archives, RG 59, Office Files of William P. Rogers, 1969–1973, Entry 5439, Box 25, WPR–Foreign Economic Policy. No classification marking. The letter is handwritten. Ushiba enclosed the letter in an envelope that he addressed by hand to Rogers and marked "Strictly Confidential." Attached is a note that indicates the letter was delivered on February 12.

12. Editorial Note

On February 12, 1973, overwhelming speculative pressure against the dollar prompted the closure of Western European exchange markets; that same speculative pressure had led to the closure of the Japanese foreign exchange market on February 10. On the evening of February 12, Secretary of the Treasury George Shultz announced that the administration would seek Congressional approval of a 10 percent devaluation of the dollar. He also announced that the Japanese Government would allow the yen to float, and that Washington's "firm expectation is that the yen will float into a relationship vis-à-vis other currencies consistent with achieving a balance of payments equilibrium not dependent upon significant government intervention." Moreover, "[c]onsultations with our leading trading partners in Europe assure me that the proposed change in the par value of the dollar is acceptable to them, and will therefore be effective immediately in exchange rates for the dollar in international markets." Finally, Shultz announced that the administration would soon send new trade legislation to Congress and would lift all controls on capital flows by the end of 1974. For the text of Shultz's statement, see *The New York Times,* February 13, 1973, page 56. For President Richard Nixon's public comments on Shultz's statement, see *Public Papers: Nixon, 1973,* pages 89–90.

On February 13, President Nixon, Shultz, and President's Assistant for Domestic Affairs John Ehrlichman met from 11:05 to 11:42 a.m. in the Oval Office. (National Archives, Nixon Presidential Materials, White House Central Files, President's Daily Diary) The tape recording of their conversation reveals that they discussed international monetary and trade policy. (Ibid., White House Tapes, Oval Office, Conversation 851–4) Attached to a proposed schedule for this meeting is a draft of Shultz's February 12 statement. At the bottom of the proposal, Nixon wrote to Ehrlichman: "The key point I made in my August 15 [1971] speech—i.e. that this devaluation does *not* reduce value of [illegible] American dollar at home—is not covered in all his public statements + should emphasize the *protective* rather than *'outgoing'* features of our trade proposals." (Ibid., White House Special Files, Staff Member & Office Files, President's Office Files, President's Handwriting, Box 20, Feb 1–15, 1973)

13. Note by the Under Secretary of the Treasury for Monetary Affairs (Volcker)[1]

Washington, February 15, 1973.

Report of Oral Understanding

—Reached between Under Secretary Volcker and Vice Minister Inamura[2] over the telephone at the initiative of Under Secretary Volcker.

—At about 3:30 A.M. (Bonn time), Tuesday, February 13, 1973.

—As to appropriate exchange rate at which the yen might be refixed.

—Minister Inamura accepted this formulation after discussion with Minister Aichi and Prime Minister Tanaka.

We understand that a rate of 264 yen per dollar is acceptable to the Government of Japan. We have indicated to the Government of Japan that a rate of 257 yen per dollar is acceptable to us. In the light of the close relationship and friendship between the United States and Japan, and taking account of further evidence from market and economic developments in coming weeks, we are confident this remaining small difference can be appropriately negotiated and resolved.[3]

Paul A. Volcker[4]

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[1] Source: National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 1, 1973 Devaluation. Secret; No Distribution. Marked "For File Only."

[2] Koichi Inamura was the Vice Minister for International Monetary Affairs in the Japanese Ministry of Finance.

[3] This understanding was subsequently confirmed in a February 15 letter from Rogers to Ushiba. (National Archives, RG 59, Office Files of William P. Rogers, 1969–1973, Entry 5439, Box 25, WPR–Foreign Economic Policy) In telegram 247 to the White House, February 16, Ambassador Ingersoll reported from Tokyo on a conversation with Aichi that further confirmed this understanding. (Ibid., Box 4, White House Correspondence, 1972–73)

[4] Volcker initialed "PAV" above his typed signature.

14. Editorial Note

Western European and Japanese foreign exchange markets reopened in mid-February 1973. A modicum of calm temporarily returned to the markets, but, by the final week of February, speculative pressure had again mounted against the dollar. Western European central banks once again absorbed massive sums of dollars in an effort to support the value of the dollar. The speculative pressure quickly grew too great, and several Western European exchange markets were closed on March 2. In a press conference that day, President Richard Nixon professed his faith in the fundamental strength of the American economy and the dollar, proclaiming that the United States would "survive" the "international attack upon it [the dollar] by people who make great sums of money by speculating." The President also said: "Let me say there will not be another devaluation. I would say, second, we are going to continue our program of fiscal responsibility so that the dollar will be sound at home and, we trust as well, abroad. And we also are going to continue our efforts to get the other major countries to participate more with us in the goal that we believe we should all achieve, which we set out at the time of the Smithsonian and other agreements, and that is of getting an international monetary system which is flexible enough to take care of these, what I believe are, temporary attacks on one currency or another." (*Public Papers: Nixon, 1973*, page 159)

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15. Message From West German Chancellor Brandt to President Nixon[1]

Bonn, March 2, 1973.

Dear Mr. President:

The talks for which Prime Minister Heath was in Bonn yesterday and today, centered on the alarming new currency crisis which—as you know—forced the Federal Government to close the exchange market for another time. We agreed that we must make every conceivable effort to find a way out which strengthens European integration. After his return to London, the Prime Minister will thoroughly examine what contribution his Government can make to a common solution.

I am convinced that a joint action represents at the same time an element of stabilization in the world political situation. This is to the benefit of all members of the Western world. A weakening of the Community by separate action would be harmful to all.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 53, Country Files, Europe, Monetary Crisis, March 1973. Confidential. Brandt's message was conveyed to President Nixon under cover of a March 2 letter from West German Ambassador Rolf Pauls. (Ibid., Box 62, Country Files, Europe, UK Memcons (originals), January–April 1973)

Much will depend now on the results of the forthcoming meeting of the Ministerial Council of the European Community. The Federal Government is prepared to do everything in its power in order to achieve a positive result.

Yours sincerely,

Willy Brandt[2]

[2] Printed from a copy that bears Brandt's typed signature with an indication that he signed the original.

16. Conversation Among President Nixon, the Chairman of the Federal Reserve System Board of Governors (Burns), the Director of the Office of Management and Budget (Ash), the Chairman of the Council of Economic Advisers (Stein), Secretary of the Treasury Shultz, and the Under Secretary of the Treasury for Monetary Affairs (Volcker)[1]

Washington, March 3, 1973.

[Omitted here is discussion unrelated to international monetary policy.]

Shultz: I thought we might let Paul give a brief description of what has happened, and where we are, and then I can summarize some of our thinking, and then there are a couple of developments [unclear] particularly your letter to Mr. Brandt[2] that I think—

Nixon: Good.

Shultz: —suggests the direction of their thinking very strongly. But Paul, why don't you first describe the situation.

Volcker: Well, very briefly, the situation, basically, is that we made another exchange rate adjustment two weeks ago, which we thought was appropriate, which our trade department thought was appropri-

[1] Source: National Archives, Nixon Presidential Materials, White House Tapes, Oval Office, Conversation 868–8. No classification marking. According to the President's Daily Diary, Nixon met with Burns, Ash, Stein, Shultz, and Volcker from 10:08 to 11:50 a.m. (Ibid., White House Central Files) The editor transcribed the portion of the conversation printed here specifically for this volume. The transcription is part of a larger conversation, 10:08–11:50 a.m.

[2] Apparently a reference to Document 15.

ate, and, basically, changed the exchange rates into what everybody concedes, I think, is a better long-term realignment. But in the process, we ran into a little problem, which was not entirely unexpected; that you can't devalue the dollar twice in two years without unsettling the psychology and creating doubts in many people's minds about what's going to happen next. And, why, it tipped either way for a few weeks and finally went—

Nixon: Down.

Volcker: —in the wild speculative direction.

Nixon: In other words, we were responsible for that to an extent.

Volcker: Well, I, I think—

Nixon: By creating a lack of confidence in our own [unclear]—

Volcker: I think we were forced to make an exchange rate change of a sizable amount over—in the past two years, looking at both of them together. And the United States changing its exchange rate is unsettling psychologically. I don't think we can get around that—however necessary. And we see some of the results of this. We've done a few things: changing the discount rate; we put out reassuring statements—they weren't quite enough to stabilize the psychology. So, we have a peculiar situation where everybody, basically—most people think that exchange rates are basically much sounder aligned then, but the nervous speculator is out to pick out any weak spot here or there, and he runs to the traditional havens. The Swiss franc has been strong for so many years; with Swiss francs it's the same thing; and to the mark it's the same thing; and to gold, the same thing. So, you're now forced to the point of decision. And I think there are two possible courses here in the most general terms: we can go—in fact, complete the transition, which is half there, toward floating rates, at least as an interim measure, at the least as an interim kind of measure. And—but the major European countries have now fixed—moving in that direction, together or separately. Or, I think, potentially, one could get together with those countries and decide to stabilize these rates and, and hope, with a concerted effort, for an indefinite period. I think this could be done, if people wanted to do it. And, the two actions have, have different implications and different risks of—and so are very difficult to judge. You can tell there's a risk "y" in either direction, but assigning probability to—is difficult, because we're in unknown territory; we're in territory we haven't been in for many, many years, anyway. But, just the pros and cons, as I see them: first of all, I think you should say in the Brandt letter—suggest the Europeans [unclear] your thoughts. The Europeans really are in a mood where they think their floating is their first option. I think this is the first time they've been in this mood. And, not necessarily happily, but they, for one reason or another, are inclined to think that's the primary direction in which to go. Now, the question that arises there—I think there are two, in my judgment: whether, given the upset state of market psychology, these float—floats will be smooth and stabilizing? Or, whether the market will take it as another indication of a kind of official weakness and be out to crack every exchange rate they can; push it all over too wide a spectrum of fluctuation and kind of undermine confidence in the whole system, which is already [unclear] and the lack of domestic confidence? In one sense, it leaves all our options open, I think, for future reform. In another sense, by leaving the European options open, too, it creates opportunities for others to try to impose their view on our domestic situation. So, it's very fluid, both in the sense of, I think, immediate market responses, and its effects on financial confidence around the world, and in its potential for long-term economic reform—monetary reform. If it worked out smoothly, if you had smooth floats, that would be fine, and [unclear] in our interest, but I think basically it would—that says this is inherently a bad action, but you can't be sure of that, because so much depends upon market psychology. Now, we can, I think, take the alternate course and make a dramatic gesture. More than a gesture: whatever we would make, we'd have to be willing to put money behind it. I don't think there's any great financial risk, but we could make a dramatic show against the speculators—and maybe win, in the short run. The question is we—whether we have given kind of hostages to fortune in the future by dedicating ourselves to this particular rate structure, but in a way that will give us problems a year from now.

Nixon: What is your [unclear]?

Shultz: Well, let me [unclear] I think from the group discussions that we've had: one, there is a general view that there's nothing wrong with the present exchange rate relationships. Two, there is a general view that if any intervention is contemplated, it would have to be absolutely ball[s]-out if we're going to win, and there's no doubt about it; we'll pour what resources there are into it. There's no point in kind of nibbling around the edges of it in the way that we have done on at least one earlier occasion.

Nixon: Like [unclear].

Shultz: Now you have to be prepared to go one, two, five, ten—you have to be prepared to say, "We will, we will put up the money needed to do the job," and—

Nixon: Right. Right. Right.

Shultz: —then proceed on that basis. And, there is a kind of irony to that, I suppose, in that if people are convinced that that is the attitude you have, it may be that you don't have to spend very much money.

Nixon: Good. Yeah. Yeah.

Shultz: So that there's—it's sort of like a run on a bank, and the—

Nixon: Um-hmm.

Shultz: —banker that puts his money in the front window and says, "Come on and get it; I've got plenty," puts out the run faster than somebody who, who kind of puts it out piecemeal.

Nixon: Sure, it's like, at that point, like a no-limit poker game, too. You're sitting there and the guy, you know, will call you if he doesn't think you've got enough. If you've got a—if you've got a hell of lot, chips and so forth, and then he's ready to go in, and yet you've got enough to go all out, you'll run him right off. Otherwise—but if he doesn't think you might use it, he'll call you every time. The same thing.

Shultz: We would, however, be [coughs]—excuse me—be running a risk if there were exchange rate changes after we acquired marks by borrowing, if we acquired on terms that had us bearing an exchange rate risk. And I think that the furthest anyone in our group has been willing to go is to say we should engage in a process of borrowing marks in order to intervene with them only if we assume no exchange rate risk, in effect. So, that is a different version of intervention. Whether that would be acceptable to the Germans is a question that might or might not—it would depend upon how desperately they wanted us to take that position.

Nixon: Let me ask a question: What are the Germans, in effect, oh, asking? They're asking us to take the second option. Is that correct?

[unclear exchange]

Shultz: They have—they have met, and Mr. Brandt and Heath met the night before last, and in various statements—and you have this letter, which I don't know whether—

Nixon: Yeah.

Shultz: —you've seen it or not, from Mr. Brandt, but I think that the key words are that they will—every conceivable effort to find a way out as a, as a European solution. So, I think that it's very clear. I talked to Tony Barber this morning, briefly, and what they're seeking is a method of working out some kind of a joint float. Now, our view is that that's difficult for them to do, and no doubt Mr. Brandt is trying to persuade Heath to lock the pound in with the mark in some fixed relationship, and Heath is very reluctant to do that, and to assume just within Europe the costs of the intervention, and so on—which, as you remember his discussion, he feels very pleased with himself having floated and not having to lose reserves. Now, Barber, this morning, told me that he's going to this meeting tomorrow.[3] He said there are no working papers—

[3] On March 4, the EEC Finance Ministers met in Brussels.

Nixon: Heath is going?

Shultz: Barber is going—

Nixon: Barber. Yeah.

Shultz: —to a meeting of their Finance Ministers.

Nixon: Yeah.

Shultz: And that he is not going to get himself in a position where, either through the spending of British reserves or borrowing, he incurs a lot of cost. Now, I think what that adds up to is that a European float will be a rather restricted one and difficult for them to bring off, but that's the course they're on right now, and then they—

[unclear exchange]

Shultz: —structure it that way.

Nixon: Um-hmm.

Burns: Just, just a thought. You can have two kinds of European floats: you can have a joint float, where their currencies are tied together rigidly, more or less rigidly, and you float against the dollar. Or, each can go off, by itself.

Nixon: Right.

Burns: Several of them, perhaps, each one rigidly. And I think what George is saying is that a common float would be very difficult to carry out. [unclear]

Shultz: But, Germany, France—

Nixon: Do it as a common float? You mean a joint float?

Volcker: Joint float.

Nixon: That, by a joint float, you mean one where they all got together.

Shultz: It's—it's easier for them—

[unclear exchange]

Shultz: —to do it if England and Italy are allowed to be separate—

Nixon: Yeah. Yeah. Yeah.

Shultz: —than if they must be included. But, it's still a difficult—

Burns: It'd be difficult, equally—

Shultz: Heath couldn't.

Burns: It'd be difficult, really, even for the four, with the franc in one position, and the German mark in another position.

Volcker: Now, they may try to find a broker—

[unclear exchange]

Volcker: Have it broken apart by the [unclear]—

Nixon: Oh, yeah. Yeah. But that's what they seem to think they're [unclear]—

Volcker: That's what they would like to do ideologically. They may just do it [laughs]—

Nixon: Why do they—why would they like to do that?

Volcker: I think half ideology and half pure economics. If they want to be able to hang together and show their unity and push their unity—

Nixon: Yeah. Yeah. Yeah.

Volcker: And, the other part of it is, they are frightened to death if any one of their exchange rates is out of line with each other, because that's where most of their trade is.

Nixon: Sure.

Burns: And they don't want to take in more dollars [unclear].

Shultz: As we see [unclear] as I see it, the way in which the system has unfolded since August '71, in effect, we have been moving toward more flexibility in the exchange rate system, and, leaving aside the amount of the changes in the exchange rates, there has been a great increase in the, in the flexibility of the system, and we now have the Japanese floating, the British floating, the Italians floating, the Swiss floating, the Canadians floating,[4] so that I suppose it must be true that one reason for the pressure against those who aren't floating is that that's sort of the only pressure point there is, and they become more isolated. To this degree—

Nixon: But isn't it—just, just to ask a question—isn't it really in the interest of nations that float to have some that don't? I mean, what the hell good does it do 'em to float the—you see what I mean? It's—I would think the British and the Canadians probably like it, as far in relation to the U.S., right?

Shultz: Well, sudden [unclear]—

Nixon: They wouldn't want us to—

Shultz: —hook themselves to—

Nixon: Do they want us to float?

Shultz: —a currency. We're, in a sense, in the position, unless we engage in intervention where we're floating as far as we're concerned, and—

Nixon: Um-hmm?

Shultz: —we're not, actually, with respect to the mark, only because the Germans intervene so heavily.

Burns: I put this—

[unclear exchange]

[4] The Canadian dollar had been floating since June 1970.

Volcker: These smaller countries like a big stable unit against which they can operate.

Nixon: Yeah. Sure.

Volcker: And the more people that are [laughs] fixed while they're floating the better they like it. [laughs]

Burns: [unclear] The Europeans are doing their trading primarily with one another. It's their trade with one another that counts in the aggregate, rather than their trade with the U.S. Trade with the U.S. is a small part, relative to their trade with one another. If they had a joint float, they would have stable exchange rates with their major trading European partners. And, they would be able to have achieved stability, and the exchange rate with the U.S. would vary, but with one another, where it counts most, the exchange rate would be stable. I think that's the way the Europeans look at it.

Nixon: Right.

[unclear exchange]

Shultz: Well, I think from our standpoint, to the extent that we think that a flexible system is a desirable thing to have, in some ways, you can say we're almost there, and if they were able to have a successful, modified joint float of some kind, we would be there. And we should—

Nixon: Encourage Brandt?

Shultz: Well, we can, we can—where if you sit back, if you view it this way, and say, "Look, fine, they're working at it. Let them work at it, and let them see what—"

Nixon: But that raises the problem that Paul has raised, that the risk there is the psychological one; that psychological one that, maybe, we just don't care that much about things and are not going to exert "leadership" to bring stability that the world's major economy should bring. Is that the argument—?

Volcker: They'd focus, I think, on political, and economic, and monetary risk. There's this kind of political risk—

Nixon: Um-hmm?

Volcker: —that it can be said, "The United States didn't care and let things go to hell—"

Nixon: Um-hmm.

Volcker: The economic risk is that, in fact, traders are so nervous from the previous—well, shaken up, that they can't take this much flexibility this quickly—

Nixon: Yeah.

Volcker: And you get gyrations in exchange rates that really don't make much sense and, and do—

Nixon: Um-hmm.

Volcker: —damage economic and political relationships. It's just very hard to predict whether—

Nixon: How they'll react?

Volcker: How they'll react. Would we react in a stabilizing or destabilizing way—?

Nixon: Right. Right. Right. Right.

Shultz: The probability of, let's say, some modified joint float which falls apart is not a—that would be kind of a further deterioration. So, it would be better if they, surely, did something that could last and that didn't hold their currency together so tightly if they're determined to try to do that. The—Mr. Hayes, the head of the New York Federal Reserve,[5] called yesterday, urging that we take this course of massive intervention. That is his view, and he said that he, he was reflecting the views of the New York community of financiers, a wide range of them who have some that do not agree with that. But, anyway, that is—that is a view from an informed source as to what we might do. I think that if we were to decide on a massive intervention technique, the question is whether or not we could, at this point, persuade the Germans to go along—and they're going down their own track. But, I think it's probably so, from our statement at the time of devaluation,[6] that they don't regard this as a real option. That is they think that we have probably foreclosed this option and are not considering it.

Nixon: What—just looking at the options, what would the British think of our massive—what would the—and what would the French think of it?

Shultz: The French would probably like it—

Nixon: Yeah.

Shultz: —because they like the idea of a relatively fixed exchange rate.

Nixon: What about the British?

Shultz: The British—

Nixon: How would they feel?

Shultz: —they're floating, and they'd be content to see us do it. And I think that—

Nixon: Okay.

Shultz: —Heath might think that we're wasting a lot of money; he's not willing to waste any.

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[5] Alfred Hayes was the President of the Federal Reserve Bank of New York.

[6] See Document 12.

Volcker: Well, I think they'd be delighted for the very reason you suggest: that it's no skin off their back and [unclear]—

Nixon: How does it affect—how will this affect the Japanese? Which way do they—would they want us to go?

Shultz: Well, they are people who are, who are minded for orderliness, and I suppose they would probably—

[unclear exchange]

Shultz: Yes, they've been—are alleged to be very heavy speculators in this game, themselves. Whether that's true or not, we're not sure; there's very little—

Nixon: [unclear]—

Shultz: —evidence that they are.

Nixon: I never questioned [unclear].

Shultz: Right.

Ash: Why do the New York bankers, expressing themselves through the Fed, that it was—it's to their advantage?

Shultz: Because they—

[unclear exchange]

Nixon: Let me ask this question. That we—in Paul's discussion of short- and long-term, let's look at it that way just a moment. Let's suppose we did go the course of massive intervention. All right, I think, I think the Germans would roll. I'm not—I know nothing about the financial side, but I think that Brandt, from a political standpoint, would roll. That's my view. But, nevertheless [unclear] we could—we have ways to talk to Brandt. If Brandt—Brandt will not stand against us if we decide that this is the way we're going to go.

Volcker: No, I don't think we should go that way [unclear] Mr. President, unless he was pretty enthusiastic about it.

Nixon: Right.

Volcker: Because he's going to take most of—carry most of the [unclear].

Nixon: [unclear] then we would have to work that out. Okay. Now the same—the second point is, though, that having done that, the—does that then, does that then destroy the option of working out on—at a later time, a new world monetary system that has more flexibility, et cetera? What I—about the—what concerned me about your suggest—talking about this option is, let's say, well, it would be good for a while, but then we'd have another one next year. I think what is the—speaking just again as one who observes these things and obviously knows very little about it, but the thing that concerns me about it is that the goddamn crises come one year, two years, so forth. And so we go on and on and on and on. So, we had Smithsonian, and we thought, "Well, now, we got things settled for a while." So, it was settled for a little while, and then off something else, and another one, and another one. And I think that even a bad stable program is better than a good unstable one. Now, you're right, I argue against the general proposition that, you know, which view—the Milton Friedman view, and I know others have suggested it, too—where they said, "Well, here we are—why do we get battered around, and why we do react to everything that's done at this international [unclear]? And let's just float; just—let 'em go?" Well, the point that—I guess the thing that unnerved me is that, from a foreign policy standpoint, just to get that in, that if we could make, if we could exert what we call leadership, and if it worked now, but then, if it could be used—if we could go from there to something else later, that'd create a more stable situation, then, that option would have to be considered. If, on the other hand, exerting leadership now means only that, well, we bought off this problem, but then a year from now, we may have it again. And that's the thing that concerns me about it.

Burns: Excuse me—

Nixon: And the other thing is that I don't want the dollar, to us in this country, to be in a position, again, where we always take the heat. In other words, that's why the whole business of convertibility concerns me. I mean, I know, I know the arguments about gold, and all that sort of thing, but we just can't have the American domestic economy constantly hostage to the manipulations of international monetary situation. So, you see, I have a mixed feeling about this. From a political standpoint, internationally, I would much rather exert the leadership, you know, and create some stability and see that our friends abroad, and so forth, play the game. From the standpoint of the domestic situation, I'd rather see that the—that we not be hostage to these things abroad. So—and then, let me just complete the circle. On the other hand, I would hate to be here, eight years in this office, without having done something about a more stable system. In other words, maybe there is a need for a new—what do you call it? Bretton Woods?

[unclear exchange]

Burns: We're getting a new Bretton Woods. I think, I think—

[unclear exchange]

Volcker: We're out of the old one anyway. [laughter]

[unclear exchange]

Nixon: Hell, we're out of the woods, but we're in the damn slum.

[unclear exchange]

Stein: We're negotiating [unclear]—

Nixon: It's a swamp, now.

Stein: —and it seems to me that we took the leadership last September to say we have the vision of a better system—

Nixon: Um-hmm.

Stein: —a system in which there's flexibility and rules—

Nixon: Yeah.

Stein: —rules governing flexibility. And, we have made it a condition of our later entering into more responsibility for the maintenance of our par value that it should be done as part of a general system of rules, which apply symmetrically to everybody and so on. And that the thing that we, we have to avoid now is, is getting back into a kind of de facto resumption of these old obligations—

Nixon: Yeah.

Stein: —in the midst of crisis without having made any progress towards this ultimate system. And I think we—our chance for getting to the ultimate system is better if we go through this float than if we buy [unclear].

Burns: I'd like to—I'd like to put the opposite position forward, Mr. President. If we should decide to intervene now to stabilize the foreign exchange market, which I think we can do, and we can make the speculators run for cover, the great risk is, as Paul indicated, we may have another crisis 3 months later, 6 months later. If we go the route of intervention, a second component of that route would have to be a joint declaration by the heads of state that we would establish rules for the new international monetary system, rather abruptly; in, let's say, 3 months [unclear]. You know, these conversations, they move forward [unclear]—

Nixon: Yeah, I know.

Burns: They're leisurely—

Nixon: Yeah.

Burns: —nobody wants to [unclear]—wants to move, knows how to. On the other hand, hell, you can just sit down and hammer this thing out if the will is there. So, if we decided to intervene, that second component is essential to take care of the long-term problem. And you can take—look, you can take 30 years, you can take 3 years, and you can take 3 months to do the job.

Volcker: That's right.

Nixon: Hmm. Well, at least.

Shultz: Well, I agree with Arthur that the—that it's important to work on this currency reform and work on it hard, and we have been, we have been doing that, and we have been using these periodic crises as a way to highlight the importance of doing that.

Nixon: Um-hmm.

Burns: We haven't gotten enough cooperation from the others.

Nixon: No, no, no.

Shultz: We are not the foot-dragger here, at all.

Nixon: No.

Shultz: We have been the most forthcoming, the most constructive—

Burns: Absolutely.

Shultz: —the most [unclear]—

Nixon: Yeah.

Shultz: —the most demanding.

Nixon: Well, what—to address the, to address the major problem of the choice [unclear]. I would gather from your previous positions, you would tend to, shall we say, let the dust settle.

Shultz: I think that's right.

Nixon: You would not interfere—

Shultz: I would not interfere—

Nixon: You would not inter—

Shultz: Particularly since we're not being invited to, so to speak. And then—and, I agree with Arthur—that if we were to do it, it should be only under the kind of risk conditions he specified. With the Germans having decided on a different route, I think it's doubtful that we could get those conditions. But, in any case, I think I would be inclined to let the dust settle.

Ash: I would agree with that with some application to what Herb has said. I think that the trouble of getting to—from no float to float is what we're right in now—or, let's say, no float to flexibility. But once—if we do persist in going toward that greater flexibility, then the very kind of problems that we're talking about won't be as big as they are now. We're in the transitional phase of a fixed set of relationships to a more flexible one, and we've got to get over the transition and get there, and if we persist enough getting through it, then I think that we won't get to the ultimate, different kind of stability that there will exist when we get in to the position of greater flexibility. It's a matter of getting across that transition, and if we now intervene in a massive way we're once again—well, not quite during the [unclear]—

Nixon: Let me ask—let me ask another question. Paul, failing to intervene in a massive way, does that mean that we do not, then—that we just continue to have this, this filibustering that Arthur's running into?

Volcker: On Arthur?

Nixon: Yeah. Yeah. I mean, what I—

Volcker: Well, I—

Nixon: What I'm—I'm just trying to see—

Volcker: Yeah. The worst—

Nixon: —is, looking at the long-term situation, I would—I mean, it's always a better course of action to do nothing.

Volcker: Sure.

Nixon: But, you know. But on the other hand, in terms of the long, long-term—looking at the long-term situation, but don't we want to work out a better system here?

Volcker: Oh, yes, we do.

Shultz: And we proposed one.

Nixon: We proposed one, but Arthur's—what Arthur's argument, I think, is to give them a shock. And that'll get 'em off their butts so that they work with us. Is that it?

Stein: Well, I, I think it works the other way. I think that, that for us to intervene relieves them of a shock. And to let them float is their shock. And I think that Brandt's letter gives you a great opportunity to say, "Well, we understand that these are circumstances that would lead you to the European solution, but I think we all agree that this is not the permanent state—"

Nixon: Yeah—

Stein: "—in which we'd like to be. We want a world solution, and we want to work on it, and George will come to Europe, and we'll all get it going."

Nixon: Paul [unclear]—

Volcker: It could work either way. I think you've got a difficult political problem here, which gets far beyond the monetary system in some of its implications—

Nixon: Um-hmm.

Volcker: The pessimistic view of this, the danger, the—what we have to guard against, is that this so-called European solution—

Nixon: Might—

Volcker: There will be one view in Europe, namely the French view—

Nixon: Um-hmm.

Volcker: —that will make that, to a greater or lesser degree, quite antagonistic. And the European solution is a euphemism for saying, "Let's leave the United States out of the world—"

Nixon: Yeah.

Volcker: "—and go our independent course."

Nixon: Yeah.

Volcker: Now, that is not a uniform view in Europe, but to the extent that you get kind of a chaotic feeling here, and that the United States hasn't given a damn, you tend to maximize that view's bargaining leverage, which is bad for the kind of reform we want.

Burns: And this is—this is the way in which Europe is moving.

Volcker: Uh—

Nixon: Yeah, I know; it's terrible.

Volcker: You know, that's not the only view in Europe. But, I think—

[unclear exchange]

Volcker: —the danger is you give, you give support to that view. It can be pushed that way. And that's why the way we handle this is pretty—

Nixon: In other words, your point is that the "leave-it-alone" deal might drive the Europeans together, as against us.

Volcker: The French will try to play it that way, I'm quite sure. Now, of course, against that, you've got the fact that Britain and others have, you know, kind of put this forward as their preferred choice, and you say, "[unclear] well, this is your preferred choice for the moment, now let's get together on the general rules for this system and, and don't go off by yourself politically and economically in the long run." You've got to play on those forces as against the French kind of forces.

Burns: They put this forward as their preferred choice, either because it is actually their preferred choice, or because they have been going on the assumption, which we have encouraged, that the U.S. is not going to intervene, and they're just not considering that. They think that's out of the question.

Volcker: I think there is some evidence that the Germans are less staunch in [unclear] a cooperative role with us than they were. They feel very seriously squeezed between the United States and France. And you're going to have to deal with the politicians, now in the majority, particularly Schmidt, that are willing to compromise on it much more on the French side, now, than used to be the case.

Nixon: Um-hmm.

Burns: I agree with that.

Shultz: That was something that we have seen, despite the fact that three or four weeks ago, we took the initiative; we did something that bailed them out of a serious political problem they'd gotten themselves into and reconstructed the situation with the devaluation and with the pressure on the Japanese that, on the whole, was a beautiful solution from their standpoint. It was politically—it was designed politically to break up this battle, and it did. They—they see it as very much in their interests, and yet we had—

Burns: [unclear] the—sure, our solution was attuned to their political views. And they recognize that.

Volcker: They do.

Burns: But, underlying it all, they have come to view the U.S. as a locus of unsettling forces in the monetary world for years; and you can't rely on the U.S.; and they've got to work out their own problems. Now [unclear] to expand a little on what Paul said, I think that there is a fair chance—I don't know how to evaluate it as a probability—that the Europeans may now move to construct a new monetary system of their own. The French—if the French were in a stronger position than they are, I would bet on that. It's a little uncertain whether they can carry it off. If they do, here it is, and then the U.S.—well, we—the U.S. can join them if we want to. And our leadership would be gone. Now, I want to talk a little about the, about the politics of this as well as the economics. To me, a floating world is not a good world from—economically.

Nixon: Economic or political?

Burns: Economic.

Nixon: Yeah.

Burns: And I want to talk about the politics of this. And here is the position of the U.S.: we carried off the Smithsonian Agreement. Now, it's regarded, generally, as a failure that collapsed. We worked out a new arrangement, and now, it's a failure. Then, the Europeans go off on their own, and we're on the sidelines. And where they will go, eventually, I don't know. Now, politically, I think we were in a very weak position. And I—and I must say, I must say, I don't like it. From an economic viewpoint, you know the—just think of a—think of a Swiss businessman, at the present time, with the Swiss franc possibly depreciating 23 percent against the dollar. Where are they? Now, I must say to you, in all candor, Mr. President, that the—I carried out a survey yesterday, a quick survey of business economists and of businessmen around the country. And, uneasiness—but, the degree of concern that I feel, I have not found among others. That's true, and you ought to know that. But I want you to know something else. I've worked with these businessmen and these business economists for more years than I care to remember. And I have found businessmen and business economists to be very poor, as a group, in judging trends. They're always late in sensing a situation. And I think this is a negative factor as far as the domestic economy is concerned, and as far as the international economy is concerned. However, current forces in the economy, expansionary forces, are so strong that we probably will be able to take this in stride. But, over the longer run, I would expect deterioration. And, ask yourself this question: how do you get back to a stable system of parities, if this is what you want—and I think we will want that because the experiment is not going to work. The—it'll cause political frictions; it'll cause all kinds of controls to spring up. And how do you work back to a system of parities? The, the—here is a given government, who wants to settle on the new parity. It doesn't know how to settle on the new parity because it doesn't know what other countries are going to do. The theory just doesn't work out. On the other hand, the other part of the argument is that we're halfway there—we're three-fourths there already, you see, and it may be difficult to shore this thing up. To fight back, to fight back a little more strongly than I [unclear] about the negative influences, I say, let's go in on a massive scale and take sizable exchange risks. Now, I'm not prepared to recommend that. The only exchange risk that I'm prepared to recommend is risk against devaluation, because of the position you've taken. You don't want another devaluation, you're not going to take it, I don't think—

Nixon: [laughs]

Burns: You see? All right, so I don't—

Nixon: We've already crossed that bridge.

Burns: I—so, I don't think we're taking much of a risk in terms of dollars. To ensure what we do is to borrow, but we'll—assuming we have no other devaluation, it'll not cost us one dollar.

Nixon: Let me ask a question, George and Herb: [pause] suppose that I determine from, not so much a domestic political standpoint, which I think we can handle—it's tough, but we can handle it—but from an international political standpoint, that we ought to take a, shall we say, a positive leadership role at this time. How would you feel about that? Understand this: if that consideration, which I, of course, would have to judge, that [unclear] as to how it's going to affect the Germans, the British, the French, you know, a few other people, and the shape of Europe, and how we deal with Europe, et cetera, et cetera, et cetera. Would you still say, "Don't go [unclear]?"

Shultz: Well, I think you're in the best position to weigh—

Nixon: [unclear]—

Shultz: —the constellation of factors.

Nixon: Yeah. Well, I understand.

[unclear exchange]

Nixon: I don't know how—whether that would be the judgment. But I'd just like to know if, as I—as we consider that side of it, how strongly—whether the economic factors, which you're basing your judgment on, are so strong that we ought to say, "No, we must go the other way." You see what I mean?

Shultz: Well, I think that then—

Nixon: In other words, could you support the other way in the event that we go the other way. Could you, or, I mean, could—could you make an argument for it? You can—

Stein: Oh, yes, you could make an argument for it—

Shultz: I reckon what we would say is we think the rates that have been established are approximately right, and we think that this is a speculator disruption based on uncertainty about the ability of governments to defend these rates, and we're going to show them that we are able—

Nixon: Let me, let me ask: does that—?

Shultz: But that—of course, against that—

Nixon: Yeah?

Shultz: —if we ever said that, is by way of saying, "Well, we give up on the idea of a more flexible system, and we need to have a—"

Nixon: That worries me.

Shultz: I think, I think—

[unclear exchange]

Shultz: —and you have a system that is like the one we had. It has a rigid set of rates that are fixed and defended, and that can work, and it did work quite well, as long as we were a dominant economic power able to assert that and make a go of it. I think that a flexible system can work. We've tried to design something that is like a flexible system that has the—some of the reassurances in it of a par value system. I think that could work. I don't see how we have the muscle to so dominate the situation to make a real fixed rate system of the kind we had in the post-war period, when we were.

Burns: George, the [unclear]—

Shultz: And that is a big consideration on my mind.

Burns: The plan that you advanced at the IMF meeting is a flexible system—[7]

Shultz: Yes—

[unclear exchange]

Burns: It's that system the IMF worked hard to achieve.

Shultz: So do I.

Nixon: Good.

Burns: If, therefore—if—

Nixon: But then don't you think, don't you, don't you—wouldn't you agree, though, that coming in with this massive intervention—well, any kind of intervention at this time—is going to really, very strongly reduce that option?

Burns: Oh, yeah? All right. That's my suggestion to you, Mr. President. First of all, about the massive intervention: by massive inter-

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[7] Burns was referring to Shultz's September 1972 address to the IMF and World Bank annual meeting; see Document 1.

vention, all that any one of us means is to be prepared to do it. You know, the—in June of last year, we were—we decided we would risk $2 billion. The actual amount that we had to put up was around $30 million. And that was enough to quiet markets because we blew a trumpet, and we indicated we were in the market to achieve stability, and we'll do it on whatever scale is necessary. Now, if we intervene now, we prepare to do so on a massive scale, if necessary. And if you, at the same time, can get an agreement to go to work on this promptly—not drag this thing out—on permanent reform and try to sew it up within three months, then I think that we would get—you'd have the leadership, and we'd have a good chance of working out a new system which could work over the years. We don't have to take three years to do this—

Nixon: Yeah. You would disagree with that, wouldn't you, Herb?

Stein: Well, I think that—I think that a great deal of incentive for the rest of the world to adopt something like the Shultz plan would be lost once we had committed ourselves to this support. And also, I'm not sure whether you're being offered a—an existent option, as whether there is a kind of "free lunch" here in the form of massive support by us which does not involve any risk to us, because it implies somebody's going to take the risk; it implies that the Germans, presumably, are going to take the risk of a massive intervention. And I don't know whether that's an option that's available to us; to support, on a massive scale, without taking any risk except one that we voluntarily accommodate—undertake, it's assumed, by devaluing, which we said we're not going to do. So, that's a question that's in the picture. Also, whether this thing really exists [unclear]—

Burns: Well, I think that's a fair statement, but there's only one way to find out, and that's to talk to other people, which we haven't done.

Nixon: What do you think?

Volcker: Well, I don't think there's any question. I think for intervention to actually work, we really need their enthusiastic desire for this. I don't think it's something for us to press upon—

Nixon: Let me ask you, let me ask you: is it—is it really possible to talk to 'em?

Volcker: Well—

[unclear exchange]

Volcker: —you can talk to them—

Nixon: Well, certainly, I would say that on the massive intervention—well, strike the word about massive—on the intervention option, assuming that you might, would the—it wouldn't make a great deal of sense to do it unless we were pretty confident it was going to work and unless there was, as you put it, enthusiastic support from our European friends on it, because that bears on the political decision.

[unclear exchange]

Nixon: The only purpose of this, unless it's going to—let, let me—let me be—let me just fold in the political thing. We're getting into Europe now; we'll be in it very heavily over the next few months about NATO and MBFR, and all—the European Security Conference. We're in a watershed period with regard to our relations to Europe. Now, the problem with Europe is that Europe today—and we've got to look at their psychology; leave out the economics—the Europeans are terribly frustrated, because the Germans can't have an international policy; they can only look outward because they have no power. The French are parochial; after they were kicked out of Algeria and Vietnam, they have nothing. The British take the world view only because they're British and have always thought big, and not just about Europe; they have thought internationally rather than in European terms. But here, but here they are, all of them now forced in a very—a lurch to the Left, also, in all of these countries. The Germans are already socialists, or at least have a soclalist-leaning government. The French may damn well get one this weekend.[8] The Italians, of course, are being hit by the socialists. The British would be if they had an election today, but fortunately, their Labour government, the socialists, are so goddamn divided, and Heath is a decent fellow that he stands on.

All right, looking at the mess that's in Europe, and it is a mess in my opinion, politically they're concerned about our deal in a month with Russia, which we're going to have when I—we're gonna have another meeting with the Russians later this year. The—I'm trying to put the political factors into context here. You have to realize that when the European leaders—oh, like Heath—comes here, he loves to talk about, "Oh, how was your trip to China?" He likes to talk about the Russian arms, what we're going to do about [unclear] of course he does. And what's going to happen in the Mideast, and what can we do. But he knows, as he talks to me, that what the British do doesn't make a damn bit of a difference in the world anymore. It's too bad, but it's true. What they do in Europe might, but not in the world. And he knows, too, that even if Europe united—which is, of course, a likelihood 10, 15, 20 years from now—more politically than it is today, that they aren't going to be a major factor, because they're never going to have the domestic opinion to have the punch-crunch power in a military sense that will make them a major factor. They know that what really matters is what—today is what the U.S. talks as says to Russia, and 10 years from now what we may say to China, so forth and so on.

[8] National elections were held in France on March 4 and 11.

So, put yourself then again in the position of the Europeans. There is a—there is going to be a great tendency for them, now, to turn inward; to—and, frankly, despite all of their nice things they say about the U.S., and all that state business and tipped glasses, and all that stuff, all in all, by all the personal relationships and so forth, there's a tendency for, for the Europeans to, frankly, become isolationist. Now, this could, this could jeopardize the NATO commitment on their part; block other things. Now, I'm painting a black picture here—

Volcker: Oh, I think it's [unclear]—

Nixon: —but I think, as I judge the European politicians, except for Heath, every one is a parochial; every damn one. I mean, Brandt doesn't understand anything. He's a nice, pleasant face, and all that sort of thing, but he's a dullard. In terms, except just through Berlin and the rest, he doesn't understand the world and never will. The Italians did two thousand years ago, and they were finished. [unclear]

Well, anyway, you now come to the point that what stroke do we have with Europe. And, basically, I come down to the fact that when you talk to the Europeans, the major stroke we have today happens to be in this field, you see. Now, if we—it's very dangerous for us, basically, because we need a Europe that will maintain its military strength and so forth, and its ties to us and not be a pigeon for Soviet and/or socialist deterioration. We need a Europe that will have reasons to be—stay, close to the United States. Now, if—so, therefore, I would have to judge any decision we make here in terms of whether it will be interpreted by Europe as being, "Well, the U.S. doesn't care." Now, maybe that can be; maybe it isn't. So, what I'd like to do is, if you fellows have the time, I'd like for you to run this by—now, not individually; don't hit him on the blind side; if you get on one side, he'll get on the other—but, I'd like for him, for Kissinger, to hear these arguments, if we could. I'd like—if you could, if you could—if this group could spend an hour with him, as you did with me, just laying out the options, and I will talk to him in the meantime, because we happen to be discussing Europe this weekend anyway [unclear] because I do not—I don't—I don't want to—I—I don't want to be in a position of making a decision on this which is good economically. I happen to tilt more to the—to George's view that—on the economic side. I tend to be very doubtful about, frankly, what role the United States can play today, because of the growing economies of the European production rates, but—but I could be wrong and Arthur could be right. So—but, but it's a matter of degree, because, apparently, we all are working toward the realization of George's speech at the IMF. But, on the other hand, as all of you can see, sometimes you have to do things economically in the world that will contribute to your political leadership. And it's that factor—I don't know, I don't know, I don't know whether this is that big or not, but I would like to run it by Kissinger, and I'm going to talk to him.

Volcker: Of course, this is very big in their view. [unclear]—

Nixon: Is it?

Volcker: —political implications, yes. And they—the only thing I think—

Nixon: You see, when you talk to a Finance Minister, George, and you talk to a banker, et cetera, or economist, they will—you'll get only part of the picture. But we've got to—we've got to get 'em up here. I've got to feel the other side of it, too, as to whether anything we do here—whether, at this point, we're at a situation, at a place where the Europeans might feel, "Well, we don't give a damn about—"

[unclear exchange]

Volcker: In terms of the political dynamics—

Nixon: Yeah?

Volcker: —the French are absolutely, critically the toughest. They take views in substance opposed to ours, but their main preoccupation, I'm sure, is a political one: how to—

Nixon: Yeah.

Volcker: How to posture Europe vis-à-vis the United States politically.

Nixon: Sure.

Burns: Mr. President, on the question of intervention, if, let us say, we were to go any such route, there's only one country that we have to convince.

Nixon: The Germans?

Burns: That's how [unclear].

Nixon: Because the British will go in any event?

Shultz: Well, the British aren't—

[unclear exchange]

Nixon: Well, that doesn't mean anything to them, huh?

Burns: You see, the French will like it [unclear]—

Nixon: Although, although the British would like—I don't know.

[unclear exchange]

Nixon: How soon do we have to answer Brandt's letter [unclear]?

Shultz: Well, they're meeting, their Finance Ministers are meeting tomorrow. [unclear]—

Nixon: How is your fellows' schedule at the moment? Have you got a little time to extend—to see Kissinger now? And I'll be available right afterwards if—I don't know. Or, you all have luncheons, I suppose, and that sort of thing.

Volcker: When we say "intervention," I suppose it's fair to say that virtually everyone thinks intervention have—would have to be surrounded by some other actions: tighten the Eurodollar market, or [unclear] for instance, or get other central banks to remove some money. Maybe we'd want to somehow encourage corporations or others to stop speculating by use of the controls we already have. Those issues are going to arise.

Nixon: Yeah.

Volcker: I just don't want you to—

Shultz: This is an example of—

[unclear exchange]

Shultz: —can come in, and we—

Nixon: Yeah?

Shultz: —move right back into this business of controlling everybody.

Nixon: Yeah. [unclear]—

Volcker: Oh, I just don't want to give the impression the Europeans would be happy with this completely naked—with nothing [unclear].

[laughter]

Nixon: Look, you don't have to spend—spend—just spend thirty minutes, if you could. If I can get Henry, will you take thirty minutes with him if I can get him?

Volcker: Yeah.

[Unclear exchange. Pause as Nixon calls Kissinger.]

Nixon: Henry, we've got a major monetary matter we have to, which involves Europe politically. And, I've just been over it with the Quadriad here. I'd like for you to spend 30 minutes with them, and we could have an answer to the letter from Brandt. Could you do it now? Think it over. They'll come over to you. They can come to your office [unclear]—

17. Conversation Among President Nixon, the President's Assistant for National Security Affairs (Kissinger), and Secretary of the Treasury Shultz[1]

Washington, March 3, 1973.

[Omitted here is discussion unrelated to international monetary affairs.]

Nixon: Henry, did you listen to these gentlemen?[2]

Kissinger: Yeah. We had an hour's talk about it.

Nixon: What'd you come up with?

Kissinger: Well, I told them that I don't know anything about the substance of the—of the substantive—

Nixon: Consequence?

Kissinger: Of the merit between our acquiescing in a common float or intervening. I read the letter,[3] and I came to the judgment that the Europeans are going to take a common position, or are going to try to take a common position, but they think that position will be unpalatable to us, and that they are trying, or that Brandt is trying, to buy us off in phrases about European integration and world stability for what he knows we won't like in the position they're going to come up with. Now, I knew nothing about the substance when I said this, and George agrees that we probably—there'll be unpalatable features in this common float. My view from the political point of view is that there're two aspects: one is, we don't look strong if, two weeks after the devaluation there's another speculative wave that then, again, changes the exchange rate. I'll put that aside. The thing that bothers me most about the letter is that I think the time has come where we must make clear to the Europeans that they cannot take a common position without consultation with us on a matter that vitally affects our interest and buy us off in currency of abstract European integration, and that sort of thing. And, therefore, leaving aside now the question of whether we should intervene or not, I think we must in any event make clear to Brandt that this procedure is unacceptable to us.

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[1] Source: National Archives, Nixon Presidential Materials, White House Tapes, Oval Office, Conversation 868–15. No classification marking. According to the President's Daily Diary, Nixon met with Kissinger and Shultz from 1:10 to 2:07 p.m. (Ibid., White House Central Files) The editor transcribed the portion of the conversation printed here specifically for this volume.

[2] At the President's request (see Document 16), Kissinger met with Shultz, Burns, Stein, and Ash on March 3 from 11:55 a.m. to 1:03 p.m. (Library of Congress, Manuscript Division, Kissinger Papers, Box 438, Miscellany, 1968–1976, Record of Schedule)

[3] A reference to Chancellor Brandt's March 2 letter to President Nixon, Document 15.

Nixon: I know. Um-hmm.

Kissinger: Even if we lose on the issue, we then have a basis of maybe—as George explains it, the common float as such isn't so much against our interests. We then might have a—we will have a basis for doing other things later on.

Nixon: Hmm.

Kissinger: I don't like the letter. I think it sort of assumes that we're idiots that can be paid off by phrases. I don't like the fact that Heath isn't in touch with us at all.

Nixon: We haven't heard from him?

Kissinger: We have not heard from Heath. You called Barber—

Shultz: I called Barber this morning.

Nixon: Yeah, but you think Heath would—what's he thinking? I don't know, maybe he isn't for it?

Kissinger: Well, but why doesn't he tell us that?

Shultz: Barber—

Kissinger: It'd be easy enough for Heath to communicate with us and to say, "Whatever happens there, you tell us privately whether you [unclear]." And—so, as between whether we acquiesce in a common float, or whether we intervene, or—or we have nothing to acquiesce in yet, because they [unclear]. On the issue of whether we intervene or not, let me put that aside. I think, at a minimum, we ought to reply to Brandt by saying, you know, "Thank you for your communication," and so forth, "but, change in the exchange rates between Europe and the United States is a matter of general interest; it is not a unilateral decision by the Europeans. It affects us and the Japanese." I'd get the Japanese involved and score some points with the Japanese—

Nixon: That's right.

Kissinger: —and inform the Japanese that we've done that. "That, therefore, we believe that before you make a decision, we must be consulted."

Nixon: Yeah.

Kissinger: Or, if you wanted for me to say we are prepared to defend the present exchange system, this depends on what decision you make with it. But as a minimum, I would say, "We must be consulted." Then, if we should object to whatever the unpalatable features are, which they haven't told us yet, but Paul Volcker and, I guess, you think are certain. If they are nominally agreed to it, and then if we—we've established our principles. If they are, we object to it. If they then go ahead anyway, we then have the choice of either offering to intervene at that moment as an alternative. And above all, we will have created the basis for cracking down on them later on on something else. But I don't think it is good policy for us to acquiesce in such a soppy palaver, which in effect says to us, "You're so interested in European integration that as long as we do it together, as Europeans, you shouldn't worry too much about what the substance is."

Nixon: Through telling us that we're interested in European integration?

Kissinger: In effect—

Nixon: To hell with that.

Kissinger: In effect, what he's telling us—

Nixon: We always say that because we have to, but we're not so sure of it ourselves.

Kissinger: In effect, what he's telling us is—he isn't saying, "We are making—we're going to come up with a solution that protects your interests." He isn't saying, "We want to hear what you—"

Nixon: "Let's do all of this in the—for the cause of European integration," is what he's saying.

Kissinger: He says, "What we will do will strengthen European integration. Therefore, it will help birth political stability. Therefore, you ought to be happy no matter what else it adds."

Shultz: He's reporting a conversation with Heath and the key sentence is, "We agree that we must make every conceivable effort to find a way out of the crisis which strengthens European integration." That's—

Nixon: Well, now, let's look at that for a minute here. I said to these fellows this morning the reason we had to get you into this is that we have to make this decision in terms of the international political situation, and that, in doing, we might as well make some points or lose some points. Whatever the case may be, we've got to know what the hell we're doing. The—for—I would like to use it as a means to keep the Europeans closer to us, rather than having them push away. I'd approach it differently. In a sense, I'd say, well, if we indicate we don't give one damn about Europe, in a sense, this would argue for the second option, of course, about what happens, then that—then inevitably, the Europeans pull together, say, "The United States doesn't care," and that hurts our bigger game with regard to Europe. You're approaching it from another standpoint. You're saying, why, this is a hell of a thing for them to do, and—

Kissinger: Well—

Nixon: —they ought to have consulted. And, in any event, and whatever we do, let's give them that kind of an answer this way—

Kissinger: But that's not it. We could put in all the right words about—we can say, "We are, of course, in favor of European integration. We are, of course, we are also in favor of closer Atlantic partnership."

Nixon: Um-hmm.

Kissinger: "It is impossible, therefore, for either side of the Atlantic to take unilaterally decisions that basically affect the other without consultation." Now, that is what they ask of us when we deal with the Soviets.

Nixon: That's right.

Kissinger: Therefore—

Nixon: And I think your idea of the—putting the Japanese in is extremely [unclear]—

Kissinger: "Therefore, while we like the sentiments which you express here and share them—" I mean, I wouldn't challenge the European integration idea.

Nixon: Yeah. Yeah.

Kissinger: "We feel that it is not a substitute for taking a—for, for settling those problems that affect the world on a general basis. And, therefore, while you, of course, will proceed in your European discussions, we believe we must have an opportunity, and we think so should the Japanese, to express their view on how this affects the entire monetary situation." Then they have two choices. They can either say, "To hell with you; we're proceeding unilaterally," and that sort of European integration we're not in favor of. Or, they'll consult with us. In the mean—at the same time, we could inform the Japanese what we've done, and they can then see us as the protector.

Nixon: Um-hmm. We, in effect, tell the Japanese that we have this communication from the Europeans, that we have told the Europeans that we do not feel they should move without consultation with us and Japan. And that's a very good point; with that, you make a couple of points. Now, let's come to the fundamental thing. Would you rather have the United States take a position of "leadership," of massively intervening to protect the exchange rates, and so forth? Or, would you rather do what George and Herb Stein as economists—of course, Arthur Burns argued the other way as an economist—and they would say, "No, let's let the thing mush along."

Kissinger: Well, if I understand George, he thinks that a common float is really not against—it's really somewhat in our interest.

Nixon: George thinks?

Kissinger: George thinks that.

Shultz: A common float—when we negotiated this devaluation, we, basically—that was one of our possibilities. We said, "If you do this, that's fine." So, we didn't—

Kissinger: What I don't like about it—

Shultz: In the monetary plan, we have explicitly provided for cases where a group of nations may form a monetary unit and be dealt with as a unit. So, that is a bridge that you [unclear]—

Kissinger: What I don't like about the passive position, and I'm not talking economics now, is—

Nixon: Yeah?

Kissinger: —that we've devalued the dollar fourteen months after the Smithsonian.

Nixon: Right.

Kissinger: And now, in effect, we are getting it devalued again three weeks after devaluing it. And it doesn't make us look strong, either domestically or internationally. That's—

Nixon: That concerns me, too.

Shultz: What describes—

Nixon: Yet, we don't want to do something that's wrong.

Shultz: This is not the way that—I don't know how you can describe it this way to the public at large, but I think among economists, and at least some businessmen and financiers in recent years, what has happened since August of '71 is that we have gradually made progress toward a more flexible system, and we made a lot more progress a couple of weeks ago. And hence, say, Milton Friedman would describe it—I checked with Milton; he thinks the situation is great. Let them float. Force them to float. And then, we will have a floating system of some sort that will have all kinds of problems connected with it, but at least it's moved over in that direction. And that is progress towards the sense that the system that we proposed, although it doesn't have in it the sense of order that is in the system we proposed, it's more at loose ends with itself. That's the difficulty.

Kissinger: Many of my concerns can be met, Mr. President, by that letter that I'm suggesting, because that would show the Japanese and the Europeans that we're not in a passive position. I mean, just to sit there while the Europeans devalue us again and put in a few hookers and get pap like this, that isn't very strong. But, if you—if you wrote a very polite, but very definite letter—

Nixon: Um-hmm?

Kissinger: And I'd send it to Heath, too.

Nixon: Yeah.

Kissinger: Say, "We've been informed by Brandt; we want you to know."

Nixon: That's right.

Kissinger: "That, Heath, there's many reasons, as you know. That here's a fundamental principle involved. That European integration was never seen as a substitute for Atlantic or world cooperation, and, therefore, we cannot accept the proposition that a decision like this should be taken without full consultation with the United States." That doesn't force—there is no objection to a common float if it's—

Nixon: George, what—your, your concern about the intervention, besides, is that it moves toward convertibility again?

Shultz: It is, exactly. Remember last summer, when we broke over in to this pattern; that was the concern. And that—so, that's a part of it. Another part of it is that we are, in a sense, accepting the fixed rate concept, and I think there is also a fair degree of risk. Arthur feels that we could, possibly, make a deal with the Germans whereby they accept all of the genuine risk. Now, when the genuine risk is some percentage of billions and billions of dollars, it's not negligible. [unclear]—

Kissinger: But as I understand it, the only risk is that we devalue again.

Shultz: Well, Arthur's proposition is, and he doesn't go further than this, is that we say, "We will accept a risk connected with a further change in exchange rates if that change results from a formal devaluation by the United States." And, says Arthur, since we have no intention of a formal devaluation, in which we go to the Congress and go to the IMF, and so on, there's no risk in that from us. The risk is if the Germans acquire a lot of dollars or loan us a lot of dollars at a rate of exchange which later changes as a result of some kind of common float, or some development in the system other than a formal devaluation, that they've acquired something at a price that changes. Suppose—I mean, look at the situation they are in now. They've acquired $6, $7 billion, and the value of those dollars has changed by ten percent; it's gigantic. And it's—and the Japanese are in the same position. And it's surprising to me that the political figures in those countries aren't being attacked as being stupid for having bought these dollars, which then were depreciated, and there they are stuck with them. They've lost a lot of money. But that's the element of risk. Now, the—Arthur—the question is: would the Germans change the terms under which they loan us marks so that they accept all that risk, and we don't accept any? Those are the conditions under which Arthur says we should be willing to borrow marks from them and then use those marks to intervene. It's a question whether they would accept that. I think, as a bargaining proposition if we go forward with it, it's almost certain they wouldn't accept it. If they find that they can't work out a common float, and the European way turns out to be no way, then they turn to us and say, "How about something like this?" Then we're in a much stronger bargaining position. Or, if they try a float and it falls apart, and then they're forced to a national float, which is so unacceptable to them, then we're in a stronger bargaining position. I don't think we're in a very strong bargaining position on this with respect to the Germans right now. But, it can, nevertheless—it is true, as Arthur says, that we have disabused them of the idea that we would intervene. We went out of our way in your reply to Brandt, a couple of weeks ago,[4] to deny that we had assumed an obligation to intervene in the Smithsonian. And we were clear in our own statement, along with the devaluation,[5] that we had assumed—we didn't say we wouldn't intervene, we just said we had assumed no obligations to intervene. And, as a matter of fact, we've been under some attack in the Congress for intervening at all. And the people who follow this area, I think, on the whole, people are convinced that we ought to push it toward a floating kind of a system. But, at any rate, the Germans, undoubtedly, are laboring under the assumption that we would not intervene, that we would not go in with them and work on this.

Nixon: Now, why is it that the New York bankers—and Hayes, of course, is representing this, their view I presume—why is it that they overwhelmingly favor intervention?

Shultz: Well, I don't know that they overwhelmingly do. He does, and he reported that he had talked to, he said, a number of—

Nixon: Right.

Shultz: —leading bankers, and they joined—

Nixon: Why do them—why do they—why do a substantial number of them favor it? [unclear] are the same reasons Arthur does, right?

Shultz: There is—well, there is the argument that if you have a known rate of exchange, it makes it easier to do business. There is the argument that's what they're used to.

Nixon: Yeah.

Shultz: There's the argument that in the New York Fed, that's one of the things they do. For years, they've been intervening in currency markets defending the dollar. That's—

Nixon: Um-hmm.

Shultz: Like a boxer, they're all set up to box [unclear]—

Nixon: Yeah. Yeah. Yeah.

Shultz: So, there is that. And then, I think there are the other considerations that Henry has mentioned, that Arthur has mentioned; that, that what kind of [unclear] are we anyway? The dollar getting punched around; we don't do any—

Nixon: We're not—we're not moving to defend it against the speculators, and so forth.

Kissinger: And I must say—

Nixon: Moving to defend it against the speculators appeals to me.

Shultz: Yes. It [unclear] does—

[4] See Document 9.

[5] See Document 12.

Kissinger: Nor do I—you know, I'm no longer so sure that European integration is all that much in our interest.

Nixon: Oh, I'm not so sure of it at all.

Kissinger: And that, therefore, if we can force them to deal separately with us, whether that mightn't be better for Atlantic unity.

Nixon: Which, basically, would mean not to intervene.

Kissinger: No, that might mean to intervene.

Nixon: Why?

Kissinger: Because, in either case—of course, I think one of the results of this crisis is that they're going to move towards a common—

Nixon: You see, there's the—I see your point.

Kissinger: No, what it would it mean—

Nixon: In other words, you mean [unclear]—

Kissinger: If you intervene, as I understand it, you must do it with the Germans. The Germans would be breaking ranks—

Nixon: Yeah.

Kissinger: —with the others, isn't that right?

Shultz: Well, it may be, but the situation is the Germans would like to have joint intervention and defend the present system. They assume that it's impossible, without asking us, but that's what their assumption is, and that they're going on to this other approach. In that case, if we want to intervene we should let them know that this is at least a possibility, depending upon what they want. So, we don't know that they're necessarily determined, the Germans, on those things. They're operating on an assumption about our attitude.

Kissinger: The—if the intervention works, as I understand it, it will delay at least for a bit—make it harder to get a common European monetary system.

Shultz: Well, not necessarily.

Kissinger: But it'll—

Shultz: I think this is something they are striving for. They have been saying they're striving for it for a long while. From—to the extent that we accept the fact that there is a Common Market, it's—it is a logical objective to try to have a common monetary system. I think it's a real question whether they can have one that ties together Italy on one extreme, Britain on the other extreme, and so on. There's a tremendous amount of heterogeneity there that's going to be difficult to hold in one place. And, I suppose, in a sense, there—the moment of truth is upon them. They have a crisis; they're going to try to do this. Can they [unclear]—?

Kissinger: Right, at any rate—

Shultz: No.

Kissinger: —if the Germans play ball with us, they will not be able to use this crisis to accelerate the process. That's one argument. But I can't judge the economics of the intervention, whether it will work, whether the Germans will do it.

Nixon: Yeah, the point is, the point is, let's suppose we do nothing. Henry's concern is that this plays into the line, that the—that forcing the Europeans together to develop a common policy. Is that your instinct?

Kissinger: Well, doing nothing—doing absolutely nothing, just noting this letter and then letting nature take its course—doing absolutely nothing, a) not only forces the Europeans together but enables them to develop whatever policy they want and pay us off in constitutional currency; that is, it was integration and bye.

Nixon: Um-hmm.

Kissinger: If we—that, I do not believe we should accept, because if that works here, they'll apply it all across the board, and increasingly, while demanding from us that in those areas where we have freedom of maneuver, we consult them. And that isn't—that is one of our big NATO—that's one of our big Atlantic crises. So, at a minimum, at—in any event, I think you should write a letter that puts you into a posture of—

Nixon: I agree—

[unclear exchange]

Kissinger: —as well as of maintaining Atlantic unity and, and triggering the Japs. That's the min—that's in any event. Now, as between that course, and that course plus offering intervention, because the way I would offer intervention is to say, "If you're doing this only because you think we won't defend the dollar, I want you to know that we are prepared to discuss joint steps with you in defending the dollar." That—on that I'm not sold, absolutely. If George's argument is right, that—after all this agony of the common float, if they come to us with a proposal on the common float that we can live with, and we think is constructive, and we then accept it—that I wouldn't think is bad for us. What I don't think we can accept is that they make a major decision, just send you a pappy letter by one guy, the other fellow doesn't say anything, and then tell us, "Here it is." That I think is unacceptable for us—

Nixon: Yeah. Yeah. Yeah.

Kissinger: And, also, we can maneuver with the Japs a little bit, too.

Nixon: Yeah. Yeah. This, this—that's the, that's the—what Henry just said. We certainly must do that, but—

Kissinger: And that, also, doesn't make you look as, you know, it—you're being active and constructive that way.

Nixon: Yeah, sort of halfway.

Kissinger: Well, no, it's not necessarily halfway, because—

Nixon: Yeah.

Kissinger: —if George is right, and if a common float is ultimately in our interest, if it isn't coupled with a lot of onerous conditions, then this is a perfectly responsible exercise of leadership—

Nixon: Yeah.

Shultz: Where we, we know it will be accompanied by—if the French have their way—by anti-American rhetoric and some further emphasis on the common things and the common market countries to our exclusion. So, we know there'll be a bite in it of some sort, but I don't—fight those things on their own grounds.

Kissinger: [pause] It is hypothetically possible, isn't it George, that the Germans are acting as they do because they think we won't intervene.

Shultz: Right. That's [unclear]—

Kissinger: That the British would—since the British are floating anyway, that the British wouldn't object to the Europeans staying at fixed rates vis-à-vis us, as long as they are free to float, which they are anyway.

Shultz: That was the situation before this last flare-up—

Kissinger: So that—

Shultz: —that they were quite content with.

Kissinger: So that the choice for the President is between, in any event, to write the letter which I suggested, and then adding to Brandt, and to Heath, so he's playing with open cards, that, "If you're doing this because, that—because you think we won't intervene, then I want you to know that we're willing to discuss with you—"

Shultz: Yeah. I think if the President says that, though, then he is willing to intervene.

Kissinger: That's right.

Shultz: You don't say that unless you were.

Kissinger: No, no—

Shultz: That'd be—

Kissinger: He might make the decision that he would—

Shultz: Putting it forward that way, it seems to me, will have a bearing on the terms of trade and the assumption of risk that gets worked out. Because we're offering, they're going to be less willing to change the present arrangements under which we borrow marks. Now, I think it also has to be considered that all this ratchets back in to the Congress, and they know about swap arrangements, and how it works, and the fact that we assume some risk, and it costs us something, and how much does it cost us, and so on. And that is a point to bear in mind. Poor Arthur is tortured by the fact that he is scheduled to testify next week on the par value act [laughs] that changes the, the price of gold,[6] and he hates the prospect.

Kissinger: If you write it without a letter of—without an offer of intervention, the practical result will be, well, you might affect the onerous conditions they put on us. You will force them in to talking to us, I believe.

Nixon: Well, the point is, I think without an offer of intervention, I don't see what much they've got, what we have to bargain with in talking to them.

Kissinger: But we could keep the offer of intervention for later. I mean, we could, if they attach a lot of unpleasant conditions to a common float, we could then.

Nixon: Hmm.

Kissinger: Well, a number of things are possible. They might not agree on a common float—

Nixon: Among themselves?

Kissinger: Among themselves. And secondly, they might—

Shultz: They might agree on one which falls apart. And the Germans then are left in the position of having a national float, which they don't like.

Kissinger: It's impossible—

Shultz: And at that point, they might turn to us and say, "Will you defend this rate?"

Kissinger: Another thing that your letter might do, minus the offer of intervention, will be that it will affect the terms they may be willing to put to us. I think the Germans will be less willing to yield than the French if they know it's going to involve us in a brawl—involve them in a brawl with us.

Nixon: Um-hmm.

Kissinger: And that, then, they have to accept it. And that, then, they might—that going ahead would mean going ahead against our stated preference. That will be tough for them.

Nixon: You feel very strongly against the intervention [unclear]?

Shultz: Yeah, pretty strongly. I can see the arguments that Arthur makes, but I think we're sort of on a different course, and we've decided to try a flexible type system, and we should keep pushing forward.

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[6] Burns testified before a House of Representatives banking subcommittee on March 7.

Nixon: And this, you think—you don't buy Arthur's view that if we did intervene that we should kick everybody around a bit and get some action in three or four months on a flexible—on a system. You don't agree.

Shultz: [unclear]—

Nixon: You—you tend to go with the view that if you go for the intervention, everybody will sit back and do nothing.

Shultz: Well, it takes the pressure off them.

Nixon: That's right.

Shultz: Internally, whatever they may say about the desirability of going forward, everybody knows that it's desirable to go forward, but I think that we, we will not. I think on the monetary system that we need to think about it as going down two tracks: there's a negotiating track; people are stating positions and whatnot. And then there's this reality track of what is actually taking place as things happen. And our trick is to so manage the reality that it conforms more and more to the idea that we're putting forward, until they begin to touch each other in important places, and that's when we're going to get this thing done. And, moving it in a flexible direction, I think, tends to move more toward our ideas.

Nixon: Well, I'm concerned—I mean, we have to put all this, of course, in a political context.

Shultz: Right.

Nixon: [unclear] I think except for the New York bankers and a few others, most people don't understand international things and couldn't care less.

Shultz: Well—

Nixon: And I think that's what Arthur was admitting, to his chagrin. He found, as he called around the country, people weren't all that stirred up about it. Correct?

Shultz: Correct. Although, I think that it gets big headlines everyday.

Nixon: Yeah.

Shultz: Most, most people—

Nixon: And so, the things that they don't understand creates instability—

Shultz: They don't understand it; they see that it's some kind of a problem, and the dollar's under attack—

Nixon: Now, now, so much for it. Let's leave that out; we can handle that [unclear]. What I am thinking about is the, is the use of a more positive leadership role through possible intervention in order to serve our interests in keeping the Europeans apart; keeping them from developing a united policy against us. I wonder if you could really do it.

As I say, I wonder if you can really do it if we say, "Look—" we write a letter to Brandt and the rest, and say, "Look, you should have consulted with us and with the Japanese," so, so, that's good. But, I wonder if what we are looking at here is a possibility that the Europeans, for a variety of reasons, even despite that letter, will say, "Well, the Americans are not going to play as positive a role as we think they should. And, consequently, we should develop our own system." Now, maybe they can't do it, but at least it would tend to put them in that direction. Or, if we go the intervention route—and, Henry, put your mind to this—suppose we did. It seems to me—it would seem to me that we have a—that that, in effect, a leadership role with the Europeans that we don't have otherwise. Now, I don't what the hell we do with it. I don't know.

Kissinger: Well—

Nixon: What's your feeling—?

Kissinger: Well, my feeling is you cannot, in any event, oppose what they—he says he's doing.

Nixon: No [unclear]—

Kissinger: You have to do it indirectly. You have to—you have to write—unless you decide to do nothing, you have to write the letter I have in mind, anyway.

Nixon: I know. I know that.

Kissinger: But then, you could add to the letter that I have in mind a paragraph that says, "As you gentlemen consider what to do, we want to make sure you're not under a misapprehension. I want you to know we are now prepared to, now that there has been devaluation, to defend the dollar. That we have to put it within certain limits or with—under certain conditions." And then have them come back to us saying they do not want us to defend the dollar, and they want to go to that system. We cannot say that we will not accept a European proposal no matter what its content is.

Nixon: Yeah.

Kissinger: That seems to me to be your choice, and I would do that. I would send that to both Heath and Brandt. Now, that in itself—

Nixon: And to the Japanese.

Kissinger: And to the Japanese. Now, that in itself is a pretty assertive role and more than we have done in the past and would stake out a leadership position, because even if you lose on this, you can then invoke it in other negotiations, on other subjects where the cards are not so. Eventually we can force them into a position where they have to talk to us on these matters, or we will talk separately on our matters. And they can't insist that MBFR, nuclear treaty, and so forth, we cannot operate without consultation, but on things like this they can. And since we have to get more sanity into this other picture, I would use this, at least—at a minimum, you'll get out of it a better tone in the other discussion.

Nixon: You see, George, in this international thing, the reason we've got to—I want you to put your mind to it in a different way than you usually do. Not—and we can't think—you can't think of this, basically, as an economist. The whole European relationship is in a state of, I think, very profound change at this point. And to the extent we can, we should use our economic and monetary stroke to try to affect that change in a way that will be—will serve our interests. I don't know. Maybe, it may—but if the price is too high, if we're getting a little [unclear]—

Kissinger: My—my instinct from this letter—and I'm really going much too far [unclear]. My instinct is that he's made a deal with Heath for something—I don't know what it is—that he thinks we won't like. Therefore, I believe the offer of intervention won't be accepted. I do not believe that the first theory—I think it's too far gone for that.

Nixon: Well, then—

Shultz: Well, what seems to—

[unclear exchange]

Kissinger: But that isn't bad.

[unclear exchange]

Kissinger: That wouldn't be bad to offer—

Nixon: Tell him just to make the offer anyway?

Kissinger: Well, you'd make the offer because you have in Germany a massive domestic problem. According to George, one of the possible outcomes of this, of this whole sequence, whichever way it goes, is that the Germans will have to float nationally. Isn't that right?

Shultz: That's a possibility—

Kissinger: That's a possible outcome. That, Brandt has sworn he wouldn't do. Therefore, he sure as hell is going to blame somebody if it happens. Now, if we put before him a—if we force him into a position where he's done a number of things against—either against us or hasn't taken up certain options we've given him, it's a hell of a lot harder for him to make us the villain. We can't say, "It must be intervention." That we are—it's too far gone, in my view, for that. All we can do is offer it. Then, let them say, "We'll do the float anyway."

Nixon: Then?

Kissinger: Then, if on top of the float, they refuse to consult with us on it, at a minimum, we have greater freedom of action in some of the other games we are playing. We'll get ourselves paid somewhere along the line—

Nixon: [unclear] because we will have acted responsibly, and they will have turned it down.

Kissinger: The answer to this letter is, yes, we are for integration. We've always been for integration. I've said it to you, and we've practiced it. But we've always seen it as a step towards Atlantic cooperation. And in this case, moreover, it's world cooperation. And we've never interpreted European integration to mean that Europe takes unilateral decisions—

Nixon: Good.

Kissinger: —that affect us and, in this case, affect even the Japanese—

Nixon: Right.

Kissinger: —without prior consultation. Therefore, we insist—or, to phrase it nice, more nicely, that we have a chance to express the conditions of that solution. They haven't told us what the solution is; they haven't even said it's a float. Then, you have—

Shultz: Suppose you put into that, "On this and other alternatives that may be available," or something like that—

Kissinger: Well—

Shultz: —without offering intervention.

Nixon: Right.

Shultz: We just suggest that there is something broader, and maybe they would come back and say, "Well [unclear]—"

Kissinger: And I—I'd say, "I'm willing to reconsider—"

Nixon: Yeah. We would—

Kissinger: "—some of the positions I've taken."

Nixon: Yeah. We could say, "We would like to—we feel that we ought to consider not only what you plan to do, but we ought to consider what we might do as well," or something like that, or other—that's your [unclear]—

Kissinger: Yes, you have to be sure they don't then say convertibility. So—

Nixon: Well—

Shultz: Well, intervention is [unclear]—

Nixon: Intervention is—

Shultz: —convertibility. That's the trouble with it.

Kissinger: Yeah. Yeah. Well, then—

Nixon: I think George is [unclear]—

Kissinger: Right. Well, you can either have that sentence in it or not have the sentence in it. The advantages of the letter are, well, they're obvious. As you have Japan [unclear]—you've done something you can—

Nixon: Right.

Kissinger: —with the Japanese, and you've got yourself a platform where you can argue with them about their terms and [unclear] and I'm—I think Brandt is willing to make an agreement without us. Whether he's willing to implement an agreement, the terms of which we've opposed, at a minimum, it may—will stiffen his back against the French. And, given all the things Heath wants from you in the nuclear field, he's got to be damned careful about crossing you—

Nixon: Yeah.

Kissinger: —when you show your teeth.

Nixon: Yeah. Yeah. Right. George, let's come to the merits. Your view is that if we did have an intervention, that it'd work for a while, and then, probably, have another crisis in a year. Correct?

Shultz: Probably. Although I think the exchange rates now existing are, pretty reasonable. So, there isn't pressure from the—

Nixon: All right, let's come at it another way. You just feel that intervention is bad, because you believe that convertibility was a bad track for us, and we should get the hell off of it. Is that it?

Shultz: I think that, that convertibility is something that is important to have in a monetary system. If the system is so constructed that it has the kind of equilibrium that makes convertibility unnecessary, it is sort of applying a psychological edge to something that doesn't need it. Where you don't need it, you can have it. Where you need it, in a sense that people want to convert, as now, you can't have it, because we don't have that much to convert with.

Kissinger: You can't use convertibility—

Shultz: It's literally impossible.

Kissinger: —as a substitute for equilibrium, as I understand it—

Shultz: That's right.

Nixon: Right.

Shultz: Exactly. That's very well put.

Kissinger: —'cause it's bound to drain somebody to a point where you don't—

Shultz: So you have to first construct a system that—that it is an equilibrium system, and then you can have convertibility. And that's what we said.

Kissinger: Of course, one argument—

Shultz: The French say they don't believe in an equilibrium system, because the elements of equilibrium not only include trade, but they include our military operations, they include our aid operations, and they include our investment. And they don't agree that, somehow or other, the exchange system should give us a hand to play in those three fields.

Nixon: Let me ask you—

[unclear exchange]

Nixon: That—that raises a different point. You mean that for us to intervene, which means a step toward convertibility, would give us—would play to, which is not only the French but the British view too, the European view generally, the monetary thing should be handled separately from trade, military, et cetera, et cetera. In other words, is that true?

Shultz: A little bit, but I wouldn't make that point too much. I was just pushing—putting this to you in terms of the nature of the French objection to our plans.

Nixon: Yeah.

Shultz: It is a very political—

Nixon: Any way that we can keep—

Shultz: It's a very political objective.

Nixon: Any way that we can keep all this stuff linked, we want to do. That's my point. It's—

Kissinger: That's right. That's why—

Nixon: I'm—I'm for the [unclear]—

Kissinger: —why I was so eager to get the letter in.

Nixon: The letter is very important, and it's a very—yeah. I couldn't agree more with that.

Kissinger: And to Heath—to both of them.

Nixon: And to the Japs.

Kissinger: And—

Nixon: Send one to them.

Kissinger: And send copies of the letter to the Japs [unclear]—

Nixon: Damn right.

Shultz: It seems to me that you can, you can do [unclear]—

Kissinger: Little—

Shultz: Imagine this—

Nixon: [unclear]—

Shultz: You send the letter to Brandt, Heath, and so on, and say, in effect, "We think we should be consulted," or have all the things Henry said—

Nixon: Um-hmm.

Shultz: —about what you're considering and any other alternatives that may be available. Period. And then, presumably, they're going to respond to that. If they don't even respond, I don't know what.

Kissinger: They'll respond. They will.

Shultz: Presumably, they will respond.

Kissinger: There's no way they cannot respond.

Shultz: Okay. So, what can they respond with? Well, on the one hand, they can respond by saying, "Here is what we are planning to do," and give us information. They can respond by saying, "Well, are you willing to intervene or not? We assumed you weren't." It would be better, I think, to have it come up that way—

Nixon: Yeah.

Shultz: I'm thinking about the bargaining over the terms of this—

Nixon: Yeah.

Shultz: —than for us to put it forward.

Nixon: Yeah. Than to throw in that chip ourselves, now. You've got a good point there. All right.

Kissinger: I can live with that.

Nixon: Let's write—

Shultz: And then we have to say—suppose they did that, and they came back, and they asked a question about intervention. What would we say? Would we say, "Well, if we can arrange the right kind of terms, we will?" Or should we say, "No, that was not what we had in mind?"

Nixon: Right.

Kissinger: At that point, we have to make this decision. What we have to avoid—the advantage of my approach is—I mean, my approach is—well, of the approach that I mentioned—is that if we can get them to put their proposal forward first, we can't lose, because either the proposal is acceptable to us on objective grounds, and then we say, "Fine." Or, the proposal has a lot of hookers in it, which we don't like, in which case we can at least alleviate those. And, if failing alleviating them, we'll get ourselves compensation in some other field.

Nixon: Right.

Kissinger: Uh—

Nixon: Right. They'll know that we objected.

Kissinger: That's the advantage—

Nixon: They owe us one.

Kissinger: They owe us one, and we have a lot of things coming up in which it doesn't hurt us to have that psychological edge, because we may have to do a few things they don't like. Now, if they can get us into a haggle, and this is actually arguing against now putting forward intervention—supposing they get us into a haggle about the terms of intervention, we put forward terms they won't accept. Then they say, "Hell, we tried. Now, you have to accept anything we put forward on the common float." So, I'd rather, from the negotiating point of view, when they come back, get them to spell out all their options in detail—

Shultz: I agree with that. I—

[unclear exchange]

Shultz: I think we're getting somewhere. I think the right approach is to have the kind of letter Henry said, with no mention of intervention or anything, and try to draw from them what it is that they have in mind. And then have a chance to have some input in—

Nixon: Um-hmm.

Shultz: —and go [unclear]—

Nixon: Then we can see—

Kissinger: And we could put in the phrase—

Nixon: Maybe we might use the intervention option then, maybe—

Kissinger: Yeah.

Shultz: Well, I think—

Nixon: —if we get a hell of a lot out of it.

Shultz: Our sort of technical analysis is that the probability of them being able to work out a genuine joint float including all their countries, Britain and Italy, is like point two, and the probability of it working are two chances out of ten. The probability of them doing it, and it working, is like one chance out of ten. The probability of working out something involving Germany, France, and Benelux, says Arthur, is probably, say, six chances out of ten, or maybe seven. And the probability of it working is, perhaps, five chances out of ten. So, I think there is a very strong likelihood that their efforts at a joint float are going to be fruitless. They're going to—they're gonna have an awful lot of trouble with it. Now, at that point, we want—we might want to have thought right here, that if Brandt finds himself in serious difficulty with something like that—but the British won't, because they'll just go right to their float and they're going to be fine—but if Brandt gets into real difficulty, then we might put ourselves in the position of bailing him out with intervention and agreeing to do it on a massive scale and getting things straightened out. And, in that process, you would have shown him, "Look, we tried to do this with Europe and work everything out. But, no, you fellows worked that out. And look what happened to you. And you got in trouble, and the U.S. came along and we [unclear]—"

Kissinger: We have to have a sentence in there about other alternatives. We don't have to say we're willing to intervene. I'd say—

Nixon: "We need to examine."

Kissinger: —"We're willing to examine all alternatives that may occur to you," or something like that—or "many," or something.

Shultz: Well, why can't we just put it in terms of that framework and draw their plan the way you said?

Kissinger: Well, but that framework is—premised on European integration, entirely.

Shultz: Well, but we're not objecting to European integration.

Kissinger: Not formally. I think—

Shultz: It isn't that—the thing is that they have been talking about a common monetary system, about common economic policies, and so forth, all along. There's nothing novel about them just trying to do that.

Kissinger: But they'll never get it done unless they're under pressure for—from something. We have—this isn't nobody's fault here, but we've worked ourselves for twenty years into the position where we have fostered European integration in the area where it's against our interest and have discouraged it in the area, mainly defense, where it is in our interest.

Nixon: That's right.

Kissinger: So, we've made the Europeans depend on us in defense, which even works against our economic interest, and given them a free hand in the economic field, where it's a—

Nixon: Where it's against our interest [unclear]—

Kissinger: Where it's against—so, the priorities have been totally wrong.

Nixon: You really got it on the head there. I agree with that.

Kissinger: But that's what we're stuck with now.

Nixon: [pause] Well, shall we go on a letter then?

Kissinger: Yeah—

Nixon: Will you—will you prepare it tonight, or Henry will get it—?

Kissinger: George and I will work on it tonight.

Nixon: Sure, well—

Kissinger: [unclear]—

Nixon: —why don't you do that.

[Omitted here is discussion related to Shultz's forthcoming trip to Europe and the Sovet Union.]

18. Message From President Nixon to West German Chancellor Brandt[1]

Washington, March 3, 1973.

Dear Mr. Chancellor:

I greatly appreciated your letter of March 2[2] and your courtesy in informing me about the decision you and Prime Minister Heath have taken with respect to the currency crisis. I want to put my own considerations before you. There is no question about the desirability of ending the new currency crisis as rapidly as possible, all the more so as we believe that the exchange rates established some weeks ago are essentially sound. At the same time I cannot agree that the only criterion that should be considered in putting forward a solution is whether it contributes to the strengthening of European integration. As you know, I have strongly supported European integration and intend to continue to do so, but as I believe we both agree, European integration should also be seen as a step towards increased Atlantic cooperation. It therefore seems to me that any proposal to deal with the present currency crisis can only be put forward on the basis of full consideration with countries whose interests are involved—including especially the United States and Japan. I would therefore hope that before any proposals are made final we will have an opportunity to express our views. I look forward to hearing your reaction and I want to assure you about our commitment to European integration and Atlantic partnership.

I am writing along similar lines to Prime Minister Heath.

With best wishes.

Richard Nixon[3]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 53, Country Files, Europe, Monetary Crisis, March 1973. Top Secret. Another copy of the message with Nixon's initials indicates that it was sent on an urgent basis via backchannel from Kissinger to Bahr. (Ibid.)

[2] Document 15.

[3] Printed from a copy that bears Nixon's typed signature with an indication that he signed the original.

19. Message From President Nixon to British Prime Minister Heath[1]

Washington, March 3, 1973, 2230Z.

Dear Mr. Prime Minister:

I received today a letter from Chancellor Brandt about his discussions with you.[2] With respect to the European currency crisis he made the following point: "We agree that we must make every conceivable effort to find a way out which strengthens European integration. After his return to London, the Prime Minister will thoroughly examine what contribution his government can make to a common solution. I am convinced that a joint action represents at the same time an element of stabilization in the world political situation." There is no question about the desirability of ending the new currency crisis as rapidly as possible, all the more so as we believe that the exchange rates established some weeks ago are essentially sound. At the same time, we cannot accept the proposition that the sole criterion that should be considered in putting forward a solution is whether it contributes to the strengthening of European integration. As you know, and I think agree with me, in supporting European integration we have always seen it as a step contributing toward Atlantic partnership and not as a means to enable either side to proceed unilaterally on a matter of fundamental concern to the other. It is a bad precedent for allies if they confront each other with a fait accompli. Any proposal to deal with the present current crisis can only be put forward on the basis of full consultation with countries whose interests are involved—including especially the United States and Japan. I would therefore hope that before any proposals are made final we will have an opportunity to express our views. I look forward to hearing your reaction to this and I want to assure you about our commitment to European integration and Atlantic partnership.

I am writing in the same sense to Chancellor Brandt.

With best wishes,

Richard Nixon

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 53, Country Files, Europe, Monetary Crisis, March 1973. Top Secret; Critic. Sent as White House telegram WH002.

[2] Document 15.

20. Message From President Nixon to Japanese Prime Minister Tanaka[1]

Washington, March 3, 1973.

Dear Mr. Prime Minister:

I have today received a letter from Chancellor Brandt informing me that the European countries are planning to develop a proposal to deal with the current currency crisis.[2] I want you to know that I have replied to Chancellor Brandt and have also written to Prime Minister Heath saying that any solution to the currency crisis should be developed through full consultations with the United States and with Japan[3]—a point we had previously made orally to Prime Minister Heath.

We will be prepared to exchange views with you on this subject.

With kind regards.

Richard Nixon[4]

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 53, Country Files, Europe, Monetary Crisis, March 1973. Top Secret.

[2] Document 15.

[3] Documents 18 and 19.

[4] Printed from a copy that bears Nixon's typed signature with an indication that he signed the original.

21. Message From Japanese Finance Minister Aichi to President Nixon[1]

Tokyo, March 4, 1973.

Message from President Nixon[2] very much appreciated. Government of Japan is anxious to exchange views with USG on current currency crisis.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 53, Country Files, Europe, Monetary Crisis, March 1973. Secret. A typewritten notation on the message indicates that it was sent "from Finance Minister Aichi in Absence of Prime Minister Tanaka." Printed from an unsigned copy.

[2] Document 20.

GOJ wonders when and where it should send emissary for consultations with USG. Finance Ministry Advisor Hosomi originally planned leave Tokyo for Washington Thursday March 8, 1973, reported in Aichi message March 2 to Shultz,[3] and Vice Minister Inamura expected to leave Tokyo Sunday, March 11, 1973 for New York City for overnight stop proceeding to Washington March 12 for Deputy Minister meeting of Group of 20, March 14–16. Hosomi could leave Monday, March 5, 1973 if GOJ could be informed where USG officials would like to meet with him, or could wait until March 8 and arrive as planned if there is no urgency.

Plan contact Tanaka tonight when Prime Minister returns to Tokyo. Inamura will call me [Aichi][4] by 2200 tonight Tokyo time if Prime Minister has any other thoughts. Please convey by 1000 Washington time, March 4 any message or send immediate telegram as to action USG would like to have GOJ take with respect to sending an emissary, probably Hosomi, if you want him to leave Tokyo March 5. I [Aichi] have promised to call Inamura by 2400 tonight Tokyo time.[5]

Inamura says GOJ has had no contact with European Governments during current currency crisis since they consider present flurry a strictly European problem, primarily a German problem. GOJ is keeping foreign exchange market in Tokyo closed March 5. No decision yet on market's opening on March 6.

[3] Not found.

[4] Brackets are in the original.

[5] In a March 5 memorandum to Shultz, Scowcroft reported that Aichi had decided to send Hosomi to Washington for consultations and that he would arrive on March 6. Scowcroft also noted that Tanaka and Aichi were "reluctant to make formal written reply to President Nixon's message to Tanaka because of sensitive position of Tanaka Cabinet during current budget hearings in the Diet and necessity of spreading knowledge of the message through Japanese Foreign Ministry if formal reply required. They believe their action of dispatching Hosomi is adequate answer at this time. I agree with their conclusion. This reluctance on their part points up their own appraisal of delicate position of Tanaka Cabinet and emphasizes their desire to keep these exchanges of messages very secret." (National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS White House)

22. Message From British Prime Minister Heath to President Nixon[1]

London, March 4, 1973, 1500Z.

Dear Mr. President,

Thank you very much for your message about my meeting with Chancellor Brandt and the present currency crisis.[2] I do not of course know how detailed an account the Chancellor has given you of these talks, but perhaps I can give you some account of our thinking.

Chancellor Brandt and I were of course meeting on the evening of a day in which his central bank had taken in 2.7 billion dollars, and other European countries had also taken in very large amounts. The total for the Community countries was about 3.5 billion dollars. I am inclined to agree with your view that the rate structure established as a result of the actions which you and the Japanese took three weeks ago is essentially sound. There were therefore no rational grounds for this massive movement of funds either in the German economic position or in the likely development of your own situation. I do not know whether Chancellor Brandt mentioned this to you, but the first course considered was to keep the markets open and absorb the continuing influx of dollars. He and his colleagues rejected this course, because they believed that it might be interpreted as damaging to the United States. We could not expect or look for further immediate moves from you or the Japanese, since you had taken decisive action three weeks ago. Hence the decision to close the markets while we considered what should be done.

We agreed that in these circumstances we should seek to find a solution to our problem that would meet the following requirements:

(1) It should promote greater world monetary stability, while proposals for international monetary reform were worked out: in particular, it should reduce the risk of frequent crises of the kind we have now experienced twice in one month.

(2) It should not set back, and should if possible promote, European integration.

[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS White House. Top Secret. Scowcroft sent a copy to Shultz under cover of a March 4 memorandum that reads: "Henry has asked Sonnenfeldt to draft a reply, which we will check through you, to go out this evening." This memorandum is stamped "Noted: GPS." (Ibid., Nixon Presidential Materials, NSC Files, Box 1066, Insitutional Materials, May 1974 [7 of 9]) Another copy of the message indicates that it was sent from London on March 4 in a backchannel message at 1500Z. (Ibid., Box 431, Backchannel Files, Backchannel Messages, Hot Line CABOfc London 1972–)

[2] Document 19.

(3) It should not be of a kind which would be interpreted as trying to confront our friends and allies, and in particular the United States.

European integration obviously cannot be the sole criterion. But it is the fact that many people in Europe are regarding our ability to work out and agree to a joint Community solution to this crisis as a crucial test of the strength of the enlarged Community's purpose.[3] Consequently a solution in which some or all of us acted independently, or some of us took part in a joint arrangement while others were left outside would be regarded as a substantial setback to the Community's progress. In particular, if the Germans attempted to deal with this crisis by floating on their own, they would be followed by the Dutch, the other Benelux countries and the Danes, thus leaving the French exposed. This would threaten the whole Franco-German relationship. If the French were then forced to float, it is difficult to see how the Community could hope to continue to follow integrated policies in any sphere.

There has been much talk recently of the possibility of a joint Community float. In my discussions with Chancellor Brandt this was the only joint Community solution we could identify as having any prospect of working and of meeting the requirements I have described. We did not take any decisions: that is for the Community as a whole. If we can achieve such an arrangement, it will be a great step forward in European integration; and Chancellor Brandt and I did not think, and I do not believe, that such an arrangement need damage the United States. Indeed, as he has said, we believe that in strengthening the cohesion of the Community it would strengthen the Community's capacity to be a useful partner in the Atlantic Alliance. It was for these reasons that I agreed to examine how and on what conditions we could take part in such a solution.

I have asked the Chancellor of the Exchequer, in his discussions in Brussels, to insist on the need for proper consultation with our friends and allies, and particularly with the United States and Japan. I know that he has already talked to Secretary Shultz, and will do so again after today's meeting.[4] This crisis has once again demonstrated the urgency of agreement upon international monetary reform. I know that you feel some impatience at the deliberation with which some of your European allies have been addressing themselves to this problem. As I said when we met,[5] progress has not been made any easier by the succession of elections in this part of the world. We shall soon come to the end of this round, and we should then be better able to concentrate on international monetary reform.

[3] In January 1973, Denmark, Ireland, and the United Kingdom joined the EC.

[4] On March 4, the EEC Finance Ministers met in Brussels.

[5] Heath visited Washington February 1–2. See Document 2.

Mr. President, I recognise, and have always been grateful for, your understanding of the importance of European integration in the wider world context. I ask you to believe that neither Chancellor Brandt nor I wish or intend that the progress of European integration should do other than serve the interests of the Atlantic Alliance and strengthen Europe's capacity to contribute to those interests.

With warmest personal regards,

Yours sincerely,

Edward Heath

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23. Message From President Nixon to British Prime Minister Heath[1]

Washington, March 4, 1973, 2325Z.

Dear Mr. Prime Minister:

I appreciated your prompt reply to my message and was glad to have so full an account of your thinking about the currency crisis.[2]

The spirit in which you are approaching this problem closely corresponds to my own. I believe as you do that it should be possible to arrive at arrangements which, while advancing the goal of European integration, fully take account of broader world interests, including our own. Certainly, this should apply to such arrangements as may be necessary to develop a joint Community float, should that be your preferred choice.

We shall all have to bear in mind that as decisions are made in the present crisis, we will be helping to determine the shape of a new monetary system and the prospects for moving ahead rapidly towards rebuilding a fully agreed institutional framework. I fully share your desire that any solution arrived at should reduce the risk of further crises.

Secretary Shultz will remain available for consultations with Mr. Barber.

With best wishes.

Richard Nixon

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 53, Country Files, Europe, Monetary Crisis, March 1973. Top Secret; Critic. Sent in telegram PRUS 002.

[2] Documents 22 and 19, respectively.

24. Transcript of a Telephone Conversation Between Secretary of the Treasury Shultz and the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, March 5, 1973, 12:46 p.m.

S: I called you sort of in this continuing discussion about Europe and monetary abandonments (?).

K: I think it's coming pretty well.

S: It is. I think the message had a real impact.[2]

K: Yeah.

S: At the same time, I think in many respects they are at a sort of a moment of truth and they know it. And the ability to put together some sort of a joint float is quite testing and I don't really think they can do it. Schmidt and Barber both told me that they rate the chances as less than 50–50. Now I was very much impressed Saturday[3] with the additional perspective on the problem that came from our discussion with the President and with you.[4] That is, to say, they need to put the whole thing in the setting of European problems generally and not regard it simply as a problem in working out an international monetary system. And I mentioned that to the President last night, when I reported to him on the outcome of the Ministers' meeting and so on, and he suggested that I discuss this with you and that perhaps we might discuss it with him tomorrow.[5] So I'm really calling to see if perhaps mid-afternoon or so you might have some time. I don't know quite how to start with this but I do have the feeling that there is a fairly decisive set of events taking place and I'll be going now to Paris rather than to Rome on Friday for the meeting and I want to be in a position to understand and represent our views well.[6]

K: Okay.

S: And I have to go back to—I've been testifying all morning and I have to go back again at 2:00 but I hope I won't be there all afternoon.

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[1] Source: National Archives, Nixon Presidential Materials, Kissinger Telephone Conversations, Box 19. No classification marking.

[2] Apparently a reference to Document 18.

[3] March 3.

[4] See Documents 16 and 17.

[5] Shultz spoke on the telephone with President Nixon, who was at Camp David, from 9:19 to 9:28 p.m. on March 4. (National Archives, Nixon Presidential Materials, White House Central Files, President's Daily Diary)

[6] Shultz went to Paris on March 9 to attend the G–10 meeting (see footnote 4, Document 32).

K: Well, I have to see a Russian group at 5:00. How about meeting at 6:00 or is that too late for you?

S: 6:00 or so would be fine.

K: Let's do it at 6:00.

S: Okay. I have my monetary group meeting at 4:30 so when we get through, I'll call you.

K: I'll be here—Do you want to come over here or should I come there?

S: Anything. I'll come over there. Why don't I come over there?

K: Okay.

S: All right.

K: Be a great honor.

S: I'm sure. And as I say, I don't know where I'm going here except that as I—

K: Well, as I think this thing through, I lean more and more towards the float and against intervention if it can be arranged. And if we intervene, to do it only as a result of it.

S: Yeah. It may develop that the Germans wind up with a national float and Schmidt said that publicly.

K: Well, Schmidt has a call in to me.

S: I called him this morning and we talked and I asked him was that published report accurate or not. He said it was accurate; that it was their last choice, not their first choice, but they would do it. That's the first time he has been willing to mention those words.

K: Schmidt has a call in to me and I'll—you know, he's an old friend—and I'll report to you immediately after we've talked.

S: I suggested to him—He said what did we think and I said well, there is a line of opinion here that we have to allow some period for the market to sort things out; that we felt that the relationship between the mark and the dollar was basically all right and that he might want to, if it's of any use to him, describe a float as being—as not that way but just say that the par value remains as they see it and they have eliminated the bands around it for the time being—that's the same thing—to let the situation settle out. I think by this time, with all the talk of not only a joint float but an individual float, it would be almost impossible to intervene successfully because you have the principal government that would have to put up the money, namely Germany, has demonstrated a lack of conviction on the subject and the speculators would just murder the situation.

K: Yeah, yeah.

S: At any rate, if we can develop a cooperative relationship with the Germans and cement that relationship in on economic grounds and also with the British, the French election seems to be going badly for Gaullists from—

K: Well, it's too early to tell because you can't tell what these voters will do in the second round when their choice is between communists and Gaullists.

S: Right.

K: But it will certainly go less well.

S: Well, anyway, this is the sort of thing I'd like to try to sort out a little bit.

K: Good. Now, in any event, I think now that we shouldn't go for intervention unless the Germans ask us for it.

S: That is the only condition under which we ought to consider it and then I think—

K: I'm not sure we should do it then.

S: I believe there should—We ought to be willing to think through with them a set of events where this isn't a set—a float for a period of time so we let the marketplace settle out and then settle on something which we would agree to defend.

K: Yeah.

S: We can have that kind of an outline, although even that I think is a question. But at any rate, these are things.

[Omitted here is discussion unrelated to foreign economic policy.]

25. Transcript of a Telephone Conversation Between West German Minister of Finance Schmidt and the President's Assistant for National Security Affairs (Kissinger)[1]

March 5, 1973, 2:45 p.m.

S: This is Helmut Schmidt speaking.

K: Hello, Helmut. How are you?

S: Very good of you to call back, Henry. Oh, I am fine. I just left the hospital.

K: Are you at the hospital?

[1] Source: National Archives, Nixon Presidential Materials, Kissinger Telephone Conversations, Box 19. No classification marking. All blank underscores are omissions in the original. Kissinger was in Washington; Schmidt was in Germany.

S: Yes.

K: I saw a picture of you attending a Ministers meeting yesterday.

S: In order to do so I left the hospital, but I am not out of the hospital.

K: Uh-huh.

S: Henry, I call upon you because I remember a conversation back in October last year when we said I should call upon you when monetary problems tend to become political problems.[2]

K: Absolutely.

S: Henry, I've been with this now______ the danger. You will have recognized that within the last few days the dollar was weak at all the exchanges all over the world.

K: Right.

S: There are different reasons for it. I think generally speaking and basically speaking the pound value of the dollar is now okay but there are a number of psychological factors working against the dollar. Among these factors is also an official statement of your Administration that the United States Administration would not do anything in order to maintain the value of the dollar—would not intervene, in other words. I had a conversation over the telephone with George Shultz.[3]

K: Yes, he told me about it.

S: Pardon?

K: He told me about it.

S: And he will come to Europe on Friday.[4] I am very happy that he decided to go to Europe. But what I would want to explain to you is that I think it would really be worthwhile if the United States would undertake an effort to show that they will participate in the attempt to defend the new system of ______ which we have found upon my return.

K: In other words, you would favor American intervention?

S: Yes. And I think it is not only Germany who would favor it. Of course, we would have to borrow the money from the American ______.

K: That's right.

S: But I think there is a danger of an uneasy feeling vis-à-vis the United States all over Europe now.

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[2] Not further identified. Kissinger and Schmidt met on July 20, 1972, and discussed international monetary affairs; see *Foreign Relations,* 1969–1976, volume XL, Germany and Berlin, 1969–1972, Document 370.

[3] Shultz's name is handwritten in the omission in the original. See Document 24.

[4] March 9.

K: Yeah, I understand. But how about the common float?

S: I think at the present the common float has a probability of less than 50%.

K: Uh-huh.

S: It will not be decided before funding it.

K: Which would you prefer?

S: We will have to wait for second day—election day in France.

K: Which would you prefer?

S: I would prefer the ______ of the common float of the ______ countries and this is also with preference of Willy Brandt. But we have grave difficulties not only with the British and the Italians but also difficulties with the French.

K: Well the problem is this: If you cannot organize a common float you then want us to intervene.

S: I think in any case you should intervene even if we did organize. I think it necessary for the United States to give the impression to the Paris (?) trade partners that there really ______ situation to be a serious loss. And not just because they are foreigners, you know.

K: And we should intervene when—this week, or next week?

S: Uh, next week.

K: Next week.

S: The exchanges are closed all over the world (board)? here this week.

K: Yeah, of course. All right, Helmut. Let me—we've been discussing this and frankly we've been waiting for some requests of this kind.

S: Yeah.

K: We didn't want to originate it.

S: Well, I understand this. On the other hand, please do understand that I was at the hospital until yesterday, so I was not able to operate.

K: All right, let me call you later this week.

S: Okay.

K: I will call you Wednesday.[5]

S: Okay.

K: And you can be sure that this will be taken very, very seriously.

S: Thank you very much.

K: Where should I call you—in Bonn or in Hamburg?

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[5] March 7.

S: I will be in Bonn on Thursday.

K: I will call you Thursday in Bonn.

S: Very good.

K: And I really have missed talking to you. I have always been out of the country when you've been over here.

S: Yes, well this is the enormous hectic life, isn't it?

K: Well, we will rectify it during this year.

S: You have been very successful the last few months, haven't you?

K: Well, let's see how long it lasts. But I think we did all right.

S: We only brought about this new realignment, but it lasted only a fortnight.

K: (laughs) Well, it will last longer than that.

S: (laughs) So do I.

K: Okay. Talk to you soon.

S: Okay. Goodbye, Henry.

K: Goodbye, Helmut.

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26. Conversation Among President Nixon, the President's Assistant for National Security Affairs (Kissinger), and Secretary of the Treasury Shultz[1]

Washington, March 7, 1973.

[Omitted here is discussion unrelated to international monetary policy.]

Nixon: Now, George, on the monetary thing. The main point that Henry has raised here, which—and, understand, I'm now talking not the substance; I'm talking the politics, international politics. The main point is the Germans, now that they have to an extent, come to us, not to simply put in a position of—be in a position of saying, "Well, we will—we're taking a hands-off attitude," and so forth. Now, you get—did that fellow last night—I'm trying to remember who it was,

[1] Source: National Archives, Nixon Presidential Materials, White House Tapes, Oval Office, Conversation 871–5. No classification marking. According to the President's Daily Diary, Nixon met with Kissinger and Shultz from 10:54 to 11:41 a.m. (Ibid., White House Central Files) The editor transcribed the portion of the conversation printed here specifically for this volume.

sort of a baldish guy who wanted to talk to me about that [unclear] the dinner.[2]

Shultz: Will FitzGerald?[3]

Nixon: Yeah.

[unclear exchange]

Shultz: No, but I talked to him. He isn't—he—

Nixon: I didn't know what he wanted. I [unclear]—

Shultz: He said this is a time for—

Nixon: He just has come back from talking—that's what—FitzGerald is his name. He's from New York. I think he's a very nice guy.

Shultz: Yeah, he's a wise fellow. He's a big supporter of yours.

Nixon: I know.

Shultz: Hornblower & Weeks is his firm.

Nixon: Yeah. Hornblower, that's it! He's at Hornblower.

Shultz: But he says Europe is in—

Nixon: Turmoil?

Shultz: —a chaotic state of mind, and they're looking for leadership from the U.S. to come and tell 'em what to do, and this is our chance. And I thought, "Well, what he's leading up to is massive intervention." And I said, "Well, what do you think we should do?" He said, "Well, we've been working for a more flexible system, and somehow we've got to take the leadership on that and—"

Nixon: Um-hmm.

Shultz: "—make that stick." Well, that's the—that's easier said than done. But, that is our basic philosophy.

Nixon: Yeah.

Shultz: To try to work in each one of these crises toward the kind of long-run system that we would like to see emerge and settle down. So, that [unclear]—

Nixon: Well, but that's—the only other side of that is to deal in Europe, now, with the practical situation of what they think will work, and what responsibility we should undertake. Now, we can't allow that to control us, but we have to at least reflect our response in that way. For you to go over there, and then for a rash of stuff to come out about—I'm speaking now of political things—to have the Germans

[2] On March 6, the President hosted a dinner at which were present administration officials (including Shultz), businessmen, and community leaders. (Ibid.)

[3] William G.H. FitzGerald attended the March 6 dinner hosted by the President. (Ibid.)

and [unclear] says, "Well, the Secretary came over and said, 'Go to hell,'" in effect, is not a good thing.

Shultz: Right.

Nixon: What I would like for you to do is be forthcoming. You know how I feel about intervention and then the—having the dollar pegged, having us have to get in and always save the international monetary thing; you feel the same way. From a political standpoint, however, this is a time when some leadership move would be very, very helpful to us with the Germans and the Japanese. Does that—does that—

Kissinger: Well—

Nixon: —state our position, Henry, as you talked about—?

Kissinger: Yeah. Well, my feeling is that if, if the common float works, which—then, then it's all right.

Shultz: What else?

Kissinger: If it doesn't work, and if the Germans may be drifting towards a national float, then I think we must have shown some willingness to alleviate their situation, or within the German domestic political spectrum we're going to be stuck with it.

Shultz: I talked with Schmidt this morning on the phone and [laughs] said that I was aware of his conversation with you[4] and so on.

Kissinger: Good.

Shultz: And that I was going to meet with you and with the President, and I would like to have breakfast with him Friday[5] morning, before all these meetings start.

Nixon: Um-hmm.

Shultz: So, he's coming to my hotel for breakfast. Now, he told me that he is working on the idea if we can't have a common float of Germany, Benelux, Switzerland, and maybe Denmark, which would bring in the other Scandinavian countries—and, in other words, he's thinking about letting go of France. And he's worried about that. But, anyway, he's moved in that direction; to associate some others with him in a—in some linked or moderated float. I said that I was coming over under instructions from the President to work in a cooperative way with him, personally, and with Germany in every way we could. That one of the things that we ought to think about is if there is a sort of float, how would you manage that float? In other words, are there some conditions that would be helpful, and that we could work out together and understand and operate with together? And I think that there are

[4] See Document 25.

[5] March 9.

some constructive things to be done in defining the rules of the game in a flexible system; that our—coming at our plan from a different direction. He—I asked him, well, what did he think about that. He said, "Well, that was interesting," and he would like to talk to me about it. Now, Arthur, by contrast, is—last night, is—said he's got the idea that will solve all the problems. I said, "What's that, Arthur?" He said, "Get the Japanese to re-peg the yen and then get all these other currencies re-pegged, and then, we'll defend; the world will announce that it's going to defend these currencies." Well, I think that's a formula for disaster, myself. We have displayed through all the discussion of the common floating and the joint float and the—

Nixon: Um-hmm?

Shultz: —national floats, and so forth, the fact that the governments involved are very uncertain about their ability to defend any rates, whether they're right or wrong.

Nixon: Yeah.

Shultz: And you just put up a target for speculation—

Nixon: We may not be ready for that kind of thing. We may be—maybe at some later time—

Shultz: Right.

Nixon: —when we all get together, we are. But for us, now, to patch it up quickly over a weekend is what we've been doing too often. So, I agree on that point. On the other hand, George, we've got to find a way before coming to terms. And one other thing, Henry, I want to be sure—I don't want anything to come out of George's trip that could in any way affect the French elections.

Kissinger: Yes, that is important—

Nixon: That's very important. We—the Gaullists have got to win there. If the socialists win, it's a disaster for [unclear]—

Kissinger: I've analyzed the figures now. The Gaullists are not in a bad position. They have this—they have a chance of getting a narrow majority all by themselves, which then, together with the center, would give them a good majority. They have a very good chance of getting a majority together with the center, because the way the vote fell, they got more percentage-wise, and they—

Nixon: There better be a good majority. I noticed Allende got, it's said, 43 percent of the vote in Chile,[6] and the papers called it a "stunning" victory. [laughs]

Kissinger: Well, they—they've gerrymandered France in such a way that the left has to get nearly 55 percent of the vote to get control—

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[6] A Congressional election was held in Chile on March 4.

Nixon: Good.

Kissinger: —and they've only had about 41.

Nixon: Good.

Shultz: Of course, what the French want is a—an intervention system. And that's what Giscard will be putting the pressure on for—

Nixon: Yeah. I'm sure. Yeah. Do anything you can, though, if—what I mean is I don't—you will not see Pompidou, of course. Or will you?

Shultz: No. It's not programmed at any rate—

Nixon: No. No—well, if you have any question at all about anything that could—that could be just as—in any statement be very, very forthcoming on the French. I know—but with regards to what we do, I know we can't take their position. They, they [unclear] spades, except they do it all in gold. But, but we don't want to hurt the French, 'cause we don't—we cannot hurt the Gaullists in this election. [unclear]—

Shultz: Is there any particular thing that I should say, or [unclear]—

Nixon: What could he say, Henry, that could be—?

Shultz: —should say nothing?

Nixon: Well, you can say nothing; that'd be bad.

Kissinger: Well, if you can say something, that you will take them—first of all, let me call the French Ambassador and say that if Pompidou would like to see you, you'd be happy to see him—

Nixon: Yeah. Why don't you just, why don't you say this: that, "Frankly, we're aware of the fact that there are some differences on this thing, but the President feels very strongly about it, that we—that the United States should play a constructive role. That's why you're here. Second, the President feels—has a very 'high respect' for President Pompidou, not only as a political figure, but as an economic expert of the first rank. And, therefore—and, and that—"

Kissinger: That we would—will be—will weigh very heavily with him.

Nixon: "A very high respect. And he wants to be sure that President Pompidou's views are thoroughly explored and considered in developing whatever plans we have." How's that sound to you?

Kissinger: I think that's very important.

Nixon: And, in fact, if you're ever asked, I think you could say that publicly.

Kissinger: Yeah.

Nixon: You can say—

Shultz: And I'd like to say that doesn't sound—

Nixon: No.

Shultz: —like interfering with any—

Nixon: No, no, no, no, no. No, just—you're [unclear]—

Kissinger: Let's check with—let me check with the French—

Nixon: Ask the French Ambassador at any rate. But all the Secretary says is, "The President—the President recalls his meeting with President Pompidou, previous meetings, meetings with him—"

Kissinger: Yeah.

Nixon: "—and President Pompidou is [unclear] is obviously a—" And you could—you always say, "We," you know, "we, of course, have no intention to—" Well, they're going to throw him out as President, anyway.

Kissinger: No, he's not up for re—

Nixon: [unclear] He isn't up for election; it's his party. "But—but, the President of France is—he was—he thinks that the—of the European statesman, he is the man who has had the most experience in this field."

Kissinger: Yeah.

Nixon: I'd just put it that way—which is true. Pompidou is an expert. [unclear]

Kissinger: That I wouldn't say.

Shultz: [laughs] The—when management endorses one of the union leaders up for election, it generally kills him.

Nixon: I know. Find out from the French if it'll help. I—I don't know [unclear]—

Kissinger: Let me check with the French Ambassador. Let me offer him that you'd be glad to call on Pompidou.

Nixon: That's right.

Kissinger: And, secondly, that you'd be prepared to make some sort of a statement either emerging from [unclear] any other way.

Nixon: Yeah.

Kissinger: [unclear]—

Nixon: But this is bland. It's a bland sort of a statement: "That the President was very interested in getting his views, because he has high respect for his understanding in this field," you know, "where he has experience that most world statesmen do not have." Fair enough?

Kissinger: Yeah. That would be good.

Shultz: Yeah.

Kissinger: The reason why George should be forthcoming, as I've told George, Schmidt called me on Monday.[7]

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[7] March 5. See Document 25.

Shultz: Yeah.

Kissinger: And, as you know, Schmidt is on the right wing of the socialist party—

Nixon: Yeah.

Kissinger: He's probably the only—

Nixon: One of the good guys.

Kissinger: One of the few good guys. He—and a possible successor to Brandt. He said that, he said—he had told me when he became Finance Minister that in great emergencies he might call me if there were a political content. And he just wanted me to know—

Nixon: I know what this is.

Kissinger: —that the time had come where we should exercise political judgment. Now, I take him quite seriously. Now, what that means, in technical detail, George will have to figure out, but we don't want Schmidt to be in a domestic position at home where he turned to the Americans, got totally kicked in the teeth, because that would shift the whole pattern within Germany, too. And if they are finally forced to go to a national float, if none of this works, we don't want them to be able to say that we drove them to it. I mean, we—it ought to result from our having tried something that they then decided not to go with.

Nixon: Hmm.

Shultz: There are—there are a lot of kind of technical things that we can probably do that would be helpful, and we'll try to get up a list and do those things. I would get from this that we shouldn't agree to any effort at massive intervention—

Nixon: Not yet.

Shultz: And—

Nixon: On the other hand—

Shultz: If it gets very strong, I would want to—

Nixon: Yeah.

Shultz: —call you, and—

Nixon: Yeah. On the other hand—on the other hand, I would leave it, I would, without totally misleading them, I'd leave the impression we want to be very constructive, but that we just feel massive intervention is the wrong step. But, we ought to look down the road as to what—you know what I mean? The idea that if everybody—if we want to build a new system, then we'll build a new system—

Kissinger: Well, how about—?

Nixon: This is not the time to do it—

Shultz: [unclear] That's what I put to Schmidt, and he sort of seemed to like it—over the phone anyway—that, rather than say you're floating, say that, "We think"—and we will support this—"we think the relationship between the mark and the dollar is about right," and that you are maintaining that par value, but you're going to remove the bands temporarily, which is the same thing as floating. That is, you're going to remove the upper limit; you're not going to intervene.

Kissinger: How—?

Shultz: And let the market clear the air a little bit, and then we'll come in and we'll have some understandings with them about the—

Kissinger: But—

Shultz: —pattern of operation.

Kissinger: I was going to say that—how about the point that we were discussing the other evening? That, have some understanding with him that if the mark floats too far, we will help to stabilize it, because their big worry is, not so much its relationship to the dollar, but its relationship to the franc. And if they float, and the French don't, it's going to hurt their farmers, and they're going to have a massive—

Nixon: Um-hmm.

Kissinger: —domestic problem with which we don't want to be stuck, particularly when they've made a direct appeal to us by a right-wing [unclear]—

Nixon: Let me just say that I think you've got to be [unclear]—

Kissinger: This is—

Nixon: —more forthcoming than you're—than—

Shultz: Than you know I feel like being.

Nixon: That's right; than your judgment. But, basically, putting the French in political peril—

Shultz: [unclear]—

Nixon: —and I'd do it, and I think the Germans have got to know that, look, we're aware of their problem. And I think we simply say that we don't feel—think it's a good idea at this point, but on the other hand, we are acutely aware of their problems, and we want to be as cooperative as we can to see that they are not [unclear]. Now, tell us frankly what you think's going to happen. Then, draw them as far as you can away from inter—massive intervention, of course, because that we don't want.

Shultz: Well, massive intervention implies the yen, franc, mark—

Nixon: I know. [unclear]—

Shultz: —so on, and so on.

Nixon: It implies setting up a whole new system now. Do you want to do that, Henry?

Kissinger: No.

Shultz: It implies going back to the old system. That's really what's wrong with—

Kissinger: No. No, that—

Nixon: To hell with that.

Kissinger: That we shouldn't do—

Nixon: Well, let's be—

Kissinger: —certainly not at this time.

Nixon: Although we should have a new system. I mean, I wouldn't mind, if we could have it at the right time. What do you think?

Kissinger: I think—

Nixon: We want flexibility in it.

Kissinger: I think Schmidt, first of all, is an intelligent guy and a good guy—

Nixon: Hmm?

Kissinger: —who will listen to reasonable argument. I mean, he isn't going to come there in a combative spirit—

Nixon: Right.

Kissinger: —with George. He has a massive domestic problem, in that two weeks ago, they got a lot of credit domestically for not having floated—

Nixon: Um-hmm. [unclear]—

Kissinger: —on a national basis. So, he's got to be given some way of maneuvering off that spot. And he wouldn't have called me, knowing my lack of competence in the field, and the certainty of my talking to you, unless he felt it was a major political problem to him. So, it's partly a psychological thing. Of—if we could keep him moving in the right direction, but giving him enough cushion so that he can feel he got something from us—

Nixon: Um-hmm.

Kissinger: —and that we were sensitive to him.

Nixon: That's right.

Kissinger: And that, also, in the long term, I think will help you move towards your system, because that gives him the maneuvering room to separate from the French. If we kick him completely, they'll have to eventually move back to the French.

[Omitted here is discussion unrelated to international monetary policy.]

27. Transcript of a Telephone Conversation Between West German Minister of Finance Schmidt and the President's Assistant for National Security Affairs (Kissinger)[1]

March 7, 1973, 1:41 p.m.

K: Hello. Helmut how are you.

S: Fine, thank you.

K: I know you talked to George Shultz this morning and I have talked to the President,[2] and now he has been instructed to negotiate with you in a constructive spirit.

S: Yes.

K: Taking into account your special necessities. We thought it was better for you two to work out what that means technically. On the other hand in the spirit of our discussions, if the point is reached where you want to call me and bring something to the special attention of the President, I know you wouldn't do it unless it were of very great importance—

S: Yes.

K: You feel free to do that.

S: I wouldn't do it before Friday[3] Noon, Herr Henry.

K: I understand that, but if say, on Friday Noon there is one special point which you think is politically overriding purely economic considerations, we would at least consider it.

S: I think that this might happen in the course of Friday and I might then call upon you on Friday Noon.

K: Yes, I don't—can't guarantee you what our answer will be.

S: Of course.

K: But I want you to know that George understands that there are other considerations except purely economic ones.

S: In my calculations your parameter of action is not very great.

K: No, but what we can consider is what George discussed with you this morning, is how to put some limits to a float for example. How we can reach some understanding from that.

S: Uh humm.

K: So that the thing wouldn't get totally out of hand for you.

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[1] Source: National Archives, Nixon Presidential Materials, Kissinger Telephone Conversations, Box 19. No classification marking. Kissinger was in Washington; Schmidt was in Germany.

[2] See Document 26.

[3] March 9.

S: There is of course the danger of a new push in the direction of distrust into your currency, you know.

K: Again.

S: I think yes. I think as we floated, this would mean a new push in the direction of this front.

K: Well,—

S: It's very difficult to work out how the markets will react.

K: That's right. No, we understand this and we are not totally wedded to one particular scheme.

S: So aren't we.

K: We have—I have tried to explain to Shultz what I take to be your domestic situation in Germany. Of course [you?] can do it better than I can. Secondly what I think the European problem is—

S: Would the US be happy with a common European float?

K: Well, it's a question of happy—we can live with a common European float if you do not attach too many conditions to it.

S: I see.

K: If you attach a lot of discriminatory conditions to it, then it becomes complex again.

S: Yes. Brandt's favor is a European thing, you know.

K: Well, we would not oppose that. But our concern is that the only way you can get a European float is by accepting so many of the French conditions.

S: For the moment being, it's more the British conditions and the Italians.

K: Oh, really.

S: Yes. They are—the British are deeply worried about the future course of the Parliament.

K: Well, we would not oppose a common European float if it were not discriminatory in some of its restrictions.

S: I understand, Henry, I understand. So far the field of trade policy has not been touched in all these considerations and these talks.

K: Right. Well, if that is the case we would not oppose, but if you have to go to certain alternatives then we would be prepared to discuss with you how to make them politically more bearable for you.

S: Yes, I understand this clearly. I will talk to Willy Brandt tomorrow morning about it.

K: Right.

S: Well, Henry, thank you very much for this information.

K: Right.

S: And I'm very thankful that you show this fair consideration.

K: Well, I know you wouldn't call me unless you attached importance to it.

S: Yeah, I do.

K: So, you feel free to call me on Friday.

S: Okay.

K: Good, Helmut.

S: Thanks Henry.

K: Bye.

S: Goodbye.

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28. Memorandum From the Under Secretary of State for Economic Affairs (Casey) to Secretary of the Treasury Shultz[1]

Washington, March 7, 1973.

What should we be looking for?

1. No heavy commitment to intervention in support of a fixed rate. We believe it desirable to get rid of a pattern of recurring big crises and to create a moving target and greater risk for speculative money. If there are difficult side effects for trade, we would count on a mutual interest in working them out.

2. Assurances that we will maintain our last devaluation. For example, an understanding that a short-term loss of reserves by Germany and Japan will not be a basis for devaluation.

3. A disposition and a climate to accelerate work towards monetary reform. It may be possible to give this concrete form by agreeing to modest interim measures on intervention to avoid sharp changes in rates on the understanding that these measures are to be superseded by publicly recognized rules which will develop greater certainty and predictability by gearing interventions and rates to reserve changes or other objective criteria.

4. Assurances that the impact of our recent devaluation will not be taken away from our farm exports by changes in the CAP.

5. Liberalization of European capital outflow restrictions as no longer being justified by the economic situation of European countries

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[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 5, GPS State Department 1972/1974. No classification marking.

and the greater availability of Japanese, Middle East and US long-term funds (as US capital export rules are eased).

6. An expression of resolve to seek more satisfactory trade relations in the GATT negotiations as scheduled would be a useful indication of continued European–Japanese–US cooperation.

William J. Casey[2]

[2] Casey initialed "WJC" above his typed signature.

29. Memorandum From the Chairman of the Council of Economic Advisers (Stein) to Secretary of the Treasury Shultz[1]

Washington, March 7, 1973.

SUBJECT

U.S. Objectives in International Monetary Discussions

1. We want to avoid commitment to give up any reserves, accept any liabilities or bear any financial risks to defend any pattern of rates, pending agreement on the basic principles of the reform proposal. If we do not stick to this point we will lose our leverage for advancing the reform proposal.

2. We should emphasize and accept appropriate measures to strengthen the position of the dollar, such as:

Reduction of withholding taxes on foreign investment income from U.S.
Elimination of taxes on foreign-owned estates in U.S.
Liberalization of foreign restraints on capital outflows.
Liberalization of foreign restricts on imports.

3. We should not object to any country's intervening by selling its currency to prevent its price from rising above its band around parity. If (d.v.) the dollar should rise to its ceiling we should be prepared to

[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 3, Council of Economic Advisers 1973. No classification marking.

sell to keep it from going higher. We don't insist on anyone's floating. We don't object to it. But with respect to the countries that now have parities with us we don't want them to go below the bottom of the band.

4. We want agreement in principle to push on to monetary reform.

5. I am very much on the fence about means to reduce the overhang.[2]

6. Basically, we do not want to buy a few weeks or months of quiet by agreeing to live with a system that we find neither desirable nor defensible in the long run.

Herbert Stein

[2] One issue in the monetary reform negotiations concerned the composition of national currency reserves, particularly the possibility of reducing the prevalence of the dollar as a reserve currency. One implication of such an initiative would be the transitional problem of how to deal with past accumulations of reserve dollars. What would happen to them when a new reserve asset was introduced? Would they be converted into the new asset or would they be depleted through purchases of American goods? The dollar "overhang" issue refers to this problem of the liquidation of surplus dollar holdings in the event of the introduction of a new reserve currency.

30. Backchannel Message From the President's Assistant for National Security Affairs (Kissinger) to Secretary of the Treasury Shultz in Paris[1]

Washington, March 10, 1973, 1550Z.

WH30719. Following is a text of a letter from Brandt to the President which has just been delivered.

Begin text. Bonn, March 8, 1973. Dear Mr. President:

Thank you very much for your letter of 5 March.[2]

In my letter of 2 March[3] I did not, of course, advocate any solution to the currency problems that could impair Atlantic cooperation. I did not and do not hold any such view. You know from the

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 953, VIP Visits, George P. Shultz (Europe & USSR), March 8–22, 1973 [& September–October]. Confidential; Immediate; Sensitive; Exclusively Eyes Only; Urgent. The message was sent to Shultz through the Embassy in Paris.

[2] Apparently a reference to Document 18.

[3] Document 15.

developments of the last few days and from the contacts between Secretary Shultz, Dr. Kissinger and Minister Schmidt that my efforts have been devoted to finding a solution which does justice to all the Federal Republic's international commitments. Mr. Shultz and Herr Schmidt will, I am informed, meet in Paris on Friday morning,[4] and Mr. Shultz will be meeting me next week in Bonn. This will give us the opportunity to discuss, in the atmosphere of frankness and mutual confidence usual at our meetings, the problems which have arisen.

I am confident that we can find solutions which strengthen both European integration and Atlantic partnership.

With best wishes, sgd. Willy Brandt *End text*

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[4] March 9.

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31. Draft Memorandum From President Nixon to the President's Assistant for National Security Affairs (Kissinger)[1]

March 10, 1973.

After our discussion on the telephone today,[2] I have come completely around to the view that Connally so eloquently expressed a year ago[3] and which we rejected for what then appeared to be good reasons.

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[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Personal Files, Box 4, Memoranda from the President, Memos—March 1973. No classification marking. The memorandum contains minor non-substantive handwritten revisions by the President. President Nixon spent most of March 10 at Camp David, Maryland, returning to Washington that evening. (Ibid., White House Central Files, President's Daily Diary)

[2] The President spoke to Kissinger by telephone from Camp David from 11:40 a.m. to 12:08 p.m. and from 5:36 to 5:43 p.m. (Ibid.) The transcript of the morning telephone conversation contains no mention of the monetary crisis. (Ibid., Kissinger Telephone Conversations, Box 19) No other record of the evening conversation has been found.

[3] John B. Connally, Jr., was Secretary of the Treasury from February 1971 until May 1972. This is possibly a reference to Connally's March 15, 1972, address to the Council on Foreign Relations, in which he noted the United States' "close interest in whether [EC] monetary unity is a potentially liberalizing and stabilizing force in world financial affairs or will be converted into a vehicle for promoting an inward-looking, defensive bloc." (*The New York Times*, March 16, 1972, p. 69) The text of Connally's speech is in *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1972*, pp. 411–416. See also *Foreign Relations*, 1969–1976, volume III, Foreign Economic Policy, 1969–1972; International Monetary Policy, 1969–1972, Document 226.

The way the Europeans are talking today, European unity will not be in our interest, certainly not from a political viewpoint or from an economic viewpoint. When we used to talk about European unity, we were thinking in terms of the men who would be at the top of Europe who would be in control. Those men were people that we could get along with. Today, however, when we talk of European unity, and when we look far ahead, we have to recognize the stark fact that a united Europe will be led primarily by Left-leaning or Socialist heads of government. I say this despite the fact that Heath is still in power in Britain and Pompidou probably will retain power by a narrow margin in France.[4] Even in Britain and France we have situations where the media and the establishment pull strongly to the Left at this point, and also where the media and the establishment take an increasingly anti-U.S. attitude.

In other words, what we have here is a situation where the Germans are totally pulled to the Left because of a Socialist government being in power, and where the other leaders will be pulled in that direction by their internal political situation. This means that, whether it's in the economic field, the political field, or eventually even the military field, we will find that Europe will be in increasing confrontation with the United States rather than joining with us to present a united front against Soviet encroachment.

Under these circumstances, political considerations must completely override economic considerations in monetary and trade talks.[5] This is going to be a bitter pill for Shultz to swallow but he must swallow it.

Also, the Connally view with regard to building our own bloc which would be made up of the United States, Japan and the underdeveloped[6] countries of Latin America, Asia and Africa to the extent that we can mobilize them, must now become our objective.

Needless to say, these thoughts must not get into the bureaucracy and must also not be discussed in any public forum. What matters now is what we do and we must act effectively and soon or we will create in Europe a Frankenstein monster, which could prove to be highly detrimental to our interests in the years ahead.

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[4] Nixon crossed out the word "majority" and replaced it with the handwritten "margin."

[5] Nixon added "& trade" to this sentence.

[6] Nixon crossed out the word "other" and substituted it with "under."

32. Backchannel Message From Helmut Sonnenfeldt of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Moscow, March 13, 1973, 2145Z.

8. George Shultz would like you to read following message from Volcker urgently in light of message you had asked me to convey to Shultz in our last conversation Saturday.[2]

Shultz wants to call you to get your reaction and judgement sometime after our arrival in Bonn Wednesday 14 March 1610 hours local Bonn time.

Shultz also wants you to be aware that he is seeing Brandt, Pompidou and Heath on Thursday, Friday and Monday,[3] respectively. Your reaction to Volcker message will [be] relevant to those meetings.

Bill Simon at Treasury can provide you with technical advice on Volcker message, if necessary. *Begin message from Volcker:*

To: Immediate Moscow.

For Secretary of Treasury Shultz (eyes only)

From Paul A Volcker, Brussels 003

1. On basis of Deputies meeting,[4] group clearly has little or nothing to offer at this stage on "set of mechanisms to ensure orderly system of exchange rates." Specifically, there was a general impression

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 424, Backchannel Files, Backchannel Messages—Europe—1973. Secret; Immediate; Very Urgent. Received at the White House on March 14 at 0113Z.

[2] March 10. The message was not further identified.

[3] March 15, 16, and 19.

[4] On March 9, G–10 financial representatives, as well as representatives from Denmark, Ireland, Luxembourg, Switzerland (as an observer), the IMF, the OECD, the BIS, and the European Commission, met at the Ministerial level in Paris to discuss the monetary crisis. Shultz, Burns, and Volcker represented the United States. At the end of the meeting, the Ministers issued a communiqué that reads in part: "They agreed that the crisis was due to speculative movements of funds. They also agreed that the existing relationships between parities and central rates, following the recent realignment, correspond, in their view, to the economic requirements and that these relationships will make an effective monetary contribution to a better balance of international payments. In these circumstances, they unanimously expressed their determination to ensure jointly an orderly exchange-rate system." The Ministers instructed their Deputies to prepare a study on how such a system might be effected. The study was to be completed by March 16, when the Ministers would reconvene. (National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 2, G–10, EPC, WP–3 (General) The text of the communiqué is also printed in *The New York Times,* March 10, 1973, p. 46. See also Document 35.

that control of Eurodollar liquidity or central bank placement problem[5] was not susceptible to practical short-term action unless the U.S. itself would be willing to take dramatic action entailing payment of attractive rates to foreign central banks—an approach I excluded. There was no real expectation or optimism on European side concerning U.S. controls.

2. In light of above, even more importance attaches to some gesture on intervention in minds of Europeans, although there is substantial disagreement as to wisdom of various conceivable tactics in that respect. This disagreement ranges all the way from some feeling that intervention signal could be counterproductively misinterpreted by market, to French view that general guidelines should be agreed with EC before Friday. Majority opinion probably lies in between; i.e., statement of principle should be made, to be worked out flexibly in light of emerging market situation. This course would hopefully require very little intervention in the event. There was recognition by several that large and early intervention could well be counter productive.

3. Situation is further complicated if German theorizing correct that pressures likely to develop in form of French franc, rather than DM, pressing on upper ceiling of snake. This was apparently major element in German revaluation decision.[6] While I personally feel that strategy may backfire on the Germans, we cannot exclude real possibility that, in terms of any market operation, we will be under strong pressure to deal in French francs first, with all the negotiating complications that implies.

4. Plainly, if we are to be prepared for Friday meeting,[7] we will need decision in principle on intervention very shortly after your

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[5] During the 1960s, offshore financial institutions were increasingly regarded as an attractive destination for dollars held outside the United States. As dollar deposits in such institutions (known as "Eurodollars") increased, the level of international liquidity also increased, as these Eurodollar deposits were converted into loans. Foreign central banks were an important source of these Eurodollar deposits. The "central bank placement problem" refers to the effects on international liquidity that resulted from foreign central banks placing large sums of dollars into Euromarkets. (Robert Solomon, *The International Monetary System, 1945–1976,* pp. 177–178; John Williamson, *The Failure of World Monetary Reform, 1971–74,* pp. 156–157)

[6] On March 11, six members of the EEC—Belgium, Denmark, the Federal Republic of Germany, France, the Netherlands, and Luxembourg—announced that after March 16 the values of their currencies would jointly float vis-à-vis the value of all other currencies, while remaining relatively fixed vis-à-vis one another. That is, their currencies would form a "snake," whose value in relation to non-snake currencies would be determined by market forces. The Federal Republic of Germany also announced that it would revalue the mark within the snake by 3 percent.

[7] The G–10 meeting in Paris; see Document 35.

arrival in Bonn. Present plan is that Coombs[8] explore terms, with no commitment, in Frankfurt on Wednesday along lines of Burns' thinking. However, I am doubtful, to the point of incredulity, that other EC countries, and particularly French, would find those terms in pure form acceptable. Moreover, we will be heavily pressed to explore question with other EC countries and most notably French, by Thursday evening, in preparation for Friday meeting.

5. One element in negotiating situation will be commitment to avoid premature appreciation of dollar when market turns. I suspect manner and approach of EC may be to hold this commitment hostage to satisfactory resolution of intervention question.

6. Almost inevitably, intervention on our part with appreciating European currencies will contribute to viability of the snake. By retaining flexibility and particularly refusing intervention in a particular currency at a particular time we can retain very substantial leverage in this respect. The question is whether we would or could practically use that leverage without political repercussion.

7. Given paucity of other practicable approaches, I am convinced that early domestic package, in line with domestic needs, remains of critical importance both in terms of assuring smooth transition to floating world and as gesture others can interpret as cooperative. I would, of course, also be ready to cross intervention bridge, despite complications, so long as we retain maximum flexibility as to use and meet our basic objectives as to terms. This, combined with stronger approach toward consolidation and/or funding and toward Eurodollar market as part of intensified long-term reform effort may be enough.

8. Expect to be in Bonn early Wednesday afternoon.

9. Report of Deputies meeting follows by State cable.

End of message from Volcker.

Secretary Shultz advises that telephone contact will be made with Dr. Kissinger upon arrival in Bonn at approx. 1610 hours or thereafter (Bonn time) regarding contained message.

[8] Apparently a reference to Charles A. Coombs, Senior Vice President of the Federal Reserve Bank of New York.

33. Editorial Note

On March 14, 1973, President's Assistant for National Security Affairs Henry Kissinger spoke with Deputy Secretary of the Treasury William Simon twice by telephone. During the first conversation, which began at 9:19 a.m., Kissinger, noting that Secretary of the Treasury George Shultz had asked for his views on the exchange crisis, told Simon that "I basically have only one view right now which is to do as much as we can to prevent a united European position without showing our hand." Simon replied, "I interpret that as less intervention, which is a good idea, and I think George will be very happy with that comment." Kissinger added, and Simon agreed, that he did not "think a unified European monetary system is in our interest. I don't know what you think for technical reasons, but these guys are now helping to put it to us." Kissinger continued, "I don't know whether that's true in the short term, but I'm convinced that that's true in the long . . ." [ellipsis is in the original] "So I'd rather play with them individually. You know, if it were a question of supporting an individual currency, I'd be much more inclined to do that." Kissinger also said: "You understand, my reason's entirely political." He went on to say that when he had received an intelligence report that made it clear to him "that all our enemies were for the European solution that pretty well decided me." (National Archives, Nixon Presidential Materials, Kissinger Telephone Conversations, Box 19)

Later that day, at 3:30 p.m., Kissinger and Simon spoke again. Simon told Kissinger that he had passed along Kissinger's remarks to Shultz in Bonn, who appeared to agree with them. After discussing other matters, Kissinger returned to the subject of the exchange crisis, saying, "You know, my basic view is that at this stage we should not bring about any further European integration until we—I'd even pay a certain price if necessary intervening, if it's done for National currency." Simon agreed and Kissinger continued, "My view of a common float, if it works, is going to lead to a common monetary system." Simon replied that he did not "have terribly much concern there because I don't see this float working for terribly long." Simon continued, "But that's not disruptive. I think that several float, if you will, just as England and Italy by themselves right now is the answer for the immediate future." (Ibid.)

34. Backchannel Message From Helmut Sonnenfeldt of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Paris, March 16, 1973, 1026Z.

104. 1. The meeting in Bonn with Schmidt[2] went very well indeed, with general agreement reached on the ideas in our draft communiqué for the G–10 which you have[3] and about which you have talked with Shultz. There was nothing in what Schmidt said to us that reflected the animus evident in the materials we had last week. Indeed, Schmidt reverted to his idea of forming an informal group of essentially Atlantic Finance Ministers who would periodically meet very privately to consult on the whole range of interrelated commercial, financial, energy, etc. problems to endeavor to achieve as harmonious an approach as possible. Schmidt's idea remains amorphous and he seems to envisage also participation of other G–10 Finance Ministers, at least on occasion.

2. In connection with Schmidt's idea, Shultz and I were struck by a comment of Brandt's, who incidentally was a good deal more ambivalent about European versus Atlantic priorities than Schmidt. (You should have Hillenbrand's frontchannel report by now.)[4] Brandt recalled that he had long advocated an institutional consultative mechanism between the EEC and the US but that as a result of what Heath told him about the President's views he had now dropped this idea. Brandt did not elaborate. Shultz would be interested in knowing what Heath might have said to Brandt about the President's attitude before

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 424, Backchannel Files, Backchannel Messages—Europe—1973. Secret; Immediate; Exclusively Eyes Only.

[2] Shultz arrived in Bonn on March 14. On March 15, he met with Schmidt at 11 a.m., attended a lunch hosted by Schmidt at 1 p.m., and then had a private meeting with Schmidt and West German Economics Minister Hans Friderichs.

[3] On March 15, Sonnenfeldt sent a backchannel message to Kissinger and Simon that contained the "US draft text of proposed final communiqué for G–10 meeting which Secretary Shultz has discussed with Giscard and Poehl of German Finance Ministry, both of whom seemed to find it generally satisfactory as initial approach. Text developed by Shultz, Burns, Volcker, and Sonnenfeldt." (National Archives, Nixon Presidential Materials, NSC Files, Box 424, Backchannel Files, Backchannel Messages—Europe—1973)

[4] Shultz met with Chancellor Brandt on March 15 at 3:30 p.m. See Document 37.

he meets with Heath in London Monday morning.[5] I told George that I assume it related to our preference for bilateral consultations and indeed Brandt himself said that perhaps the way to approach the consultation problem was through a series of closely coordinated bilateral contacts. In any event, if you were able to shed any light on this point and on any other matter relating to Shultz's talk with Heath it would be extremely helpful. If you prefer not to respond in this channel perhaps Brent could call on the secure phone to London Sunday.[6]

[Omitted here is discussion unrelated to international monetary policy.]

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[5] Shultz was in London March 17–19. He met with Prime Minister Heath on March 19 at 11 a.m. Shultz's report on his discussions with Heath and British officials, contained in a March 20 memorandum from Scowcroft to Nixon that Nixon saw, is in the National Archives, Nixon Presidential Materials, NSC Files, Box 953, VIP Visits, George P. Shultz (Europe & USSR), March 8–22 1973 [& September–October]. Shultz noted that "Heath was apologetic about the Brandt message to you on the monetary crisis, saying that he, himself, would have written you promptly. I told him that his own subsequent message to you had been most helpful."

[6] March 18.

35. Editorial Note

On March 16, 1973, Group of Ten financial representatives, along with representatives from Denmark, Ireland, Luxembourg, Switzerland, the International Monetary Fund, the Organization for Economic Cooperation and Development, the Bank for International Settlements, and the European Commission met at the Ministerial level in Paris, where they gave their blessing to the March 11 establishment of the European Economic Community snake (see footnote 6, Document 32) The text of the final communiqué was printed in *The New York Times,* March 17, 1973, page 41.

The previous evening, President's Assistant for National Security Affairs Henry Kissinger and Deputy Secretary of the Treasury William Simon discussed the resolution of the crisis over the telephone. When Kissinger asked him whether the agreement would "drive the Europeans together," Simon replied, "Well, basically—You've only got half of them together and while they sit there and they say by golly, six of them are now floating jointly. The UK, Italy, and several others, Canada, et cetera, are all floating by themselves and enjoying it very much. Now if over a long period of time this float worked properly, then perhaps they would be together." Simon continued, "But I don't know how they can work that out, I truly don't." Kissinger asserted that "we've put ourselves in a good strategic position. We couldn't bust the Common float without getting into a hell of a political fight." Simon agreed and Kissinger continued: "But we should create conditions in which the Common float is as hard to work as possible." Simon and Kissinger agreed that a policy of non-intervention would be appropriate to that goal. Simon added, "Or intervening at some times to help some people but not others." Kissinger responded, "Okay. Now will you police that for me?" When Simon agreed, Kissinger replied, "I mean, quite seriously, I don't want this handled as a technical-economic matter." Kissinger continued: "I think from now on we have to throw our weight around to help ourselves," adding, "And then they'll start paying attention to us again." Kissinger told Simon that he had "come to that view with reluctance but once you move, I think you have always to move strongly." Simon agreed with all of Kissinger's remarks and they also agreed to discuss the appropriate strategy with Secretary of the Treasury George Shultz when he returned. (National Archives, Nixon Presidential Materials, Kissinger Telephone Conversations, Box 19)

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36. Backchannel Message From Helmut Sonnenfeldt of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Scowcroft)[1]

London, March 17, 1973, 2100Z.

1528. 1. Following is a summary account of meeting with Pompidou, March 16 which Shultz would like to have brought to the President's attention.[2] You may want to use only highlights.

2. We gather Henry was in close touch with Bill Simon on monetary decisions and reported to President. We therefore will not report further on that subject until we return.

A. I transmitted to Pompidou the President's high esteem and his admonition that, should I have the privilege of a meeting with Pompidou, I listen carefully to his views on monetary matters since the

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 424, Backchannel Files, Backchannel Messages—Europe—1973. Secret; Immediate.

[2] On March 19, Scowcroft sent the President a memorandum reporting on Shultz's meeting with President Pompidou. (Ibid., Box 953, VIP Visits, George P. Shultz (Europe & USSR), March 8–22, 1973 [& September–October])

President admires Pompidou not only as a leader of France but as a leading thinker in this general area.

B. Pompidou expressed his admiration for President Nixon and his desire for strong bonds of friendship between France and the United States. He went on to express his concern about statements in the press regarding conflict between the United States and Europe on trade matters and the general thrust in the press that a "victory" over Europe was needed. He raised questions about monetary matters, trade matters, including the general notion of a surcharge, and ended with a question about my visit to the USSR.[3] He expressed great concern that President Nixon be careful not to unleash inward-looking and protectionist forces throughout the world, let alone in the U.S.

C. I expressed the general spirit of cooperation to solve a mutual problem that was characteristic of our monetary discussions and my feeling that this general approach had been reciprocated by our friends in Europe.

D. I explained the general objective of the trade bill: to obtain negotiating authority from the Congress so that the President would be prepared for multilateral negotiations. I also explained the general nature of the safeguard system and its relationship to the politics of support for a lowering of trade barriers and for an enlarged trading community. I also reminded him of our approach to monetary problems as expressed at the annual meeting of the International Monetary Fund[4] and to the relationship of the surcharge to a reformed monetary system, as we proposed it. I referred especially to our problems with the Japanese. He commented that the Japanese were very clever and knew how to negate the effects of changes in exchange rates.

E. I noted the warm attitude of the Russians, particularly Brezhnev's evident desire that patterns of cooperative relationships develop between the U.S. and the USSR. I characterized my discussions with the Russians as constructive and candid. I told him of our desire for timely information on prospective Russian purchases of agricultural commodities, our efforts to obtain MFN treatment for the Russians and our desire to explore the problems and potentialities of the development of Russian gas and its export to the United States. I expressed our concern about what would be sent to us for U.S. products should a gas deal be impossible to develop. I told him that the President had told me to speak candidly to him in the knowledge that whatever I said would be treated in confidence. This seemed to please him, and he advised me that the confidence would be observed.

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[3] Shultz was in Moscow March 11–14.

[4] See Document 1.

F. Pompidou talked at length about the general importance of the United States' responsibility, not only to look out for its own interest but the interests of the free world. He said that France's view was the same as he urged on the United States but that France did not have the same power as the U.S.

G. Pompidou went out of his way to make it clear to me that he knew that I had told Giscard on Friday of last week[5] before the French election that we would have nothing to say about gold on that occasion. I told him that our position had not changed and we expected the subject would come up before long.

H. He asked about discussions with the Russians about gold, and I told him there had been none, except that one member of our delegation had asked one of the Russians how much gold they produced in a year—and he had been told that this information was not available. Pompidou laughed.

I. Pompidou returned several times to his desire for a monetary system based on par values and referred to the unpublished memoir of the Azores meeting.[6] He characterized his view of a good international monetary system as one providing for "stability without rigidity." I mentioned our position taken at the IMF, which supported the general idea of a par value system with flexibility in the adjustment process and emphasized the importance of reform in the international monetary system.

J. The conversation was friendly and probing throughout. He expressed repeatedly his admiration for President Nixon and his desire for cooperative relationships between France and the United States and between Europe and the United States. *End of notes*

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[5] March 9.

[6] President Nixon and President Pompidou met in the Azores on December 13 and 14, 1971, where they discussed international monetary policy. See *Foreign Relations,* 1969–1976, volume III, Foreign Economic Policy, 1969–1972; International Monetary Policy, 1969–1972, Document 219. The "unpublished memoir of the Azores meeting" is apparently a reference to the undated paper agreed by President Nixon and President Pompidou at the end of their meeting, entitled "Framework for Monetary and Trade Settlement." See ibid., Document 220.

37. Telegram From the Department of State to the Mission to the European Community[1]

Washington, March 19, 1973, 2106Z.

50189. Subject: Conversation Between Chancellor Brandt and Secretary of the Treasury Shultz. Following sent action SecState info London Paris March 16, from Bonn repeated to you.

"Secret Bonn 3934. Subject: Conversation Between Chancellor Brandt and Secretary of the Treasury Shultz. London pass to Secretary Shultz. Department please pass Treasury.

"1. Secretary of the Treasury Shultz called on the Chancellor in his office at the Palais Schaumburg on March 15. Also present on the American side were Ambassador Hillenbrand and Helmut Sonnenfeldt, and on the German side State Secretary Poehl, of the Ministry of Finance, and Dr. Sanne, Assistant Secretary in the Chancellery.

"2. After noting that he had had good talks earlier in the day with Minister of Finance Schmidt and at lunch with Minister of Economics Friderichs, Secretary Shultz said that the President felt that our approach to solutions of particular problems such as the monetary one must be found within the general setting of relations between the countries. The Chancellor observed that earlier in the day he had made a statement in the Bundestag about the monetary situation in which he had emphasized the necessity of keeping the Europeans working together and at the same time avoiding any increase of difficulties in U.S. relations with the Federal Republic and with Europe. The Chancellor added that the solution which had been found did not constitute a setback in terms of these two criteria, although it did not on the other hand represent progress toward European monetary union. It had been essential that the Germans keep together with France in their approach; otherwise, there would have been a major deterioration in the situation.

"3. Secretary Shultz said it might be of interest to the Chancellor for him to explain our general outlook on monetary and trade matters in the light of the unfolding current international economic situation. The U.S. sees itself involved in a system constructed after World War II which worked well. It was based on the assumption that the U.S. was the completely dominant economy which could hold fixed dollar rates and could dispense aid and military expenditures abroad on a large scale. That system proved to be unsuitable for a later period when many Western countries, for example Germany, were also economically

[1] Source: National Archives, RG 59, Central Foreign Policy Files. Secret; Limdis. Drafted by William Dutton (Bureau of European Affairs, Office of OECD, European Community and Atlantic Political-Economic Affairs) and approved by Dutton and James Nelson (EUR/CE).

powerful. Huge deficits in the U.S. balance of payments had occurred and had drained our gold reserves. The week before August 15, 1971, a rush on those reserves forced the closing of our gold window bringing the end of convertibility. After a period of turmoil and searching around, the Smithsonian Agreement temporarily provided an arrangement, and the most recent devaluation seemed to have achieved a point from which we could look to the future. More important than the settlement of the moment is the reconstruction of the system, Secretary Shultz continued. Until this is achieved it would be unwise for us to return to the old type of intervention in the exchange markets.

"4. In this context, it is also necessary to think of the relationship to trade and security problems. Our objective is to develop an international system which relates all of our objectives in these areas and a system that will work well without the need for constant intervention. It was against this background and not solely as a spur of the moment decision that we had concluded we could not engage in a massive intervention on the exchange markets during the recent period.

"5. After thanking Secretary Shultz for this helpful exposition, the Chancellor observed that the Federal Republic also tried to think in terms of the relation between these various matters, although there was no single place where this relationship could be discussed. It was for this reason that he had been such a strong proponent of an institutionalized forum for dialogue between the U.S. and the European Community. Now he felt more reluctant on this question, particularly after his recent talks with British Prime Minister Heath.

"6. In response to the Chancellor's query, Secretary Shultz said that, in the meeting in Paris tomorrow,[2] we would put forward our thoughts as to the best monetary framework for the time being compatible with a long-range solution, but he did not expect trade questions to be discussed among the Finance Ministers. It had been a purpose of his trip to obtain reactions to our forthcoming trade legislation, the specifics of which had been given in some detail to representatives of the Ministries of Finance and Economics earlier in the day. The Chancellor asked whether there would be any surprises. Secretary Shultz responded that the spirit of our proposals is that of a liberal approach to world trade, but if we are to get into negotiations we should have the authority to raise or lower tariffs as part of these negotiations. There would have to be provisions for a selective surcharge for balance of payments reasons or to safeguard particular industries from injury. Some might find this concept frightening, but we had had some industries wiped out in recent years, and we should be able to slow up the process so that industries could become competitive or until

[2] See Document 35.

orderly outward movements of workers could take place. Most countries engaged in such activities.

"7. The Chancellor responded that he understood, but that it was wise not to go too far in this direction. Public reaction could force other governments to take counter-actions. If one looked merely at trade figures, one came to one sort of conclusion about the U.S. relationship with Europe, but if one looked at the trade and investment figures together another conclusion was possible. He would hate to see a trend develop which would be unfriendly to U.S. investment. As far as trade was concerned, the Federal Republic was generally close to the U.S. position but found it necessary to make some concessions to its partners, for example to France in the agricultural field. This was the necessary price for building a European community. As one of his people had said in the Bundestag, there was no sense in hitting the U.S. where its economic productivity was strongest, namely the agriculture area. But realistically, the Chancellor continued, attitudes could not be changed immediately, since it was necessary to live with France. To take another example, that of reverse preferences, he hoped it would be possible to get rid of them. There was an important political element in the European relationship with the Maghreb, however, and he did not believe that preferences for these countries hurt U.S. interests very much. It was also clear, however, that these close links could be maintained without reverse preferences. If he could give any advice, it would be to accept the positive aspects of these relationships while the Community was trying to move ahead in the direction of more freedom of trade.

"8. The Chancellor said political difficulties were sometimes also experienced in the U.S. and he could understand, for example, why the U.S. Government had been unable to obtain authority from the Congress on American selling price despite commitments made during the Kennedy Round.[3] Sometimes the same kind of problems arose in the Community.

"9. Secretary Shultz commented that the President will be asking for negotiating authority on non-tariff barriers. We hoped to develop a way of proceeding under which the President could agree to mutual reductions, then notify Congress of this intention and send the proposal forward which, after a period of say three to six months, would come into effect unless vetoed by one House of Congress. It was sometimes easier for parliaments to do nothing than to vote affirmatively.

"10. Referring to the Chancellor's remark on investment, Secretary Shultz noted that there was a misunderstood point about the flow of long-term capital. There had been a period of net flow from the U.S. to Europe, but since 1968 there had actually been a net flow from

[3] The Kennedy Round of multilateral trade negotiations was held in Geneva from 1964 to 1967.

Europe to the U.S. This was less conspicuous since it was mostly in the form of portfolio investment, whereas that of the U.S. to Europe was mainly direct investment. We need to do more in the U.S. to invite and to welcome foreign capital.

"11. The Chancellor commented that it would be helpful if we could get some agreed statistics on trade and capital flow. He referred to the problem the U.S. had been having with Canada in this respect. Secretary Shultz said we had been making much effort in this connection but had not yet reached complete agreement with the Canadians. State Secretary Poehl said that the Germans were trying to perfect their trade figures. He agreed with Secretary Shultz that there had been large flows of capital from Germany, particularly in 1969 and in the second half of 1972, whereas the inflow had been largely that of short-term capital. Secretary Shultz commented that we all had difficulty with short-term capital flows. Mr. Poehl said there was something wrong when the richest country in the world had to import capital. Secretary Shultz observed that we had a net outflow to the world as a whole but not to Europe. Poehl asked whether it would not be possible to make it more inviting to invest in the U.S. as a contribution to the stability of the system. He felt that such incentives would be better than controls over capital outflow. Secretary Shultz said we had thought of some incentives such as tax changes and better access to specific ways of obtaining funds.

"12. The discussion then shifted to the importance of agriculture in the U.S. as the most important remaining pressure group generally in favor of a liberal trade policy. Secretary Shultz noted that the agricultural problem seemed to be deeply embedded in politics in most countries. The Chancellor commented that two years ago his government had been having great troubles with the farmers. Now the situation was somewhat improved since incomes had gone up. He really did not know what to do in order to achieve agricultural liberalization although he hoped that the British pressures would move the Community in this direction, but he was personally not too optimistic. It was more than a problem of statistics. It was essentially one of political psychology.

"13. The Chancellor asked Secretary Shultz' impressions of Brezhnev during his recent visit to Moscow. Secretary Shultz said he had come across as a strong and vigorous person who seemed to want to cooperate as much as possible in establishing a good working relationship between the U.S. and the Soviet Union. The Chancellor said he had been surprised to observe the change in Brezhnev between his first and second meetings with him. On the latter occasion he had seemed much more relaxed, self-assured and independent of prepared briefing materials.

"Hillenbrand"

Rogers

Negotiating the New Rules, May 1973–June 1975

38. Memorandum of Conversation[1]

Paris, May 18, 1973, 11 a.m.

PARTICIPANTS

President Georges Pompidou
Andronikov, Interpreter

Dr. Henry A. Kissinger, Assistant to the President for National Security Affairs

Dr. Kissinger: I am very pleased to see you again and to thank you once again for the arrangements that you have made for my visit here and which allowed me in particular to see in Paris President Sadat's special envoy. President Nixon is looking forward with pleasure to seeing you in Iceland,[2] and he hopes to be able to reach some fundamental decisions on American policy towards Europe and other questions. In any case, he expects to work in close cooperation with France and with you. What are the questions that you would like to discuss now and in what order?

President Pompidou: We can discuss everything. There are some questions I would like to ask you about your speech.[3] You have already seen Mr. Jobert. I would especially like to mention those questions that I intend to discuss with President Nixon.

When you speak, in your speech, of the regional position of Europe, I am not particularly shocked by what you say. In this sense I am not entirely in agreement with everyone else. I would have been shocked if you had said that we do not have the right to have our own opinion, but you did not say that, and we do have our own opinion. I recognize however that Europe has influence and possibilities for action essentially in Europe, in the Mediterranean basin and in Africa, but that taken together the European countries represent a secondary

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 56, Country Files, Europe, French Memcons (originals) January–May 1973. Top Secret; Sensitive; Exclusively Eyes Only. The meeting took place in President Pompidou's office at the Elysée Palace. Kissinger was in Paris to discuss the implementation of the January 1973 Paris Peace Accord with DRV representatives. He also met with Egyptian National Security Adviser Hafez Ismail.

[2] President Nixon and President Pompidou met in Reykjavik, Iceland, on May 31 and June 1. See Documents 40–42.

[3] On April 23, Kissinger delivered a speech entitled "The Year of Europe" to the Associated Press editors' annual meeting in New York City in which he called for a reinvigoration of the Atlantic alliance. For the text of Kissinger's speech, see Department of State *Bulletin*, May 14, 1973, pp. 593–598.

power. This may shock some but it is more or less true, given that what I say not be taken in a restrictive sense. Likewise, when you declare that it is necessary to study things globally, I am less shocked than others. Of course it is necessary to study each problem in its own context, and for example commercial questions should be treated in the GATT. But we need to consider the entire context on all occasions. It would be impossible to agree, for example, on grapefruit while forgetting the general questions of politics, military problems or monetary problems. Your speech, nonetheless, did lead to considerable discussion; if some were shocked by your ideas I personally did not find your ideas so far from reality.

With President Nixon I would like to have very precise discussions. First of all, there is the monetary problem. We are certainly not going to solve the problem at Reykjavik. In any case the two of us alone could not solve the problem and nobody is yet ready. Nonetheless we cannot go on like this and not know at all where we stand. I would therefore like to discuss the monetary question and also the question of gold—not the role of gold because we could debate that in vain and we know that we are not in agreement; but there is the question of the price of gold and we can no longer continue to go on pretending that an ounce of gold will always be worth thirty-eight dollars when it is now worth one hundred and six dollars. We also have to worry about the enormous speculation on gold. I think that the general interest, as those of the United States and France, are not in conflict and that they are even congruent. I would therefore like to discuss the dollar and also its convertibility, not into gold but into other currencies. The present situation is ridiculous. Each week I have to buy florins and marks, which are weak or wavering, and I receive dollars which I cannot use. Conversely, we give dollars to the Germans or the Dutch. The problem is real, and I would like to discuss it. M. Giscard d'Estaing will come with me, but I have my own ideas which he does not necessarily share.

There are next trade questions and questions of agriculture. As I already told President Nixon in the Azores,[4] we are making mistakes: we are in a period not of overproduction, but of underproduction. The Arabs, who are not exactly a model of unity, have nonetheless been able to reach understandings on oil while we have not been able to reach agreement on wheat. We sell to the Soviet Union and to China, and also to Japan, countries which can pay high prices, and we make of them dominant forces in the market place because we sell to them at low prices. I think it is possible to reach an understanding among France, the United States, Canada and perhaps Argentina, to constitute

[4] Nixon and Pompidou met in the Azores December 13–14, 1971. See footnote 6, Document 36.

a sort of OPEC to direct the market, in which there are now shortages, which will only continue to grow, largely because population is expanding rapidly and production is not keeping up with it; and also because the Communist system is not productive. Will President Nixon be disposed to talk about these issues, without radically changing policy? Does he have some ideas on these issues or some practical propositions to make?

[Omitted here is discussion unrelated to foreign economic policy.]

Finally, there are commercial problems. Some are secondary and will be settled. Others, more important, require a certain cooperation between France and the United States in order to resolve them. There is no reason to always discuss issues with the Soviets and never with the United States, especially since these are not equivalent actions: when we sign with the Soviets a piece of paper where we say, for example, that we favor a free exchange of men and ideas we know perfectly well what that means and the limits that exist. But with you, it is a matter of real agreements. If it is written that such and such will happen, it will take place.

I would like to discuss all this with President Nixon and with you. We need to clarify our positions to each other. The position of France is fiercely independent. If it were not, we would be overwhelmed by someone or other, because of our relative weakness. Nonetheless we must believe in solidarity, we know this well, and perhaps we must even more than others. We may as well say this frankly so that we don't run into contradictions at each step.

Dr. Kissinger: You will certainly be able to discuss all these questions with President Nixon.

[Omitted here is discussion unrelated to foreign economic policy.]

As for economic questions, our intention first is not to say that all problems should be dealt with by the same negotiators (there would certainly be different groups), but to make it understood that if the economic questions are not examined in a broader context and if they are only discussed by technicians then a confrontation is inevitable. Our discussions in the Azores are a good example of this. During the preparations for this meeting all our technicians pressed for organizing Germany against France and a confrontation based on the idea of a divided Europe. I am not an expert in monetary matters but I recommended that we discuss these matters with you in a broader context. It seemed to me that the solution we reached in the Azores was very reasonable at that time.

A difficulty and a danger that we notice today in the West (and to which you alluded) is that in each country there is a tendency to judge that a foreign policy is successful when it deals with relations with adversaries; there is no leader and no opinion who see success in our relations with friends. We believe it is essential to create again in each country commitments among friends. It is only in this way that we can resist the Soviet strategy which hopes to weaken our will to resist. It is with this intention that we drafted our "declaration of principle" to elicit common actions among friends.[5] Dealt with in this context I believe that economic questions, monetary questions or agricultural questions will find a sympathetic hearing by President Nixon. It would be a nightmare for us to have a deal for three more years with technical questions while the Soviet Union continues to gain in the psychological realm. When President Nixon has left and when President Pompidou will have completed his term, which is similar to that of Mr. Heath, we will find ourselves in a situation where it will be extremely difficult to organize a Western policy turned toward the future.

[Omitted here is discussion unrelated to foreign economic policy.]

President Pompidou: What you have told me is very important, of course, and I will think about it a great deal. All of this will remain among ourselves and M. Jobert. I place you in the position of Mr. Rogers in order to simplify life. Concerning economic and monetary matters, M. Giscard d'Estaing will naturally have a role to play. For the moment I have not told him anything. I can assure you that we are going to Iceland with the desire to achieve positive things.

[Omitted here is discussion unrelated to foreign economic policy.]

[Dr. Kissinger:] You will find that the mentality of the Chinese is quite close to that of the French: They are skeptical, precise, analytical and without sentimentality. You will note also in this group of old men a real knowledge of the Western situation. I have been rather surprised that their analysis of Europe is more intelligent than that of Bonn.

President Pompidou: Can you tell me a country whose policy is sentimental?

Dr. Kissinger: Germany.

President Pompidou: It is dominated by sentiment. That is not the same thing.

Dr. Kissinger: All countries tend to act in conformity to their national interest. In this sense the United States is particularly sentimental. Nonetheless not every country is capable of analyzing its own interests coldly. I think that the European left in general is not even able to analyze its national interests, with a few exceptions.

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[5] In his April 23 speech on the need to reinvigorate the Atlantic alliance (see footnote 3, above), Kissinger called for the drafting of "a new Atlantic charter setting the goals for the future," an expression of "a clear set of common objectives together with our allies."

President Pompidou: In any case the text in which President Nixon asked Congress for economic powers was not at all sentimental.[6]

Dr. Kissinger: Not at all. But it is very important that we make understood in this commercial area that one cannot only strive for unilateral advantages. We must address ourselves to Congress on this because of public opinion. It is difficult however not to strive for unilateral advantage unless we can place ourselves in a broader context and a more important context. For example, our economists examined the question of reverse preferences and of compensation from associates of the Common Market such as Spain and Israel.[7] I opposed this for six months, but it is difficult to find a political justification at present that one could oppose to Chinese exports towards the United States: in the case of delivery of $10 million worth of cotton, I had to refuse authorization. I am sure that if you and President Nixon managed to reach an understanding on general relationships, we could deal with commercial relations in a manner that will allow both sides to draw benefits. This in any case would be our attitude. If we sought to extract unilateral advantages from Europe, this would turn against us later on. From all evidence it will be easier to talk of these questions in a broader political context.

President Pompidou: If you would drop the term "reciprocity" somewhere, this would help a great deal. For our part we have strong ties with certain African countries, but I am not in favor of extending association everywhere. If we give it to everyone one ends up by not giving anything to anyone and by weakening the others. In fact I am not very far from your position even with respect to Japan. The Minister of Foreign Affairs, Mr. Ohira, said to me "Let us become allies against the United States." I refused and I said that the United States wants Europe to proceed to make purchases in place of the Japanese; it is up to you to produce less or to buy more. I think that he understood.

Dr. Kissinger: In the long term Japan could present formidable problems for everyone, because it has no concept of global interests. It pursues its own interests so narrowly that this could be dangerous for

[6] On April 10, President Nixon sent to Congress the Trade Reform Act, legislation that would give the President the necessary negotiating authority to start a new round of GATT negotiations and introduce important changes to existing U.S. trade laws. For the text of the President's message to Congress, see *Public Papers: Nixon, 1973,* pp. 258–270.

[7] The reverse preferences issue refers to the granting of trade preferences by LDCs to the EC in exchange for trade preferences granted by the EC to LDCs. The Spanish and Israeli association issue refers to preferential trading agreements between those two countries and the EC. The United States argued that it was being unfairly discriminated against by both arrangements and was at that time in the process of negotiating redress of these issues.

all countries. It is impossible to have only trade surpluses toward everyone.

[The meeting then ended.][8]

[8] Brackets are in the original.

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39. Memorandum From Secretary of the Treasury Shultz to President Nixon[1]

Washington, undated.

RE

Monetary Discussion with President Pompidou

Dr. Kissinger reports that President Pompidou wishes to stress international monetary matters in your discussions in Iceland. As you know, monetary and trade issues are critical to Mr. Pompidou not just on economic and domestic political grounds, but because he believes them critical to his vision of the role in the world of France, Europe, and the United States. Mr. Pompidou will probably probe for specific and substantive concessions to his monetary views in return for vague and imprecise relaxation of resistance to our diplomatic and defense objectives.

We must be alert to this tactic, particularly since French monetary objectives are in large part designed to undercut the ability of the United States to exert effective leadership in world affairs. The substantive French monetary position—more than that of any other country—is opposed to ours. While there is some recent evidence of growing French isolation in their more extreme views, and possibly those views are in the process of softening, Mr. Pompidou can be expected

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 949, VIP Visits, Pompidou/Nixon Mtg., Iceland, May–June 1973. No classification marking. The memorandum is included in President Nixon's Iceland meeting briefing book. A notation at the beginning of the briefing book indicates Nixon saw it. Copies of the memorandum were sent to Kissinger and Rogers. Rogers, Flanigan, and Kissinger also wrote briefing memoranda for the President on monetary and trade issues for Nixon's meeting with President Pompidou, but none of them explores these issues in as forceful or concentrated a manner as does Shultz's. (Ibid., Pompidou/Nixon Mtg Iceland PM Johanneson, May 31–June 1973 [1 of 3])

to press them strongly. Hence, I am outlining in some detail the existing situation and a proposed approach.

General Approach

I recommend that you convey to Mr. Pompidou the impression that you welcome his personal attention to this subject, in the sense that the economic dimension is crucially important in laying the basis for lasting peace. It is imperative at this time for the leaders of the free world to seek better understanding of each other's positions and provide the political impetus toward equitable and workable monetary reform. In the broadest sense, a well functioning monetary and trading system is necessary to support the common defense effort and Atlantic harmony.

It is desirable that the two Presidents make known publicly their joint determination to achieve success in the scheduled international monetary and trade negotiations. You might privately recognize the particular importance of France and Mr. Pompidou to a successful resolution.[2]

On the other hand, I think it would be a serious mistake to attempt to settle bilaterally with President Pompidou in Iceland any of the concrete issues in these negotiations. He may have hopes of repeating what he probably regards as his coup in the monetary area in the Azores meeting, but the situation now is markedly different. The issues are now far more complex, and less ripe for decision, than the specific percentage dollar devaluation/gold price change negotiated then.

An agreement with the French is not forced upon us by the pressure of markets, negotiating strategy, or of public opinion. We see no probability for striking a monetary deal satisfactory to President Pompidou on significant issues today that would not undercut our entire position. Moreover, there is no doubt a separate deal with him would cause grave diplomatic and substantive setbacks in our relations with other governments and with the Congress, with whom we have been working closely.[3] An appearance of conceding to France in areas where we are publicly known to be opposed would only undermine credibility in other areas.

Mr. Pompidou may well recognize himself that concrete bargains cannot be struck in Iceland, but may nevertheless press hard for inclusion in the communiqué of language emphasizing convertibility and fixed[4] exchange rates, arguing in part they are a prerequisite for successful trade negotiations. While these are legitimate subjects for

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[2] President Nixon highlighted this paragraph.

[3] President Nixon underlined this sentence, beginning with "separate deal with him."

[4] President Nixon underlined the portion of this sentence that reads: "for inclusion in the communiqué of language emphasizing convertibility and fixed."

discussion, our effort should be to avoid one-sided emphasis on these elements in an ultimate monetary accord.

I suggest below, in some draft communiqué-type language, some general statements of objectives on which you might usefully seek agreement.

Background and Status of Monetary Negotiation

After the Azores meeting there was some evidence of muted ill-feeling by the other European nations, and after the subsequent Smithsonian meeting there were loud public complaints from many of those governments which were not represented. This was understandable and acceptable in terms of our particular problem at the time. But, bearing these feelings in mind, the United States took the lead in promoting the formation of the Committee of Twenty (C–20), which is composed of representatives of all segments of the free world, and which is now actively under way. The ministerial participants in the C–20 think that they are now conducting the international monetary negotiations, and would react vigorously against any agreement which they felt sought to settle the basic issues without their participation.

The C–20 has not been breaking any speed records, but it has been progressing in a workmanlike fashion. There was a successful ministerial meeting here in late March and the deputies to the ministers just completed last week a good 5-day working session here in Washington. Another working session and provisionally a key ministerial meeting is scheduled for July. Early in June, I have a non-publicized meeting scheduled with the French, English, and German ministers in France where we can personally assess prospects and options.

In recent discussions there has been considerable progress in terms of recognition that the reformed system must be considerably more flexible, must actively promote adjustment to balance of payments disequilibrium, and must move away from "gold domination." Nevertheless, the French are at the opposite extreme. Moreover, we have not yet faced up to the "gut" decision, either within the United States or internationally, as to whether we can negotiate adequate safeguards and even-handed "adjustment discipline" to make a return to convertibility and par values successful and durable. In that connection, we and some other countries consider a viable alternative is possible—namely, working more largely in the framework of institutionalizing and improving the more flexible "interim" arrangements.

While we have not yet gained acceptance of the comprehensive proposals I presented last year,[5] there has been a growing recognition

[5] A reference to the plan Shultz put forward at the IMF and World Bank annual meeting in September 1972; see Document 1.

of the intellectual logic of our position. In particular, our basic point that par values and convertibility must be accompanied by firm rules to limit reserve accumulations by surplus countries and to force balance of payments adjustment is more accepted. Nonetheless, it is necessary for us constantly to remind other nations that our offer to return to a convertible system was completely contingent upon development of the system in other respects that would insure adjustment, provide sufficient flexibility, and avoid heavy use of controls.[6]

In the C–20 meetings recently,[7] there has been noticeable progress with respect to the future role of gold in the system. The French and South Africans have been becoming more isolated on this subject, not only from the views of the United States and the less developed countries but also from the views of other members of the European Community. In particular, apart from the French and South Africans, there is now widespread agreement on the objectives of moving to other reserve assets and not setting a new and higher official price. The discussion is focused on how best to reach that objective in a practical way.

A seeming reversal or new emphasis in the U.S. position, for example by our agreement to some statement that seems to suggest the role of gold in the system will not be decisively diminished, would greatly damage the credibility of the entire U.S. position and of U.S. negotiators, not only in the C–20, but also in the Congress and in the public, for our position has been widely publicized. (As you know, both Houses of Congress have indicated their desire to permit private ownership of gold in the United States on the premise of its diminishing monetary role. The only question is whether the legislation which they will enact, probably within the next two weeks, will—as we desire—leave the date for private ownership entirely at your discretion or will set a date at the end of this year or next year, beyond which you would not be empowered to prevent such ownership.)

We feel existing monetary arrangements are best suited for present problems. The foreign exchange markets have been somewhat disturbed in recent weeks in the face of the recent sharp run-up in the private market price of gold, bad news on inflation, and the Watergate.[8] But there was no crisis. Instead, there has been widespread recognition (including French officials) that the pressures might have led to another severe crisis had we not had the benefit of the flexible exchange

[6] President Nixon underlined this sentence, beginning with "constantly to remind."

[7] The C–20 Deputies met in Washington May 21–25.

[8] In May 1973, the Senate committee investigating allegations of abuse of power by the Nixon administration, popularly known as "Watergate" after the June 1972 break-in at the Democratic National Committee's headquarters at the Watergate Hotel in Washington, began its public hearings.

rate arrangements which went into effect several months ago. There have also been many observations that the recent volatility in the gold price provides additional confirmation that gold cannot safely be made the center of the monetary system.

In recent days the dollar has actually strengthened considerably as a result of the release of the new trade figures showing continued sharp improvement in the U.S. trade position.

President Pompidou's Probable Position

President Pompidou will probably approach the international monetary discussion partly out of doctrinal belief in the discipline of reliance on gold, fixed exchange rates, convertibility, and the necessity to subject international transactions to tight controls. I suspect, however, that his position will be strongly influenced by two other driving forces:

—A belief that he could increase the relative stature of France and Europe by cutting down the stature of the dollar and the ability of the United States to undertake international initiatives by imposing on us obligations for convertibility and balance of payments discipline; and

—A fear that the EC itself, and the privileged position of French farmers in the EC, is jeopardized by trade negotiations in the agricultural area threatening the CAP.

Under the pressure of these forces, and perhaps with some realization of the French government's increasing isolation from others in the trade and monetary discussions, President Pompidou probably hopes he can use the meeting with you either to find an excuse to postpone the trade negotiations, limit their scope, or at least establish as a prerequisite a deal to his liking in the monetary area. He is probably realistic enough to know that he can't accomplish his full objective. For instance, he apparently failed to make any progress on postponing the trade negotiations in his recent discussions with Prime Minister Heath. Nevertheless, we still hear reports of European fears that he may be unrealistic enough to think that he can still bring about delay of the trade negotiations, or sharply reduce the agenda. In gambling on a tough approach with you, President Pompidou may possibly feel that he has a good chance of success, at least in achieving some present "monetary reward" for a promise of future trade negotiations, and/or a conciliatory diplomatic tone, because it will be obvious that international monetary matters are high on his priority list, while he may hope that they are low on your list.

From several European sources, we have heard reports that the French representatives have been saying that now is the time to get tough with the United States in view of the present political distractions here. President Pompidou could try a repeat of the tactic used several times in the past within Europe—even though the attempt was unsuccessful last time—of threatening to veto a joint European summit meeting with you.[9]

In a seemingly more conciliatory vein, Mr. Pompidou may indicate urgency about, and French willingness to participate in, a large "consolidation" of dollar balances held by foreign central banks. This would entail a conversion of dollar balances into some other international asset (probably SDR's) which would not be a direct claim on our reserves when and if convertibility is restored. Mr. Pompidou's interest stems from a conviction such consolidation is a prerequisite to resumption of convertibility. While some form of consolidation will probably be a part of a monetary settlement, the issue raises difficult financial, tactical, and timing considerations that do not lend themselves to resolution at this time.

Although their public statements have shown no great divergence, there is evidence President Pompidou and Minister of Finance Giscard d'Estaing do not see eye-to-eye on international monetary matters. Giscard's approach would appear to be somewhat more flexible and open. We have been told in the last few days by Giscard's principal Deputy that he was most reluctant to go along on the Iceland trip, and he is at least able to visualize (as a poor option to him) a monetary agreement that does not re-enthrone gold.

Suggested U.S. Negotiating Strategy

In the light of our expectations of President Pompidou's probable position, I would recommend that you take the initiative in the sense of displaying great interest in getting him to understand the virtues of the United States proposals, while making it clear that, of course, you expect no agreement on this complex, necessarily multilateral, matter in Iceland. At the same time, you could urge continued high level contact on the subject, and you could even hold out the possibility that further discussions at the Presidential level might be appropriate on some occasion before final agreement is reached on the future international monetary system.

In pursuance of this strategy, I urge that any further preliminary contacts before the meeting, while accepting his suggestion of stress on international monetary matters, hold out no hope of any significant agreement on the subject at this time.

In the actual discussions in Iceland, I suggest you stress the desirability of your understanding each other's position. In particular, I suggest you urge his recognition of one simple truth; in developing the

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[9] President Nixon underlined the portions of this paragraph that read: "is the time to get tough with the United States in view of the present political distractions here" and "threatening to veto a joint European summit meeting with you."

monetary plan which they have put forward, U.S. officials consciously sought to take French views into account and believe they have come a long way in that direction:

a. Nothing in the U.S. plan would endanger the Common Market or impede its moves toward monetary union. Indeed, in some ways, the unity of the EC would assist the workability of our proposals.[10]

b. The plan proposes no special privileges for the United States, and more effective payments disciplines all around. The U.S. has no desire to run deficits or to avoid payments discipline.[11]

c. The plan is consistent with cutting down the heavy use of the dollar as a reserve currency, and calls for equality of responsibilities and privileges among nations.[12]

At the same time, the French position has fundamentally differed with respect to the related questions of gold and the rigidity of exchange rates and with respect to the wisdom of the widespread use of controls on capital.

As you will recall, presentation of the United States plan was accompanied by a United States offer to restore convertibility to the U.S. dollar *if* adequate assurance of payments adjustment can be built into the reform and if the reform provides the flexibility which has now come to be widely recognized as necessary. We face the constant danger of being maneuvered into a position of accepting the convertibility obligation without the safeguards. Mr. Pompidou should be reminded of the necessity to view convertibility in the context of a total system.[13]

In that respect, we hope that France and the U.S. can provide leadership in building a monetary system to prevent crises, foster international trade and investment, and strengthen the Atlantic Alliance. No system will endure, however, unless it assures that balance of payments adjustment will occur and that responsibility for adjustment will be equitably shared. If the system is too rigid, or rests too heavily on government controls, it will break down. It would be a serious mistake to reach an agreement for the short-run appearance of political harmony if the agreement did not make sense economically and quickly collapsed.

On the specific issue of consolidation, you might respond to his initiative by agreeing that the subject is relevant, and ask the respective Finance Ministers to consider the matter more fully in the period ahead.

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[10] President Nixon underlined the majority of this paragraph.

[11] President Nixon underlined the first clause of the first sentence of this paragraph.

[12] President Nixon underlined the majority of this paragraph.

[13] President Nixon highlighted the majority of this paragraph.

Finally, I suggest that the two of you seek agreement on some general language, such as that suggested below, for inclusion in a communiqué to be issued after your discussions.

In your discussions, I suggest that it would be helpful for you to make reference to President Pompidou that a number of European Ministers and I have already scheduled a meeting during my trip to Paris in the first week of June.

Possible Statement for Inclusion in a Communiqué

"The two leaders reaffirmed the commitment of their governments to strive for timely agreement in the far-reaching multi-lateral negotiations now under way to develop firm and clear rules for a reformed international monetary system. They agreed that these rules should apply equitably and evenhandedly to all nations and regional groups. In this context, they emphasized international economic collaboration and harmony required effective disciplines to maintain payments equilibrium and exchange rate stability, while also recognizing that the system must have the flexibility to respond to changing economic circumstances."[14]

[14] On May 29, Sonnenfeldt sent Kissinger a memorandum summarizing Shultz's memorandum, which Sonnenfeldt criticized for its "atmosphere of confrontation and a seeming assumption that the basic relationship is one between adversaries or at least rivals." While Sonnenfeldt agreed that the United States should not make "monetary concessions simply in return for French readiness to participate in the Atlantic project" or collude with France against the rest of the C–20, he asserted: "I think it is central to the conception of our European policy and to the game plan that we have been gradually evolving that we work with the French. At some point, *not* Iceland, therefore, the two main antagonists are going to have to talk to each other and see if compromises can be worked out. Isolating and confronting the French may be a sound strategy to help us get to that point, but it cannot be an end in itself." (National Archives, Nixon Presidential Materials, NSC Files, Box 949, VIP Visits, Pompidou/Nixon Mtg Iceland PM Johanneson May 31–June 1973 [3 of 3]) Cooper also wrote a memorandum to Kissinger on May 29, which focused on the subject of Shultz's memorandum. Like Sonnenfeldt, Cooper was concerned about its "somewhat contentious" tone and suggested that it could prove "very counter-productive" in the field of trade. Cooper suggested that Kissinger continue to allay French concerns about the possible imposition of uncooperative U.S. foreign economic policies. (Ibid., Pompidou/Nixon Mtg., Iceland, May–June 1973)

40. Memorandum of Conversation[1]

Reykjavik, May 31, 1973, 10 a.m.

PARTICIPANTS

France
Minister Giscard d'Estaing
Mr. Claude Pierre-Brossolette
Mr. Jean-Pierre Brunet

U.S.
Secretary George P. Shultz
Under Secretary Paul A. Volcker
Ambassador Irwin (for part of the afternoon session)
Ambassador Harald Malmgren
Mr. Sam Y. Cross
Mr. Robert Hormats
Mr. De Seabra (Interpreter)

SUBJECT

Trade and Monetary Issues

After exchange of greetings, it was agreed that the group would discuss monetary reform in the morning session and trade matters in the afternoon.

Minister Giscard suggested that Mr. Volcker and Mr. Pierre-Brossolette comment on the meeting of the C–20 Deputies last week.[2]

Mr. Volcker thought the meeting had been the most useful of the Deputies' meetings thus far. The technique of discussion in smaller groups was an improvement and permitted relevant debate. He thought the meeting had brought better understanding on some issues and perhaps a little congruence of views. On the adjustment process, he detected a rather widespread view that countries did not want the IMF telling them what to do, and he was encouraged that our reserve indicator proposal was a way of instituting discipline in the system without the reliance on an international institution to tell countries what to do.[3] On consolidation, there were difficult problems of how

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[1] Source: National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 2, PAV, Iceland May 31, 1973. Confidential. The meeting took place at the Kjarvalsstadir, the Reykjavik Art Museum. A stamped notation on the memorandum reads: "Jun 18 1973." Volcker initialed "Approve as amended" at the end of the memorandum, although no changes are marked.

[2] The C–20 Deputies met in Washington May 21–25.

[3] The reserve indicator proposal addressed the question of when a country should adopt policy measures to correct for large-scale deficits or surpluses in its balance of payments. As Shultz put it in his September 1972 speech to the IMF and World Bank: "I be-

the costs should be shared. On the SDR, he thought there were signs of a basis for agreement on making that the main asset of the system, but there were still problems of the valuation of the SDR. On gold, there was an interesting discussion, but it was not conclusive; there was recognition of the need to build a system not dependent on gold but a lot remained to be done on working out just how.

Mr. Pierre-Brossolette said one important question was how the exchange rate system would operate. Some countries such as France and Japan, and much of Europe, would prefer a system of rather fixed par values. He could see a risk of too much flexibility in exchange rates. The French were not clear what the U.S. view was on this question.

Secretary Shultz said the system in our view should be a great deal more flexible than in the past. We thought relatively more frequent and relatively small exchange rate changes would be helpful and desirable in a future system.

Minister Giscard said he thought U.S. thinking was too much influenced by U.S. experience of the past 10 years. Once the U.S. balance of payments is back in equilibrium, the U.S. might take a different view on some of these questions. He was concerned about the dangers of a system in which the first element of adjustment would be exchange rate changes, and he thought that could lead to too much competitive devaluation.

Secretary Schultz said we recognized the risk of a system biased toward competitive devaluation and we were trying to get symmetry of adjustment by use of reserve indicators.

Minister Giscard said he did not think the international community would accept reserve indicators. The danger was that countries would accept some ineffective form of indicators, and would have the freedom to change parities but without any rules preventing competitive devaluation and other unwarranted changes.

Mr. Volcker said that the question of changes in exchange parities was not the only aspect to consider. For one thing, we envisaged the need for floating exchange rates in particular situations. Also, we envisaged that the choice of adjustment policies would be left as much as possible to the country taking those policies. We accepted in our proposal a system of convertibility which effectively applied adjustment pressures to deficit countries. We need to build on the convertibility discipline and apply adjustment pressures also to surplus countries. Otherwise, the system would fall apart.

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lieve disproportionate gains or losses in reserves may be the most equitable and effective single indicator we have to guide the adjustment process." See Document 1.

Mr. Pierre-Brossolette said the reserve indicators proposal was not realistic. There was always room for discussion as to whether a country should act when the indicators so suggested. Also, the indicators did not work the same for a large country and for a small country—they allowed greater freedom for the large country.

Secretary Shultz asked how the French envisaged that pressures would be applied on surplus countries to adjust.

Mr. Pierre-Brossolette said pressures had been applied effectively in the case of Japan.

Minister Giscard said we had to think of a new world. The old system had defects in that exchange rate margins were too narrow, and there was no pressure on surplus countries. He had no specific answer on how to apply pressures to surplus countries, but he thought the system needed to be one of few rather than frequent parity changes, particularly if heavy speculation was to be avoided. He thought the main technique of adjustment should be internal policies rather than exchange rates.

Mr. Volcker said the reserve indicator was the skeleton of the system we proposed, and it was necessary to apply flesh to that skeleton in the form of consultations and pressures from the international community. But consultation and pressures would not succeed without the backbone in the form of reserve indicators.

Minister Giscard said in the future, the system was more likely to be one of major groups—Europe, Japan, the United States—and the question was whether there would be need for par value changes frequently among those big blocs.

Mr. Volcker said his personal view was there would not be large and frequent exchange rate changes between the U.S. and Europe. He thought the U.S. would do as well as Europe on inflation.

Secretary Shultz asked how Minister Giscard would have handled the Japanese surplus problem.

Mr. Pierre-Brossolette said that was a new phenomenon. Only a few years ago there had been concern about Japan's weak balance of payments. Then there had been a sudden explosion. This was a special situation which may not occur again.

Minister Giscard said the dollar should have been devalued several years ago. It had been difficult to push Japan because there were really two problems in the international payments situation—the overvaluation of the dollar and the undervaluation of the yen. If the U.S. had been willing to devalue, it would have been easier to push Japan. Without U.S. devaluation, it was unfair to push Japan.

Mr. Volcker said that depended on how one read history. It was certainly not clear that the dollar was out of line several years ago, and many people, not just in the U.S., would have strongly resisted a dollar devaluation and felt it to be extremely disruptive for the monetary system. Even if some way were found to deal with the Japanese surplus, there was the risk of new similar situations arising. Brazil, Australia, and Spain, for example, all had very sharp reserve increases and such countries need to be brought into the monetary system's discipline.

Mr. Pierre-Brossolette said another point his government was concerned about was the future role of the dollar. If the dollar were widely used as a reserve asset, it would have less flexibility, and new dollar balances would be a source of instability. While the U.S. might like widespread use of the dollar for prestige and other reasons, a build-up of dollar balances would not help a future monetary system.

Mr. Volcker said the U.S. proposal contained safeguards to prevent excessive build-up of currency balances. We envisaged a convertibility system. Some countries might prefer to hold currencies, and currency holdings might provide needed elasticity in the system. If a surplus country preferred not to draw excessively on the world's primary assets, but rather to finance its surplus through a more or less temporary increase in currency holdings in order to avoid having to adjust in a situation when it might not be appropriate to adjust, why not allow the surplus country that flexibility? If the surplus country were not converting into primary assets, then those primary assets would be left with the country issuing the currency, since the reserves would still be in the system. An important element of the U.S. proposal was that there be a consistency between the total assets in the system and the scope for running payments imbalances.

Minister Giscard asked how would we prevent the creation of SDR's when they are not needed, to prevent a recurrence of the situation in 1968, 1969, and 1970.

Mr. Volcker said the world needed those SDR's in those years. The problem was that the world had too many dollars, not too many SDR's.

Minister Giscard asked what would be the U.S.'s "second attitude," if countries would not accept reserve indicators.

Mr. Volcker said that was an impossible question. If countries were not willing to adjust, it was difficult to see how any system would work.

Minister Giscard said he was concerned that the C–20 would accept the U.S. plan but with weak indicators, which would leave countries to change rates as they pleased.

Mr. Volcker said he was less pessimistic about the prospects for gaining acceptance of the U.S. proposal. He thought that if the French would agree, we could get the rest of the world to agree. Some of the LDC's had begun to see some of the advantages of the U.S. system to them, in that it did not leave them at the mercy of IMF control.

Minister Giscard asked what kind of convertibility the U.S. envisaged.

Mr. Volcker said we envisaged the traditional kind where a country brings the currency of a second country to that second country and is given primary assets, presumably SDR's, or its own currency in exchange.

Minister Giscard asked why we should seek to discourage the SDR by a low interest rate.

Mr. Volcker said it was a matter of who is paying the interest rate.

Minister Giscard said if the U.S. did not want to pay a high interest rate on SDR's, we could encourage use of SDR's by limiting currency balances.

Mr. Volcker said that would leave too little elasticity in the system.

Mr. Pierre-Brossolette said there were other means of adding the elasticity such as Fund drawings, swaps, and controls.

Mr. Volcker said debtor countries would not always be willing to use those techniques.

Minister Giscard raised the question of the value of the SDR. He mentioned the proposal of linking the SDR to the "most appreciating" currency to make the SDR a preferred asset. He also asked why in an SDR based system, the U.S., since it favored flexibility and freedom, did not want to give central bankers the liberty to use their gold.

Mr. Volcker said that there were a number of possible ways of valuing the SDR. Some felt it could be valued simply as 1 SDR equals 1 SDR. It could be valued with a basket of currencies. Tying it to the most appreciating currency raised a number of problems. With respect to gold, it might be possible to envisage central bankers selling gold in the private market, but if central banks bought or sold gold to each other, this would raise serious questions about the role of gold in the system and our objective was to diminish that role.

Afternoon Session

Minister Giscard asked the U.S. view about a C–20 Ministerial meeting before Nairobi.[4]

Secretary Shultz said he would favor a meeting if some good could be accomplished, but there was a question whether a meeting before Nairobi would be useful. We wanted to work as hard as possible to get the job done, but a meeting which resulted in a big failure could adversely affect the monetary arrangements now operating which hold prospect of working satisfactorily while we seek reform.

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[4] The IMF and World Bank Boards of Governors held their annual meeting in Nairobi, Kenya, from September 24 to 28.

Mr. Volcker said the timing of the meeting was important and a meeting in early September might be more useful than in July, as we would be better prepared.

Minister Giscard said early September was impossible because of the GATT meeting in Tokyo.[5]

Mr. Pierre-Brossolette said a July meeting would help to avoid giving the world the view that we are discouraged about reform.

Mr. Volcker said that would depend on the outcome of the meeting.

Secretary Shultz said perhaps we should say in advance that no communiqué would come out of such a meeting, since that would dampen expectations of results, and since preparing a communiqué takes so much of the available time which could better be devoted to substance.

Minister Giscard said there was no serious chance of reaching substantive agreement by Nairobi, but that the world was expecting it. We had to dissipate that illusion. We needed at least two full ministerial meetings and some restricted contacts before agreements could be reached, which would mean early 1974 at best. Instead of having a full report from the Chairman of the Deputies to consider after the July Deputies' meeting,[6] we should concentrate on one or two issues, such as the exchange rate regime and convertibility, and leave out two or three, such as the link, IMF structure, and numeraire.

Secretary Shultz said if we are convinced we cannot reach agreement by Nairobi, focusing on a few items might be a good approach.

Mr. Volcker said it would be very important to determine which issues on which to focus attention. He thought perhaps the structure of the IMF might be easier than many other issues.

Secretary Shultz asked if the French had any problems operating with the existing system while work proceeded on reform.

Minister Giscard said the present weakness of the dollar was not a problem for France. However, it might be useful for the U.S. to let the market know that the U.S. would intervene from time to time in order to show U.S. support of confidence in the existing exchange rate structure. Also it would be helpful to indicate that the U.S. contemplated a return to convertibility in the new system.

Secretary Shultz said intervention might do more harm than good, but there might be times when it would be appropriate to nudge the market.

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[5] A GATT Ministerial meeting was held in Tokyo September 12–14.

[6] The C–20 Deputies met in Washington July 11–13.

Minister Giscard said that it would not be possible to keep gold frozen as a permanent feature of the monetary system.

Secretary Shultz asked if the French would support the idea of eliminating the present two-tier agreement[7] and go back to the old IMF rule.

Minister Giscard said the IMF rules also call for convertibility and perhaps we should go back to that. Any change in the existing gold arrangement must provide a two-way freedom—buying as well as selling.

Mr. Volcker said the object of agreeing to sales but not purchases would be to settle and calm the situation. Agreement to buy and sell might be counter-productive and stir things up.

Mr. Pierre-Brossolette said the market had already gone far higher than any change in official price contemplated.

Minister Giscard said if there were an understanding to keep the present arrangements until full agreement on the new system is reached, in six months or so, France would participate. But France would not accept or agree to a relaxation just on the selling side.

Minister Giscard said that in the final system a "normal attitude" toward gold should be re-adopted. The French Treasury took a budget loss on the dollar holdings of the Bank of France at the time of the last U.S. dollar devaluation. He said the problem will not be simple to resolve in the final system. The East European countries would be coming more into the monetary system and they would want some reference to gold in the future system. A one-way sales system would not work, since no one would be prepared to sell gold.

Mr. Volcker said there appeared to be an impasse until the basic issue was resolved.

Turning to discussion of *trade* matters, Secretary Shultz said the Congressional response to the Trade Bill was encouraging. The proposed legislation was moving along as well or better than we had suggested in our earlier discussions with Giscard. One controversial point was the tax on foreign source income.

Minister Giscard said one point it would be difficult to accept was the proposed general surtax which had been included in the proposed legislation. He understood that if there were a false appreciation of the U.S. currency, the U.S. could impose a general surcharge on imports.

Secretary Shultz said the surcharge provision was permissible under certain conditions but not required. We hoped it would not be necessary actually to put the tax on, but rather that it would be possible

[7] See footnote 5, Document 4.

to negotiate a resolution of the situation leading to consideration of the surcharge.

Under Secretary Volcker said that genus of the concept was that GATT already provided authority for QR's, and everyone agreed surcharges were a more effective instrument than QR's.

Minister Giscard said the EC and others would need to introduce the same surcharge authority as the U.S. It would not improve the climate for negotiations.

Under Secretary Volcker said surcharges were not a preferred technique. Our proposal was consistent with the C–20 Communiqué,[8] which said there should be a strong presumption against the use of trade controls. We would not want the surcharge to be put on freely and frequently.

Minister Giscard said that the use of surcharges had in most cases—including France and the United States—preceded devaluation. The GATT provision to which Mr. Volcker referred had not been used by any industrial countries for a long time. He thought the U.S. wanted to move toward freer trade and to define rules, and he thought the surcharge proposal was a powerful weapon in the opposite direction.

Ambassador Malmgren said that the United States was in a unique position in that we did not have the same presidential powers as did the parliamentary governments in Europe and elsewhere. We could not easily impose a surcharge whereas the European governments could. Although the EC itself did not have such authority, EC surcharges could nonetheless be approved by the relatively simple matter of a Council meeting.

Minister Giscard said the U.S. must already have surcharge authority since we imposed a surcharge in 1971.

Ambassador Malmgren said the matter was in the courts at the present time.

Secretary Shultz said that we did not have the authority to apply discriminatory surcharges. Although use of surcharges had frequently preceded parity changes, it was not quite the same as a parity change since only certain transactions were affected. In any case we would expect to use surcharge authority only as the last resort.

Minister Giscard said the proposal would help the French since they favored not so liberal an approach to the trade negotiations.

Minister Giscard said that on the question of tariff reductions France would favor progressive reductions in the sense that nations

[8] For the text of the communiqué, see de Vries, *The International Monetary Fund, 1972–1978,* Volume III, pp. 197–199.

with higher tariffs should undertake greater percentage reductions than those countries with lower tariffs in order to eliminate the ups and downs and move toward harmonization.

Ambassador Malmgren said we would not be idealistic about the question but we needed to see just what it meant.

Minister Giscard said it would be difficult to agree to balanced percentage reductions since U.S. tariffs on some items were much higher than European tariffs. He said all had agreed that the negotiations must be based on reciprocity but it was not clear whether that meant reciprocity on the whole, or reciprocity in tariff and in non-tariff barriers or reciprocity in groups of products. The EC had not yet agreed among its members on the point.

Ambassador Malmgren said the U.S. meant global, overall reciprocity covering all aspects of the negotiation.

Minister Giscard said this would be technically difficult. Each part of the negotiation would be discussed by different groups and at different levels. The U.S. might envisage giving up something in terms of harmonization of tariffs in exchange for some concessions in agriculture. However, if one country's main export was, for example, some type of machinery, that country would be unwilling to agree to large concessions in that area in exchange for concession on items which it did not produce.

Ambassador Malmgren said the negotiations would have to be based on mutual concessions broadly speaking and that the more that EC looked at each slice of the negotiations separately the more difficult the negotiations would be. A slice approach would result in much more difficult negotiation than a harmonized approach.

Secretary Shultz said his comments on reciprocity had upset some people but he felt they were right. We recognized the need for overall reciprocity but as we looked at the problem, say with Japan, the present relative liberalization of trade between ourselves and Japan is not equivalent and we should not make equivalent concessions.

Minister Giscard wondered whether the Japanese case was one which needed to be dealt with separately and not as part of the worldwide negotiations. He noted that when the Japanese do liberalize they find ways to keep out the imports nonetheless.

Turning to the question of Article XXIV 6,[9] Mr. Brunet said the EC had made a very generous offer to bind their industrial tariffs even

[9] In January 1973, the EC expanded its membership from six to nine countries, adding Denmark, Ireland, and the United Kingdom. When these countries joined the EC, they abandoned their previous tariff schedules vis-à-vis the rest of the non-EC world and adopted the EC common external tariff. Under Article 24:6 of the GATT, the United States was seeking compensation for the likely loss of markets American exporters would suffer as a result of the changes in the Danish, Irish, and British tariff schedules.

though U.K. tariffs were high and they could not see why the U.S. should not accept that generous offer. U.S. agricultural exports had risen to the Six since the establishment of the EC, and the same would also happen with the Nine. He hoped the U.S. would accept the EC offer and, with bound tariffs, he could not see why we felt the U.S. would be disadvantaged by British entry.

Secretary Shultz said that under the EC proposal if a German company and a U.S. company were competing in the U.K., the tax for the U.S. company might be reduced from say 15 percent to say 10 percent, but the tax for the German company would be reduced from 15 percent to zero. It was obvious that the competitive position of the U.S. firm would be harmed.

Mr. Brunet said that was the essence of the Common Market. The same situation had occurred when the Common Market was created.

Under Secretary Volcker said we were very much concerned about the possible trade diversion of some of the EC arrangements and we felt this was a major problem. He noted that even in the case of Sweden it was estimated that the special arrangements with the EC would result in several hundred million dollars of trade diversion.[10]

Ambassador Malmgren said the matter of trade diversion or creation as a result of the Common Market had been widely debated without any agreement. We saw serious impairments to our trade and we needed satisfaction or else we would have to withdraw concessions. We hoped this matter could be resolved through calm discussion. There was an important question of timing related to our need to get our trade legislation passed. The EC approach was aimed not at resolving the problem but at making good debating points. Our side could do the same but it would take too long to get the matter resolved that way, and we would have a political problem. He noted there had been a grains standstill since 1960 which we had now called up. These were important issues, and we hoped they could be resolved calmly and without confrontation.

Minister Giscard asked why the U.S. should want to export grains to Europe. Europe itself exported large amounts. In the oil business Saudi Arabia and Kuwait did not try to export oil to each other but made arrangements to provide for the best return on the oil both of them exported to the rest of the world. Europe exported much grain. Perhaps the idea should be explored of an agreement between the U.S. and the Europeans to organize the export market. Ambassador Malmgren said this was hard to do and previous attempts had failed.

[10] A free trade agreement between the EC and Sweden came into effect in January 1973.

Minister Giscard said some of the U.S. experts talk about the CAP in ways which lead him to fear the negotiations were a Trojan Horse for the CAP. The CAP was the only means Europe had to create a single market.

Under Secretary Volcker said that it was not a question of attacking common pricing in Europe but the situation was not comparable to Kuwait and Saudi Arabia. Our costs were 1/2 or 2/3 as high as European costs, yet those markets were isolated and we were not allowed access in an area where we had very important competitive advantages.

Minister Giscard said Europe had good facilities for producing agricultural products. The high European prices resulted from the social structure. It was not French pressure which pushed CAP prices up but pressure from others. When the historic process of shifting people off the farms ended the north of France could certainly compete.

Secretary Shultz said we had a very good market in agricultural products in the U.K. and we were concerned that with British entry into the EC we would lose that market.

Minister Giscard asked when the multilateral trade negotiation would start.

Ambassador Malmgren said we intended to begin technical discussions in late October or early November.

Minister Giscard said substantive negotiation could not start until after the vote on the U.S. trade legislation.

Ambassador Malmgren said we intended to stick to our timetable irrespective of the timing of the U.S. legislative process.

Minister Giscard asked whether on NTB's we proposed to concentrate on a few items or cover them all.

Ambassador Malmgren said we would deal with them all but we would put more energy on some than others.

Secretary Shultz said he regarded the NTB negotiations as very important. The world had gotten tariffs down but NTB's had been a continuing or even increasing impediment to trade and hard to get at.

Ambassador Malmgren said with respect to the zero tariff we wanted room to maneuver. It was better that both sides be quiet on how far they expected to go, and then to go as far as they could.

Minister Giscard said that the East European countries would become a more important part of the trading world and if we had zero duties we would have to extend those to the East European countries even though those countries were in a position to adopt any price structure they might want.

Minister Giscard asked when the multilateral trade negotiations would reach decisions.

Secretary Shultz said we had sought 5 years authority on tariff changes and unlimited authority on NTB's.

Ambassador Malmgren said the negotiations might take two years.

Minister Giscard asked what if the U.S. were in balance of payments surplus at that time.

Secretary Shultz said we viewed the proposed reduction of trade barriers as long term and structural changes as appropriate whether the U.S. were in deficit or surplus.

Ambassador Irwin said he had noticed in his short time in Paris[11] the depth of suspicion of U.S. motives in both trade and monetary matters. That suspicion was not justified. He hoped both sides could speak frankly with each other on these matters and not feed those suspicions.

Minister Giscard said in the monetary field there were disagreements of judgment but he thought we would find agreement. He was concerned that the accusations in the U.S. that the CAP represented French protectionism should be answered.

Minister Giscard asked about the SDR–aid link.

Secretary Shultz said he and Under Secretary Volcker had taken a rather firm line in recent discussion at the ADB and IDB. Ministers would agree with the U.S. view privately but they would not admit it publicly.

Under Secretary Volcker asked the French view on IDA replenishment.

Minister Giscard said that he thought an increase of 50 percent was the very maximum acceptable [apparently to $1.2 billion (Smithsonian $)].[12]

Under Secretary Volcker said at some point we would have to deal with serious questions as to whether we wanted IDA to get bigger and bigger as President McNamara wanted.

Minister Giscard said he was very much concerned about that matter. He had noticed on a recent trip to Tunisia that the World Bank was getting into all kinds of financing that they should not get into.

Sam Y. Cross

[11] John N. Irwin II presented his credentials as Ambassador to France on March 23.

[12] Brackets are in the original.

41. Memorandum of Conversation[1]

Reykjavik, May 31, 1973, 3:10–5:30 p.m.

PARTICIPANTS

American Side
President Nixon
Dr. Henry Kissinger
Alec Toumayan (Notetaker)

French Side
President Pompidou
Mr. Andronikoff (Notetaker)

SUBJECT

Year of Europe; Economic Relations

[Omitted here is discussion unrelated to foreign economic policy.]

President Pompidou: To turn now to economic matters, I do not propose a solution nor do I wish to discuss a solution for the international monetary system or for the future trade negotiation as will take place in GATT. We can talk about those things as you wish. Rather, my purpose would be to speak to you of my very private thoughts which I have not shared with anyone before, which are not very fashionable but which I think may become the reality of tomorrow.

First, and simplest, the commercial aspect. If we argue over it for months, we can argue that the deficit of the U.S. commercial balance bears no relationship to Europe. This can easily be proved statistically. This deficit is essentially with Japan and Canada. The rest of the world does not figure in it very much. But that is not my purpose either. I think we are in error if we speak as if we were in a surplus situation which we are not. The only real problem is grain. We can reason and the U.S. can reason as if we are in a period of surplus, when we are in a period of scarcity. For two reasons: the needs of the less-developed countries will continue to grow continuously, and aid in food will continue to be given to them. And the second reason is that the communist system is in utter contradiction with agriculture and agricultural products. And barring an outstanding year, they will remain constant buyers. Therefore, the main producers, France, the U.S., Argentina,

[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, Box 91, President's Meeting File, Memoranda for the President's File, Beginning May 27 (1973). Top Secret; Sensitive; Exclusively Eyes Only. The meeting took place at the Kjarvalsstadir, the Reykjavik Art Museum.

must reason differently. Being in a situation of scarcity we must aid the developing world. This can be seen as direct aid stocks, but there is the real reason why we must be in dispute on this. We are also in error when we try to sell at the cheapest price for the Russians who can sell [*pay*?] much more and where we think we can help them and they help us.

Mr. Kissinger: The President developed this thesis to me two weeks ago and as a result we are now engaged in an interdepartmental study to see if we could come up with a study along the lines of OPEC. We should have the result of this study in a few weeks. We would be grateful if President Pompidou could give us confidentially how he views such a formula, because it is an imaginative approach that none of our people had thought about.

President Nixon: While keeping the proposal confidential, President Pompidou could float the idea himself. We face the economic fact that the U.S., a major producer, is no longer in the dominant position which it occupied at the end of World War II. We must look to the financial, commercial balance of payments, etc. There is also a great resentment because it seems that every great idea starts in the U.S. and it seems this is not our idea. It would be good to have you float it, after it has been worked out a little more than some jackass in Washington would do.

President Pompidou: I think I can launch it publicly. I don't give as many press conferences as you do—four or five a year—but I will try. First, let me say a word on agriculture. We are seeking to maintain a level of dairy products. I could cite all kinds of environmental factors but there is primarily the reason that if the five or six per cent of the whole population who are small farmers move to the city, this upsets the political balance of the country.

Concerning the monetary question, I know no solution at present. I wouldn't think a new system will come about before 18 months or two years. Your situation improved far more quickly than the experts said. This is a fortunate development for all. One situation that cannot last is the level of reserves in the National Bank. Take the Bank of France, it has gold and non-convertible dollars unusable to us unless we want to run a balance of trade deficit, or who would give an ounce of gold at the official price? One of these days this system is bound to break down—I have just read the critical communiqué of the Azores. I feel very deeply and I assure you I am not being dogmatic. And I am not thinking there of gold in a future international system. But I feel very deeply that to expect dollar convertibility tomorrow or very soon is a pipe dream. And one way or the other we must give the gold here in the reserve banks a level or price similar to what prevails on the market. I also believe it is difficult to set a price unless we authorize the bank to buy or sell gold at a price convenient to them, because this would merge the two: the French market and the lack of a market.

I think this very deeply, and my idea was once viewed as an attempt to give gold back, and I think this will be acceptable between European countries. Eventually it would have been acceptable long ago except that the FRG has very little gold. I thought I was a genius, but I read just recently that someone has made a very similar suggestion.

Mr. Kissinger: President Pompidou tactfully referred to the talks in the Azores, Jobert also, which leads tactfully to my last question. Perhaps we should have the French review if there was anything concrete we were committed to do that was based on seeing France as a not friendly country.

President Pompidou: I was alluding to the fact that nothing remains of the secret communiqué we both signed at the Azores, not even the rate of the U.S. dollar.

President Nixon: You are referring to the obligation we undertook to defend the U.S. dollar and the two devaluations that ensued.

President Pompidou: The first devaluation was foreseen. Today, in fact, there is a third devaluation, in the sense that the dollar is quoted at 5% below the level it reached after the second devaluation.

President Nixon: On SDR's, what role should that play, with the U.S. dollar playing a less significant role and gold not as significant as in the past? U.S. experts ask if SDR's should play a major role. Before you answer, let me tell you in secret that, as Mr. Kissinger knows, there was a vigorous debate with our Treasury people on the aircraft coming over as to what our position should be. Some think as doctrinaire economists that you and I must look at the overall political view and ramifications. Shultz was opposed to the convertibility largely as the result of my own insistence, and he agreed largely as a result of the Azores. He has indicated in his speech to the IMF that under proper circumstances a new convertibility would and should be instituted. The problem is that you don't want and I don't want to return to a system that will be too rigid and break down. It is ironic to say that to be stable the system must be flexible. We have instructed Treasury to follow this line. U.S. experts expect that SDR's will play a major role.

President Pompidou: Were I an American, I would not say that things were altogether negative at present. After all, the U.S. dollar continues to play its role as in the past, it is a reserve currency, and if I buy Deutsche Marks as a result of intra-European currency agreements, then by the end of the week I am told to give them back and take dollars. But it is not in the interest of the U.S. to have this situation going on.

Much more serious is that I foresee that the Soviet Union will ask to join the IMF. Everyone will agree in the name of détente and the Soviets will come with a currency of fixed parity based on gold and convertibility. Consider the consequences.

As to SDR's, they are based on what? What is their value other than a symbolic value? I cannot believe in your proposal of setting up theoretical roles for issuing SDR's for certain parameters of limits. I frankly found no one yet who believes in it either. But all will be accomplices to connive in this, debtors and inflation, particularly to ask for the West's issuing of SDR's. Less developed countries, for instance, will not have much resistance. In order for me to speak about SDR's I must know to what they are pegged. Is it gold? No one believes this. Who will give gold in return for SDR's? Only the market will decide if SDR's are to be treated as "play" currency or good currency. If SDR's are looked upon as good currency, they will be as good as travelers checks and will be exchanged freely, but if they are judged to be fake they will not last long. SDR's can play a valuable role if they are appreciated by the market, and if not the system won't work. Or else we will have to act, meaning to give a counterpart to SDR's, and if it is gold then we are back where we started. SDR becomes a fictional replacement. I am not opposed to the idea but I seek concrete proposals and reassurances. We also have economists such as Mendes-France who thought that money should be based upon raw materials, but no one else believes in that. A currency must meet two criteria: It must be convenient; it must be secure. It must be recognized as secure and accepted as convenient. We are ready to look into conditions needed to make SDR's meet these criteria. We await your clarifications because this is after all a U.S. proposal, but we cannot say in advance without knowing of the role they will play.

Be that as it may, if I ask for these questions to be placed on our agenda and therefore to have M. Giscard d'Estaing here so that Shultz will be here, it was very largely for public consumption, so that the public can say "they spoke about it". I do not intend to try to push an international system or talk about it. But if I were Brezhnev I would tell you, "We are friends; we want to join the IMF, the world is united and saved from those Chinese." If he says that—and if he does, it won't be because I put him up to it—how can you refuse? We can't legally refuse. This is an awesome weapon in the hands of the Russians who have already tried to regroup currencies for them and their satellites.

We don't want to rush you. Your recovery has been quicker, deeper and longer-lasting. So a time will come when progress is easier but some problems will remain. If one day the U.S. had to have SDR's in Deutsche Marks, francs or lira, this would be all right. I did not intend to seek to make progress today, but just to tell you that the present situation cannot last, all the more so because it is disastrous for Europe.

Appearances are good but there is good fragility beneath. But if we are up against a crisis it will put our backs to a wall and we will need solutions urgently.

Dr. Kissinger: Have you made a study of the implications of Soviet entry into the IMF? The first time I heard about this was when your Foreign Minister mentioned it to me last night.

President Pompidou: We have not made a study and the reason Jobert told you is that I told him to.

Dr. Kissinger: It would be valuable to us to have your estimate, and a note from you would be very useful.

President Nixon: I want to be prepared when I deal with the Communists, because this possibility had never occurred to me.

President Pompidou: I am sure it will come. It fits Soviet policies. The Russians recognize the EC, but every time they mention it they mention recognition of the COMECON by the EC so that both will be on the same level. EC is economic with a political meaning, and COMECON is something quite different. The satellites are conniving in this sort of approach. Romania asks for a special relationship with the EC saying it helps them in loosening their ties with the Soviets, but then all the other countries follow. We see the same at Helsinki, where Romania plays the role of the independent nation but in the end always follows the Soviets' line.

Dr. Kissinger: To put it concretely, you know our official views. How can we reflect your concern without abandoning our official views?

President Pompidou: I have no tactics. I didn't come with any. Knowing I would see you I just want to share with you, President Nixon, my deep thoughts. I acknowledge that it would entail reversal of U.S. policies. I just hope that Brezhnev will not be in the IMF in three weeks. The situation is difficult now and it will become untenable. I will not say that the Soviets will definitely press their advantage, but all signs point to them doing just that. We have long believed that contact between the West and the Soviet Union would rot them; they are convinced it will rot us, and yet we are compelled to let détente go on.

President Nixon: Concerning military [*monetary*] matters, as Secretary Shultz' speech to the IMF indicated, we have moved off total rejection of convertibility. And in the second place I recognize that the present situation is too unstable. In the third place, one of our goals must be to develop with the other major three nations a new system, which might well involve convertibility if safeguards can be found that the system is too rigid or crisis-prone. These are the guidelines I gave to Secretary Shultz. I do not believe that the world financial press can say that the financial position is totally opposed to the U.S. position. The U.S. position is flexible. The French stand on gold is not as inflexible as will appear from the world financial press. I will not take steps leading to confrontation with the French government and the others in the group of 20 looking to develop a more stable system, more permanent than the present temporary system with the U.S. floating and being non-convertible. To give you an example, I read an article in the financial paper that all major countries were in agreement on the monetary system except for France and the Republic of South Africa, both countries with gold. I don't want a situation where we are moving ahead and France remains outside. I think it is important to find a way to have French views represented in whatever system we design.

Dr. Kissinger: You, Mr. President, combine financial expertise with political vision, and our President combines a sense of history with political sense and must leave financial matters to experts.

President Nixon: What he really means is that you are your own Secretary of the Treasury and that I must try to instill political ideas into my Department of the Treasury.

Dr. Kissinger: Could you send a message to President Nixon, drafted in non-technical language, expressing your views why the present situation is against all our interests, including the U.S.'s own, and what is it that you want to achieve? We can guarantee you that this would be an essential part of our considerations, and the dialogue could then be instituted at the level at which our President would be more comfortable rather than talk of rates and levels where he would be more at the mercy of our Treasury people.

President Pompidou: I will do so gladly. I believe also I read the article you referred to, that the Deputies of the 20 all opposed France and the Republic of South Africa which asked that the SDR's be tied to gold. But I am struck by the fact that most countries only have tangential interest in that matter. Heath is not much interested. The City in London is interested in your dollars only because that market happens to be in London. Only the Dutch in the EC have a global view of the monetary problems. I view the problem as a full-fledged political problem because if now a little more or a little less is given for the franc and here the scruples of the technicians are just as useless as in the trade area. Technicians always err because they know too much. They erred on the timing for the U.S. recovery, which they thought was far off into the future. They were also wrong about the UK which rallied far quicker than they thought and which is no longer the sick man of Europe but will be ready to wage a close economic struggle inside the EC.

President Nixon: I have one tactical suggestion and one general observation. Dr. Kissinger will be in Paris on June 6 to see Le Duc Tho.[2] If

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[2] Le Duc Tho was Special Adviser to the Democratic Republic of Vietnam's delegation to the Paris peace talks.

you like, it would be useful if he had a preliminary meeting with Jobert. And you can tell Jobert what your general sentiment is, so that Dr. Kissinger could get the French views first before he travels to London and Germany. He might also make a stopover in London on that occasion but he has to be back in Washington to prepare for the Brezhnev visit.[3]

Dr. Kissinger: I understand that the two parties will depart for the airport tomorrow immediately after the talks. And we have some 200 members of the press who should be briefed and it is important that both spokesmen say exactly the same thing. If you agree I would brief the press this evening for our side and I would say substantially the following:

First I would say what we agreed upon this morning,[4] that the two Presidents carried out a review of the world situation and of the relations within the Atlantic Alliance in a useful and constructive manner. In the course of this review, President Pompidou stressed the important role played by U.S. forces in Europe and the danger of a unilateral reduction of such forces. President Nixon indicated that he fully concurred with President Pompidou's assessment.

In the second place, in connection with what we in the United States have called "The Year of Europe", I would say that we have agreed to carry out this concept in the closest cooperation with the French and use high level bilateral exchanges. I would add that a number of negotiations being currently under way on specific issues will continue in the established forums, and as progress is attained a meeting of the deputy foreign ministers on an ad hoc basis would be envisaged to see how it all fits together. Whether there should be a summit will be decided after the results of the other negotiations are all in.

President Pompidou: Yes.

Dr. Kissinger: Whether there is a summit or not, President Nixon would go to Europe to carry on the bilateral contacts.

On trade and monetary matters the French President gave a thorough presentation of his views and we agreed that we would study them more attentively. Vietnam and the Middle East were touched upon, and a number of bilateral issues will be taken up in the morning's session. It will be very useful for the further evolution of our bilateral contacts if the same constructive note is stressed by whoever briefs the press for the French side, because the press will be on the lookout for anything they can peg as confrontation, impasse or unhappiness.

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[3] Soviet General Secretary Brezhnev made an official visit to the United States June 18–26.

[4] Documentation on the morning meeting is scheduled for publication in *Foreign Relations*, 1969–1976, volume E–15, part 2, Documents on Western Europe, 1973–1976.

President Nixon: Bring out also, as President Pompidou stated earlier, that the two Presidents agree that our interests are the same and the question is how best to serve these common interests.

President Pompidou: I have said it because I think it is, and they will no doubt call me a reactionary for saying it.

Dr. Kissinger: If the two Presidents agree, I will brief the press strictly along those lines and I will not go beyond this framework.

[The Presidents agreed, and the meeting adjourned.][5]

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[5] Brackets are in the original.

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42. Memorandum of Conversation[1]

Reykjavik, June 1, 1973, noon–12:45 p.m.

PARTICIPANTS

President Pompidou
Foreign Minister Michel Jobert
Finance Minister Giscard d'Estaing

President Nixon
Secretary of State William P. Rogers
Secretary of Treasury George Shultz
Dr. Henry A. Kissinger, Assistant to the President for National Security Affairs

President Nixon: President Pompidou and I feel that it would be useful to have a brief report from the Foreign Ministers and the Finance Ministers on their sessions.[2] The President and I have discussed some of these same problems but it would be useful to have some account of these meetings.

[Omitted here is Jobert's and Rogers's briefing on foreign policy.]

President Nixon: Shall we listen to the Finance Ministers?

President Pompidou: If Secretary Shultz will agree to a date for convertibility then Giscard will agree to raise the price of gold.

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[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, Box 91, President's Meeting File, Memoranda for the President's File, Beginning May 27 (1973). Top Secret; Sensitive. The meeting took place at the Kjarvalsstadir, the Reykjavik Art Museum.

[2] The memorandum of conversation of Shultz's and Giscard's meeting is printed as Document 40.

Secretary Shultz: I will be brief. First the points of convergence. There was a consensus that convertibility is a rough and ready means of bringing discipline especially to deficit countries and that it is desirable to make discipline symmetrical, bringing it to surplus countries also where convertibility would not apply. The U.S. method to attain this through objective indicators is not accepted, but we agree on the objectives.

The second point of divergence is that roles must apply evenly to all countries. This implies a reduced role for reserve currency; there were different views on the elasticity of those holding the currencies. Reference was made to consolidating surplus balances. I believe there is also general agreement on creating SDRs or some such instrument as a worldwide currency to act as "numeraire" for the whole world. It is felt that the interim arrangements are reasonably satisfactory. Of course, the question is what is a transitional period? It is good to have a chance to observe them while talking about going towards a more fixed system.

On many questions there was no convergence. These included sharing exchange risks—the interchange or relationship with SDRs. But if a broad outline can be settled, then we can solve the technical problems.

On other points, such as the emphasis placed upon the flexibility of exchange rates, we narrowed our differences by focusing on the exchange rate relationships between the European Community, the U.S. and Japan as differentiated from all other associated countries. We talked about the scheduling for the new system. Our consensus is that it will not be before Nairobi,[3] and that it will be a good idea to have the Ministers meet before that. We advocate a "no communiqué" approach because on the basis of my own experience much time that could otherwise be devoted to substance is usually devoted to drafting a communiqué. We can accomplish more without a communiqué.

We also talked about the commercial area, both European Community enlargement and compensations for it. We did not come to an agreement but we talked about it. We also talked about forthcoming multilateral negotiations and I should like to point out two characteristic features of such talks. First I quickly come to prickly matters of detail; then after, the clear overriding gains from trade. It remains to translate these, the latter, into a political will to settle the details on the prickly issue. I am pleased that Giscard d'Estaing will attend the opening of the Tokyo meeting.[4] If he brings the same skill and expertise

[3] The IMF and World Bank Boards of Governors met in Nairobi September 24–28.

[4] A GATT Ministerial meeting was held in Tokyo September 12–14.

there that he brings to commercial matters, it bodes well. Finally, this was one in a series of similar or larger meetings with Giscard d'Estaing. I always find him an interesting, stimulating and most pleasant person to be associated with.

Finance Minister d'Estaing: I have almost nothing to add because of the precision and high quality of Secretary Shultz' statement. Since President Pompidou said last night that he was going to switch Finance Ministers, I would like to say that Secretary Shultz spoke for both of us.

Let me give a few political indications. We agreed that we must work towards a world monetary order in sub-term measures. Convertibility is accepted by our U.S. partners in that new system. The SDR's must be a value that is sought after. Gold was mentioned, but in a system based mainly upon the laws of the markets it is unlikely that gold would remain at a level too far divorced from reality.

As to timing, we have no interest in pushing things. We see the end of 1973 or early 1974 as the soonest moment. On trade, we agree with our partners on reciprocity of concessions and that the CAP will not be questioned again. We note the desires of the U.S. to study all non-tariff barriers. This is all I have to add to the very exact report of my friend and colleague, Mr. Shultz.

President Nixon: One significant thought occurs to me after these brief but important reports. It is that they tell us something about our two countries that we should always keep in mind. We both are not parochial. We look to the world. Consider the range of questions studied by the President and me, the Foreign Ministers and the Finance Ministers. We have surveyed the world geographically and economically.

The President and I talked about Southeast Asia, Japan and its links to Europe, the Middle East and Europe, East-West relations, SALT, MBFR, as well as the world monetary and trade system.[5] You see the wide range of interest in subjects that go far beyond our own two countries. Although at times we may disagree on techniques, there is no disagreement about our interests which are very close.

I should like to conclude on a personal note and an observation directed at the U.S. side.

I look forward to returning to Paris in the fall when we can continue our dialogue. I want to be sure all in the U.S. Government understand my position on Franco-U.S. relations. I do not speak for those

[5] Documentation on the May 31 discussions among Pompidou, Nixon, and Kissinger is scheduled for publication in *Foreign Relations*, 1969–1976, volume E–15, part 2, Documents on Western Europe, 1973–1976; see also Document 41. A memorandum of conversation recording a meeting of Pompidou, Nixon, and Kissinger on June 1 from 10:15 a.m. until 11:45 a.m. is in the Library of Congress, Manuscript Division, Kissinger Papers, Box TS 26, Geopolitical File, France, Meetings, 1973, May–June (Reykjavik, Iceland).

who are in this room here with me, because they share my view. The President said that French and frank are the same. I want to speak very frankly too. U.S. policies vis-à-vis France before 1969 were wrong and disastrous. There was a tendency to blame General de Gaulle's[6] stubbornness for the breakdown in Franco-U.S. relations, but those responsible for these policies in the U.S. must take a large share of that responsibility. When I first came to Paris in 1969 and had a long talk with de Gaulle,[7] I started then to work towards an objective and I have made progress towards it in the last four years and will make more progress in the next four years. My aim is to return to a strong, friendly basis for our relations such as we enjoyed in the past. I don't mean total agreement but I do mean trust and cooperation. I want to be sure that all U.S. Government officials reflect that spirit in their dealings with their French counterparts, because the legacy of the early 1960s has left a residue at the lower level. Needless to say, that residue is in the press because every time we have a meeting with our French friends, the press say there will be a confrontation and every time we disappoint the press. I do not suggest total agreement, which could never be the case between two free countries.

It is customary to say after meetings such as this that a new era has begun. In my mind it began the day I was first inaugurated and it will continue now because my goal in foreign policy for the eight years which I hope to be in office is to leave French and U.S. policy on the basis which we enjoyed until that difficult period in the 1960's that pulled us apart. A close personal relationship the President and I enjoy will help achieve that.

President Pompidou: May I add a few words to what is for us a very moving statement, Mr. President. The expectations with which we came to these meetings have been fulfilled. First we did not try to decide anything. We exchanged details on a number of bilateral matters. I did not speak for Europe although I did not forget Europe. What Dr. Kissinger would call the regional European reality. I speak not on behalf of others, nor for the people of France—correction, I speak for France.

In the second place, thanks to the type of relations you mentioned and to the policies you pursued we were able to take up the more serious issues and explore their substance as never before in the past. We have explored them very deeply and have looked into the future.

May I say to Secretary Shultz that indeed we do not need a communiqué. We share our inner thoughts, we did not agree on all the

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[6] Charles de Gaulle was President of France from 1958 to 1969.

[7] President Nixon visited Paris from February 28 to March 2, 1969. See *Foreign Relations*, 1969–1976, volume III, Foreign Economic Policy, 1969–1972; International Monetary Policy, 1969–1972, Document 7.

methods, but we do agree on our general interests and that France and the U.S. are guided not only by a sentimental tradition but by a community of deep interests. I am convinced that this conference has not given birth to anything, but it bears a seed for the future, and conception is more fun than delivering.

I want to thank you Mr. President for the friendship and the frankness you have displayed and which I have tried to reciprocate. These meetings have been useful for our two countries and for the world, for the relations between the European Community and the U.S. and to promote the cause of détente and peace where we are so active and violent. I look forward to receiving you in Paris with all the honors and tributes that are yours by right.

[The meeting ended at 12:45 p.m.][8]

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[8] Brackets are in the original.

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43. Letter From French President Pompidou to President Nixon[1]

Paris, June 25, 1973.

Dear Mr. President:

During our discussions in Reykjavik, we mentioned certain monetary and economic problems about which I think it is useful to give my thoughts on a confidential basis, as you requested.[2]

The basic principles that should inspire future international monetary order seem now to be sufficiently well outlined, although the question of how to implement them should be the object of discussions. These principles are essentially the adoption of fixed, although adjustable parities, the return to general convertibility among various currencies, the equality of rights and obligations of all the participants in the system, which implies a reduction of the de facto role of national currencies as reserve instruments. An agreement which is fundamental for the equilibrium of this construction should be based on the definition of a new reserve instrument which could play its role as a measure of value.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 752, Presidential Correspondence 1969–1974, France Pompidou, 1972. No classification marking. The original is a translation that bears President Pompidou's typed signature.

[2] See Document 42.

The delays which will still be necessary in order to adopt a new international monetary system make an examination and solution of transitory problems very important. In effect, the crisis of confidence which is the basic cause of present monetary disorders could, if the economic situation were to become less favorable than at present, lead to a very serious situation. We should, therefore, and without waiting any longer, demonstrate we are not incapable of progressing toward the reestablishment of a more satisfactory monetary order.

First, our national economic and monetary policies should demonstrate that our efforts to fight inflation are real and capable of being effective.

The parities which the Ministers of Finance agreed upon at the conference in Paris in March 1973[3] should be progressively stabilized and defended by the most appropriate means. The erratic and destabilizing movement of short term capital should be fought in a coordinated manner, which requires the generalization of effective controls. Finally, it is necessary to end the de facto freeze on central bank reserves which has posed the problem of the convertibility of both the dollar and of gold. Several solutions can be envisaged to reach a result which will return us to an international monetary equilibrium.

These actions seem so essential that it seems unreasonable to exclude a priori the hypothesis of an eventual Soviet demand to join the International Monetary Fund, or in any event, to participate in the future international monetary system. This would have important consequences for the functioning of the international economy.

The evolution of the Soviet Union and its satellites toward an accelerated development of their exchanges with countries with free economies is in effect irreversible since it corresponds to the satisfaction of their priority needs.

Politically, it is difficult to imagine that the Soviet Union will not seek sooner or later to have its voice heard, directly or indirectly, in an organization which constitutes a means of essential information and cooperation, both with the developing countries and the major countries of the free world who are becoming important political and economic partners in the realization of their five-year plan. This may also be true in a more distant future for China.

However this may be, a similar evolution is already perceptible in the more active participation of the Soviet Union in the activities of the economic organizations depending upon the United Nations.

[3] See Document 35.

Without a doubt important obstacles still remain in the way of an eventual request by the Soviets to join the IMF. There are also problems of communication of information considered secret and in the constraints imposed by annual consultations. Other problems arise from the very organization of the Communist bloc: the absence of a coherent and uniform price system, the practice of bilateral agreements, and the absence of a true multilateralization of payments even among the COMECON countries.

The obstacles do not, however, seem insurmountable if a determined political will exists. I have noticed that these obstacles were not judged sufficiently important to block the demand by Romania to join the IMF in September 1972. It is quite probable that this action was taken only with the agreement of the Soviet Union.

If this political will exists, numerous other problems will still be posed for the member countries of the IMF; the distribution of permanent administrative seats, the determination of quotas.

Whether the Soviet Union does or does not seek to join the IMF, one can anticipate that in the future they will attach a growing importance to three particular aspects of a system in which they will take part or to which they will be associated:

—the agreement on fixed exchange rates, which is indispensable in economies as fully planned as theirs.
—the definition of a numeraire which will be a desirable reserve instrument acceptable to them.
—the restriction of the de facto role of certain national monies as numeraire.

These reflections are not meant to be predictions. The evolution of international economic and political relations seems to me to be such that some of these long-term developments are no longer unlikely. It no longer seems premature to think about them or their consequences. This is an added reason why we should try among the countries of the free world to reach an agreement on the organization of the future international monetary system and on the problems of the transitional period.

As I indicated to you during our discussion in Reykjavik, the present situation of the agricultural markets, and especially those of meat and dairy products, is also a matter that preoccupies me.

The opinion is widespread that these markets are and will remain in a state of over-production. Some producing countries have, therefore, adopted a Malthusian policy and are engaging in an uncoordinated competition in their exports which leads them to sell below the normal price and sometime even below the cost. This competition essentially benefits the purchaser, developed countries, or those with large reserves. At the same time, an important part of the world population continues to suffer from under-nourishment.

Some specialized international organizations bear the responsibility for spreading the opinion that the world is threatened with overproduction of food. For example, the United Nations Organization for Food and Agriculture stated in 1971 that substantial excess production would exist for such products as wheat, rice, other cereals, vegetables and bananas.

These forecasts seem to me to be open to criticism on several grounds:

—the anticipated demographic evolution during the decade seems to have been underestimated and should already be corrected upward as a function of recent censuses.

—on the other hand, the estimates of gross production seems to have been overestimated for numerous developing countries and in certain groups of developed countries. For example, the FAO envisaged a "growth in available exports" of milk and milk products from the Soviet Union (as well as from Poland and Romania) and substantial cereal surpluses. These predictions were based on the goals of the production plan communicated by these countries and were not verified. The climatic reasons advanced as an explanation of recent Soviet purchases do not entirely provide a satisfactory explanation. The Soviet Union seems to be in an agricultural crisis, as their importations of wheat and butter indicate, as do the shortages of meat that they are experiencing.

Finally, and above all, the predicted excess in agricultural production resulted from the confrontation between production—which was overestimated—and "effective" demand. Now, this demand is considerably below nutritional needs as a whole for world population. The international organization itself remarked on this by saying: "Projections show that in 1960 42 developing countries with 1.4 billion inhabitants will still have insufficient caloric intake, even if demand is fully satisfied. The planned economies of Asia would add another one billion to the number of individuals in this situation."

The excessive importance given to the notion of so-called "effective" demand therefore hides the real problem which confronts our country [which] is hunger or the insufficiency of food which strikes nearly 2-1/2 billion people.

In these circumstances, the problem of competition for third [country] markets seems to me to be badly posed. It is necessary to reexamine it completely. Presently most transactions take place between developed countries or countries with adequate monetary reserves: on the one hand, essentially the United States, the countries of Western Europe, Canada, and, on the other hand, the Soviet Union, China, and Japan, for whose markets there is costly competition.

Such a situation is doubly abnormal: On the one hand, the producing countries, contrary to the normal case, must subject their interests to the important and urgent needs of the consuming countries and the financial burden this will place on them. On the other hand, one tries to plan the future of western agriculture in terms of overproduction even though, in fact, we are in a situation of underproduction if one looks at things from a global point of view.

It is true that among the consumers there will be more and more underdeveloped countries with few means of payment, but it is precisely these countries which it will be necessary to systematically aid to insure their subsistence, which will insure the equilibrium of European and American agriculture.

Therefore, it seems to me that our common interest and that of humanity will be to study as soon as possible the prospects for concluding certain agreements on regulating agricultural markets and on stabilization with respect to cereals and milk products in particular. These agreements could include:

—fixing an international price at a reasonable level corresponding to the actual tendencies of the market.

—coordination of the export policies of principal producing countries, without having this lead to a division of markets.

—the regulation of production, notably in the form of stockpile agreements, annually renewable, and whose costs would be equitably shared among the producing countries.

In addition, food aid to developing countries should be substantially increased and the actions of various exporting countries should be coordinated so that the progress of our agriculture can effectively help solve the problem of the third world.

I propose to raise this problem publicly as we agreed in Iceland.

Please be assured, Mr. President, of my highest consideration.

Georges Pompidou

44. Telegram From the Embassy in the Federal Republic of Germany to the Department of State[1]

Bonn, July 5, 1973, 1515Z.

9594. Pass Treasury and Federal Reserve. Subject: Conversation with Finance Minister Schmidt.

1. *Summary:* In a frank discussion with me on July 3, FRG Finance Minister Helmut Schmidt presented a somewhat pessimistic analysis of the present situation on the European monetary exchanges. The primary factor, in his view, making for the recent decline of the dollar has been a run-away psychological loss of confidence brought about by several developments including the continuing US payments deficit and the feeling in Europe that current US policies will not be adequate to control inflationary pressures.[2] He was reasonably hopeful, however, that the recent German revaluation of 5.5 percent[3] would bring on a temporary period of stability in terms of the mark relationship to other European currencies within the snake. *End summary*

2. I called on Finance Minister Helmut Schmidt on July 3 to discuss the current monetary situation. He began by saying that his government felt there had been no alternative to the most recent 5.5 percent revaluation of the D-mark if the snake were to be preserved, although pressures from German industry against such action were heavy. The current situation of the dollar on the exchanges was a deplorable one, to be explained only in terms of a run-away psychological loss of confidence. It obviously did not involve real values, but there seemed to be a lack of confidence in US ability to control inflationary pressures, reinforced by the continuing US payments deficit.

3. He and some his advisers had assumed, Schmidt continued, that further revaluation of the mark would also have a depressive effect on the dollar, even though it did not have a direct impact on the dollar–mark central rate. This was not, however, the unanimous expectation within the German banking community and, as a matter of fact, Bundesbank President Klasen had argued that there would be a rise in the value of the dollar following the German action. He had obviously been proved wrong.

4. Schmidt said that he was reasonably optimistic that heavy pressures would now subside on the currencies within the snake, although

[1] Source: National Archives, RG 59, Central Foreign Policy Files. Secret; Exdis. Repeated to Helsinki for the Secretary.

[2] In mid-May, speculation against the dollar had resumed, and the dollar continued to decline in value over the succeeding weeks.

[3] The revaluation occurred on June 29.

he allowed for the possibility of some movement upward of the D-mark. One stabilizing factor would be the seasonal outpouring of German tourists all over Europe exchanging large amounts of marks for local currencies.

5. As far as the dollar was concerned, Schmidt emphasized, he would not particularly welcome US intervention in its support at the present time if all that meant was the use of DM's obtained under a swap arrangement.[4] This would merely add to the inflationary pressures, Schmidt continued, within the FRG at a time when, he believed, the government's anti-inflation measures were just beginning to take hold. One thing the US could usefully do, however, was to sell some of its gold. If we were willing, for example, to dispose of some 300 million worth of gold, the FRG and perhaps some other European countries would be prepared to join in with additional gold sales. His experts believed that, in view of the narrowness of the gold market, such sales would significantly reduce the present inflated price of gold. The effect of any such reduction would be psychologically important in reducing pressures on the dollar, since the present price of gold (three times that of the official gold value of the dollar) signaled to the entire world the weakness of the dollar.

6. In view of the widespread loss of confidence in the dollar, Schmidt said he could not be other than gloomy about the possibility that the dollar might decline even further in value. One thing clear was that he would not personally be identified with any further formal revaluation of the German mark. He believed its over-valuation was already so great that, with the change in the business cycle he anticipated next year, German export industries would be hard hit as demand declined and it became obvious that their products had become over-priced in a contracting market. It was the first time he had said this, but if necessary the FRG would abandon the snake and let the DM float alone rather than revalue again in any form. This would be both a political and an economic necessity for the German Government, despite the negative effect it would have on the movement towards European monetary union. Likewise, the need to combat inflation in the FRG would make impossible any further support of the dollar by Bundesbank action on the exchanges such as had occurred in the past.

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[4] In February 1962, the U.S. Federal Reserve System joined with central banks in other major industrialized countries to create an informal network of "swap" arrangements. Essentially, this network enabled a member country to draw upon lines of short-term credit established with the other members in order to stabilize the value of its currency.

7. During our conversation I made the obvious arguments, stressing that the kind of pessimism which he had expressed about US efforts to combat inflation were not warranted by the facts, that price movements in the US would be favorable, and that, while certain price and demand inelasticities have perhaps proved more stubborn than anticipated, a turn-around in the trade balance was already noticeable. It was inconceivable, I argued, that such a drastic change in monetary parities as had occurred in recent years would not in the long run have the effect on imports and exports which classical international trade and monetary theory prescribed. Although he acknowledged some of these points might be valid, he was not prepared to deviate from the basic appraisal which he had made.

8. *Comment:* Schmidt is just about to depart on a five-week vacation which he hopes will not this year be interrupted by a monetary crisis as was the case in 1972. He was in one of his more didactic moods, but his analysis was basically somber, both as to the long-range implications of what he considers to be over-valuation of the DM and the prospects for the dollar. He apparently has lost the inclination which he displayed during his earlier months as Finance Minister to rely on exchange controls in extremis, since the experience of his government with controls during the past year was singularly unsuccessful in restricting the flow of dollars into Germany.

Hillenbrand

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45. Telegram From the Embassy in France to the Department of State[1]

Paris, July 9, 1973, 1740Z.

18776. Subject: President Pompidou's Pessimistic Mood.

1. *Summary:* Several journalists who meet regularly with President Pompidou have recently remarked to Embassy officers on different oc-

[1] Source: National Archives, RG 59, Central Foreign Policy Files. Confidential; Exdis. Repeated to Bonn, Brussels, Copenhagen, Dublin, London, Luxembourg, Moscow, Rome, The Hague, USNATO, USEC Brussels, and the Consulates in Bordeaux, Lyon, Marseille, Martinique, Nice, and Strasbourg.

casions, but in almost identical terms, that President's current mood is one of deep pessimism. Pompidou reportedly is brooding over monetary crisis, disarray of Western camp and French impotence to change situation. He is said to portray Western Europe as on the brink of rapid and possibly brutal slide towards what he characterizes as "Finlandization." *End summary.*

2. According to our sources, Pompidou sees dollar crisis as generally debilitating for West. In addition to problems dollar weakness creates in trade area, he believes it will generate intense US Congressional pressures to reduce US forces in Europe. This, plus widespread belief in European circles that US and USSR have reached bilateral agreement which precludes resort to nuclear weapons in European conflict, create grave doubts about US willingness to defend Western Europe.

3. Rather than strengthening European unity, Pompidou believes situation is creating "every-man-for-himself psychology" among European nations. Thus, he perceives real danger that FRG might adopt a more neutral role in exchange for some progress towards reunification. He believes Soviet Union is well aware of Western vulnerability and has every intention of exploiting it, according to our sources.

4. Particularly frustrating to Pompidou is that he sees no easy solution and believes that GOF has little control over events. France certainly intends to maintain its own defense posture and Pompidou reportedly just approved entire defense budget for the coming year, but the President is said to be keenly aware of French inability to do much to guarantee European security.

5. *Comment:* After June 6 Council of Ministers' meeting, government spokesmen said Pompidou regarded current monetary situation and international problems as extremely serious and would discuss them in major public television address this fall. We have also heard that President instructed Jobert to take cautious approach during recent Helsinki meetings,[2] to "wake people up to West's insecurity." Thus, we are inclined to believe that Pompidou is not overdrawing his concern about monetary crisis for tactical purposes but is seriously worried about monetary disarray and its possible effects on European security—especially in accelerating moves toward US force reductions.

Irwin

[2] Ministers from 34 nations met in Helsinki to discuss the Conference on Security and Cooperation in Europe from July 3 to 7.

46. Memorandum From Charles Cooper of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, July 11, 1973.

SUBJECT

The Foreign Policy Importance of International Monetary Intervention

The Problem

We are well into the first full-scale currency crisis since the monetary system went on a modified floating basis last March. The result has been a gross misalignment of currency values. The value of the dollar has fallen drastically. European exchange rates have appreciated by as much as ten percent above the rates decided on in March. The implications of this are:

—Europeans, citing the major competitive advantage provided the US as the result of the decline of the dollar, are expressing low-key reluctance to engage the US in trade talks. When such talks begin Europe will be extremely reluctant to make concessions in key areas.

—The prospects for an international monetary system based on exchange rate flexibility have been weakened as the result of the instability which has characterized the present float.

—To prevent their currencies from further appreciating vis-à-vis the dollar, European nations have given warnings that they might turn toward exchange controls.

—The sharp decline in the value of the dollar has made US exports unusually competitive, which has contributed to the sharply increased foreign demand on US commodities and thereby to the need for export controls.[2] Conversely, this had led to a rapid increase in imports into other countries, thereby causing some to consider erecting new import barriers.

The Case for Intervention

We are now facing a problem based on a crisis in confidence in the political will of the US to act constructively, which the exchange markets have translated into a lack of confidence in the dollar. The apparent lack of US efforts to curtail inflation, or to defend the dollar,

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 290, Agency Files, U.S. Treasury, Vol. III, Jan. 1972–Sept. 18, 1973. Confidential.

[2] On June 27, the Nixon administration instituted a temporary embargo on soybean and cotonseed exports. On July 2, it lifted the embargo, replacing it with controls on exports; at the same time, the administration also instituted restrictions on scrap metal exports. On July 5, the administration restricted the export of an additional 41 agricultural goods. (*The New York Times*, June 28, July 3, and July 6, 1973)

make speculating against the dollar a good bet and reduce the risk in doing so. This lack of confidence has prevented the equilibrating international market forces, which normally would take hold at this point from strengthening the dollar.

There are at present two schools of thought regarding what to do—noninterventionists and interventionists. While conceding that carefully timed intervention might correct exchange rate misalignments, the non-inteventionists, who prefer allowing the market to resolve the problem, point out that when a crisis of confidence becomes acute, as this crisis clearly is, there is no "easy way" out. Until confidence is bolstered by some improvement in either the fundamental causes of dollar weakness—i.e., our balance of payments deficit and domestic inflation—or in the more recent factors which exacerbate that weakness—Watergate and export controls—intervention would not succeed in strengthening the dollar. Moreover, if intervention were attempted and failed, lack of confidence would worsen and the situation would become less manageable.

Although there is some merit in the non-interventionist position, it seems clear to me that now is the time to intervene. My reasons for believing such intervention necessary are:

—At this point speculators can be reasonably certain that by speculating against the dollar in favor of stronger currencies they can only gain; the very fact that intervention would take place would inject a downside risk. Indeed the mere rumor of possible intervention has contributed to a recent strengthening of the dollar. Intervention would encourage market forces that the downward drift of the dollar had come to an end, thereby providing some incentive for them to purchase dollars in the hopes that it would strengthen. This in turn would contribute to its strengthening.

—The very fact that the US intervened would demonstrate our desire to help alleviate what has for Europe become a major economic problem and (because it has contributed to European inflation and placed stress on cooperative European monetary arrangements) a major political embarrassment.

—This evidence of cooperation would strengthen the hand of those in Europe who oppose unilateral measures to restrict imports from the US and erect capital controls.

—Successful intervention would decrease the need for US export controls.

—It would convince nations that under a flexible system (which some countries fear would entail their loss of control over their exchange rates) actions can be taken to insure that rates do not remain in prolonged misalignment.

Implementation

To deal with the political and economic lack of confidence, we should at this point intervene to buy dollars without committing ourselves to maintain exchange rates at their current levels and without committing ourselves to any specific level of intervention. We would do so in cooperation with similar efforts by other major financial powers. The financing of this intervention could be accomplished through swap agreements (in which we borrow strong currencies such as marks, francs, or guilders and utilize them to buy dollars) or through gold sales in the free market. (My personal recommendation would be to sell US official gold on the free market up to a limit of, say, $1 billion, in addition to activating swaps.) Associating our intervention with Phase IV[3] would give us a double-barrelled gain: demonstrating that we are prepared to act decisively both to support the dollar directly and to combat US inflation which is the basic economic factor underlying the present weakness of the dollar.

In order to get the foreign policy benefit we want from such intervention, we should privately consult with and seek the cooperation of key European officials, particularly the French and the Germans. In these consultations, we should stress that by taking action to strengthen the dollar we hope to provide a positive setting for progress in international monetary reform and trade negotiations. If we are successful in arranging an internationally agreed intervention effort in support of the dollar, we will have moved in a practical and tangible way to demonstrate that there is real meaning in our words about the Year of Europe. No other area of mutual interest this summer furnishes the same opportunity.

Recommendation

That you sign the memorandum to George Shultz at Tab A.[4]

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[3] Phase IV of President Nixon's Economic Stabilization Program was introduced on July 18. For the text of the President's announcement of Phase IV, see *Public Papers: Nixon, 1973,* pp. 647–653.

[4] Attached but not printed. There is no indication that Kissinger signed the memorandum, which summarizes Cooper's arguments and asserts that the "continuation of what appears to be U.S. indifference towards the recent sharp decline and current under-valuation of the dollar will jeopardize our basic foreign and economic policy interests in Europe this year." The memorandum proposed that "we should inform key European leaders that we are now prepared to take action in support of the dollar and to seek their counsel and cooperation in implementing such a policy" and requested an early meeting with Shultz to discuss the matter. Despite the return of relative calm to foreign exchange markets on July 11, occasioned by the Federal Reserve Board's July 10 announcement that the value of its swap arrangements with its partner central banks had been increased by more than $6 billion, Cooper continued to press Kissinger, counseling him in a July 13 briefing memorandum to urge Shultz to support the dollar in cooperation with the Europeans. (National Archives, Nixon Presidential Materials, NSC Files, Box 290, Agency Files, U.S. Treasury, Vol. III, Jan. 1972–Sept. 18, 1973)

47. Memorandum From Charles Cooper and Helmut Sonnenfeldt of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, July 26, 1973.

SUBJECT

Reply to Pompidou's Letter on Economic and Monetary Issues

The memorandum for your signature to the President at Tab I forwards President Pompidou's letter of June 25[2] (Tab B) together with an analysis of its contents and a proposed reply (Tab A).

The Pompidou letter raises important issues that should be the subject of careful study within the Government—among them, means of dealing with the present monetary instability, the USSR's future role in the international monetary system, and the question of international agricultural agreements. Accordingly, we have drafted the President's reply to indicate clearly in the first paragraph that it is an interim reply. The incoming letter has been reviewed by Secretary Shultz and his reponse (Tab II) has been incorporated into the reply.[3] We will follow up with Treasury and develop positions on the above monetary and agricultural issues.[4]

Recommendation

That you sign the memorandum to the President at Tab I recommending that he sign the accompanying interim reply to President Pompidou.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 752, Presidential Correspondence 1969–1974, France Pompidou, 1972. Secret; Sensitive. Sent for action. Neither Cooper nor Sonnenfeldt initialed the memorandum. A notation on the memorandum indicates that it was returned to Cooper and Sonnenfeldt "re Hak's comments." The tabs are attached but not printed.

[2] Printed as Document 43.

[3] President Pompidou's letter and a proposed reply were transmitted to Shultz under cover of a July 20 memorandum from Kissinger. (National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 56, Country Files, Europe, French Exchanges [1973–74] [2 of 2]) Shultz's response, which was sent to Scowcroft under cover of a July 24 memorandum from Ronald Brooks, Shultz's executive assistant, consisted of a substantial revision of the section on international monetary policy, resulting in a letter that was less agreeable and less accommodating to the French position than the NSC draft. (Ibid., Box 752, Presidential Correspondence File 1969–1974, France Pompidou, 1972)

[4] Kissinger highlighted the final two sentences of this paragraph and wrote: "We will do nothing of the sort without a NSSM—I want to see arguments + [illegible]. But have we put out a NSSM? If not, let's do so soonest." Kissinger also wrote on the memorandum: "I want to be a shade less negative on agricultural agreement."

48. Telegram From the Embassy in France to the Department of State[1]

Paris, July 27, 1973, 1906Z.

20620. Subject: Call on French Minister of Finance Giscard d'Estaing.

1. During a call I made on Finance Minister Giscard d'Estaing this afternoon, he emphasized his concern with the current monetary situation. He said he felt U.S. political leaders did not understand the seriousness of the political problem which the decline of the dollar to a rate 10 percent below the February 12 parity was causing the French Government and other European governments too. He mentioned a recent talk he had had with a French businessman who had expressed the fear he would be unable to compete in the U.S. market at the present dollar/franc exchange rate and would have to let off substantial numbers of people. If unemployment and political difficulties were thus to spread in Europe, that would make monetary problem very much harder to resolve.

2. I questioned Giscard as to what alternative he saw to floating rates in the present transition period. Giscard replied that the important thing was for the U.S. to show willingness to support the dollar, repeating that he believed the dollar was substantially under-valued perhaps as much as 10 percent. He said he thought it could be supported at the present level through the use of swap facilities without getting into the more complicated problem of consolidation of balances. He feels objective should be at a minimum to keep rate from falling below present level and, if possible, to achieve some recovery—say, by about four or five percent above its present value. He said he was not arguing we should support the dollar all the way back up to the level resulting from the devaluation. He felt the U.S. had made a mistake in taking a completely "hands off" attitude after the last devaluation.

3. I took issue with Giscard's suggestion that the U.S. was indifferent to the strength of the dollar. I noted that the U.S. had more than met the President's target of keeping government expenditures below $250 billion in FY 1973 and that the final budget deficit for FY 73 was $14 billion rather than the $18 billion forecast in January. I mentioned that President Nixon had expressed his determination to achieve a balanced budget in FY 1974. I called attention to the strong Phase IV pro-

[1] Source: National Archives, RG 59, Central Foreign Policy Files. Confidential; Immediate. Repeated to Bonn, Brussels, London, Rome, The Hague, USEC Brussels, and USOECD Paris.

gram for dealing with the immediate inflationary problems. Finally I pointed to the second quarter trade results as evidence that our efforts were beginning to bear fruit. Giscard agreed these were important developments.

4. In further discussion it became clear that Giscard feels that U.S./European differences over the monetary situation can have important repercussions on other issues, particularly on the EC itself, and on defense and security questions. Resolving monetary problems would not resolve all other issues he said, but a failure to resolve the monetary problems would certainly exacerbate other issues.

5. In parting Giscard commented that "in diplomacy mistrust is deep-rooted" and hoped we could work together to deal with such mistrust by full and frank exchanges. Accordingly we agreed to pick up discussion again in September.

6. In light of the seriousness of French concerns, however, I urged Giscard to speak directly to Secretary Shultz in Washington next week to explore possible solutions.

Irwin

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49. Memorandum From Charles Cooper and Robert Hormats of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, July 30, 1973.

SUBJECT

Foreign Policy Implications of International Economic Situation

The present international monetary crisis, the fourth since December 1971, has serious implications for our foreign policy. The announcement last week of Phase IV[2] and the acknowledgment of

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Kissinger Office Files, Box 55, Country Files, Europe, Meeting with French Finance Minister Giscard d'Estaing, July 31, 1973. Secret. Sent for information. Neither Cooper nor Hormats initialed the memorandum, which was included as Tab C in a July 30 briefing memorandum from Sonnenfeldt to Kissinger for Kissinger's July 31 meeting with Giscard.

[2] See footnote 3, Document 46.

Federal Reserve Bank intervention[3] (still in view of many too little to do the job) strengthened the dollar briefly, but its decline has resumed. Our inability to deal with this situation affects foreign confidence in the United States, threatens trade and monetary negotiations, increasingly casts the U.S. as the villain in European attempts to curtail politically pernicious inflation, and will have serious long-term economic and political implications.

The Monetary Crisis

The monetary crisis—in which the major continental currencies have since February appreciated by an average of 14% vis-à-vis the dollar—reflects not only continuing U.S. balance of payments problems and domestic uncertainties but also a change in the psychology in the international currency market. Multinational corporations, banks, and a number of developing and oil-producing countries have come to believe that in the present monetary turmoil their best interests lie in moving funds into the strongest currencies, which they expect will appreciate in value. Doing so protects their assets from devaluation and provides a good chance for windfall profits. This psychology, to the extent that it has caused a move out of dollars and into such currencies as D marks, has become a self-fulfilling prophecy leading to a depreciation of the dollar and an appreciation of the mark.

The Effect on Europe

The resulting monetary instability has worsened the inflation problem in such countries as Germany, which have had to absorb massive currency inflows. This has complicated German efforts to slow the growth of its money supply as a means of combatting inflation. The appreciation of most European currencies vis-à-vis the dollar has not as yet harmed their trade balances since most of their trade is not with the U.S., and because of lags in the adjustment process. Also, the boom in the U.S. and most other economies has created a continuing high demand for imports and thereby prevented any diminution of European exports resulting from their currency appreciation. The fact that trade has not been affected explains the lack of strong countermeasures against what all agree is an excessive dollar depreciation. Nevertheless, some Europeans, the French in particular, believe that the United States has been given an unfair advantage by the low value of the dollar.

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[3] On July 18, the Federal Reserve Board and Treasury Department announced that the Federal Reserve Bank of New York had been intervening in the foreign exchange market to stabilize the value of the dollar since July 10.

The Effect on the U.S.

For the United States dollar depreciation has not been an unambiguous blessing. Imports are more expensive because of devaluation, and this contributes to U.S. domestic inflation. The price of oil imports in particular has increased because of successful contract negotiations by producing countries and the direct effects of devaluation. U.S. agricultural products are now selling at bargain international prices creating a greater foreign demand for them and thus contributed to the need for U.S. export controls. The controls themselves have dampened U.S. balance of payments prospects thereby intensifying downward pressure on the dollar, which in turn puts greater pressure on U.S. domestic agricultural supplies. Controls have also limited supplies abroad thereby contributing to inflation in many countries and undercuts our ability to press our legitimate long-term goal of freer access to foreign agricultural markets. On the other hand, after adjustment, a number of U.S. products will benefit from the fact that devaluation has increased foreign demand for our exports. Investment in the U.S. has also become more attractive to foreigners. These factors will help create jobs and reduce unemployment in the U.S.

Longer-Term Implications

In the longer run, the very low value of the dollar will adversely affect our trading partners. Although their trade position has been little damaged so far, cheaper U.S. goods and increased investment in the U.S.—rather than in the domestic economies of these countries—will eventually create more jobs in the U.S. and less job opportunities abroad. Other nations are now attempting to apply restrictions to curtail domestic inflation, the result of which would, under normal circumstances, bring about a slow-down in their economies. Such a foreign-created loss of job opportunities during this period could contribute to recession in their countries and cause some of the blame therefor to be shifted to us. The problem will become more acute as the slow-down in foreign economies becomes pronounced, but the fear is clearly there already.

The outgrowth of this concern by our trading partners is increased pressure, emanating chiefly from France, for Europe to take a harder position vis-à-vis the U.S. in trade and monetary negotiations and to avoid "giving away" any concessions to the U.S. which in their view will soon begin to reap the benefits of a devalued dollar.

This concern has colored relations in a number of policy areas:

—In Article 24:6 negotiations the French, and others, have been extremely reluctant to make concessions to the U.S.[4] Although today

[4] See footnote 9, Document 40.

we received information that Jobert had indicated to a high EC official his desire of avoiding a confrontation with the U.S. on this issue, little progress has as yet been made toward a solution.

—In discussions on trade negotiations, the French have taken the view that negotiations should not begin until currencies have returned to their rates agreed to by Finance Ministers in February,[5] i.e., the over-devalued dollar appreciated by roughly 14% vis-à-vis the European. The other EC members have overruled the French on this, but the French can be counted on to reassert their position even more strongly if the dollar continues to decline.

—The U.S. Trade Bill, presently in the Ways and Means Committee, is moving more slowly than expected. This slow pace reflects in part a reluctance by the Congress to give the President a great deal of negotiating flexibility, but also has been influenced by the very unstable international economic climate.

—Monetary negotiations being conducted in the Committee of Twenty are going very slowly. No basic agreement will be reached by the IMF annual meeting in Nairobi in September. This slowness results in part from an inability of the major nations to agree, and from the preoccupation of many countries with the dollar's decline.

[5] See footnote 2, Document 7.

50. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon[1]

Washington, August 7, 1973.

SUBJECT

Letter from President Pompidou

President Pompidou's letter of June 25 (Tab B)[2] is a follow up to the discussions on monetary and agricultural policy in Reykjavik.[3]

Summary of Pompidou Letter

President Pompidou's letter covers several subjects. The main points he makes are the following:

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 752, Presidential Correspondence 1969–1974, France Pompidou, 1972. Secret. Sent for action. A stamped notation on the first page indicates the President saw it.

[2] Printed as Document 43.

[3] See Documents 40–42.

—Agreement has been reached on the basic principles of the future international monetary system, including a return to general convertibility.

—Because considerable time will be needed before a new international monetary system can be adopted, it is very important that the transition period be well-managed so as not to lead to a crisis of confidence that could be very damaging. This means, in Pompidou's view, not only effective anti-inflation programs, but active defense of the exchange rate parities established in March 1973[4] and ending the de facto freeze on central bank reserves.

—The Soviet Union will play a greater role in the international monetary and trading order. They have a particular interest (related to their own planned economy) in fixed exchange rates, agreement on an acceptable reserve system, and restrictions on the role of certain national currencies as a measuring rod of the system.

—The present world agricultural situation is very troublesome: people in many poor countries suffer from hunger and malnutrition, but producing countries compete vigorously for sales in advanced countries. Pompidou believes that international agreements on prices, production, and stocks of basic foodstuffs are needed to permit adequate coordination of food export policies to help solve major problems of the developing world.

My Views

Pompidou's discussion of the monetary situation stresses the traditional French line: strong efforts to fight inflation as a means of stabilizing the international monetary situation, the need to defend exchange rates, the need for coordination to fight destabilizing short-term capital movements, and the importance of both dollar convertibility and a means of permitting gold to play a role in the settlement of payments imbalances. We are in the process of doing the first, although limits on exports will decrease the supply of agricultural products in Europe and thereby contribute to inflation there. The second, the defense of exchange rates agreed upon in March, remains a matter of controversy within the USG. The third, agreement on means of controlling short-term capital, is a major concern in Europe, but one we have not found a satisfactory means of resolving. The fourth involves the issue of convertibility and the role of gold in the system, both of which we feel should not and need not be resolved before we have agreed on the outlines of a new monetary system.

Pompidou also places greater stress on insuring that the new monetary system meets the needs of the Soviets. His efforts on their behalf are motivated to some degree by the fact that the system which, in his view, the Soviets would find most compatible is also quite compatible with French interests.

[4] See Document 35.

With regard to agriculture, the French refrain about international commodity agreements is not new. The United States has traditionally objected to such agreements because they are difficult to manage and because a free international market in agricultural trade seemed to us to best exploit our competitiveness in this area. The possibility that such agreements would lead to higher world food prices, and a higher share of the market for France than would normally be the case, should be grounds for caution. However, the situation has changed this year as a result of the de facto disappearance of the U.S. buffer stock. Moreover, the recent imposition of export controls on soybeans will strengthen resistance in Europe and elsewhere to continuing full reliance on the U.S. as an agricultural supplier. Therefore I believe this to be a timely moment for at least examining the concept that Pompidou outlines.

The interim reply for your signature to President Pompidou at Tab A would thank him for his letter, note that the United States will continue to work toward constructive reform of the international monetary system, express appreciation for his views on the USSR and invite further elaboration of his thinking of possible agricultural agreements. The letter has been cleared with Mr. Gergen's office.

Recommendation

That you sign the letter to President Pompidou at Tab A,[5] in which Secretary Shultz concurs.

[5] Printed as Document 51.

51. Letter From President Nixon to French President Pompidou[1]

Washington, undated.

Dear Mr. President:

Your letter of June 25 further reviewing the monetary and economic issues we touched on in Reykjavik[2] is most welcome. And while we will be giving careful attention to the matters you have raised, I wanted to send you this interim reply as soon as possible.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 752, Presidential Correspondence 1969–1974, France Pompidou, 1972. No classification marking.

[2] Document 43.

I, too, believe substantial progress has been made toward reaching a consensus on certain of the basic principles that should underlie the international monetary order. At the same time, much remains to be done in defining those principles more precisely. We need, first, to be sure that the developing consensus reflects substantive agreement and not merely vague verbal formulas, and then proceed to the task of implementing the principles in the most effective way. I am hopeful that we will be entering into this phase of the work promptly. The efforts of the United States will be directed toward that end.

In this connection, I share your concern that the present lack of confidence in the monetary order, and the visible absence of clearly defined monetary rules, could become much more serious should the underlying economic situation in our countries deteriorate. For this reason, I do not underestimate the urgency of the task of reform before us.

At the same time, during this interim period, the emphasis you place on national efforts to deal with inflation—and I would add, on progress toward international balance of payments equilibrium—seems to me entirely right and appropriate. Indeed, I see no other way we can restore stability and confidence to the international monetary order, whatever the specific rules of the system.

Your views on the Soviet Union and its relationship to the monetary system are most interesting. The reconciliation of the practices of a state-trading economy with the market-oriented systems of the Western world presents both practical and conceptual difficulties, but you are quite right in emphasizing the relevance of this problem to our efforts.[3]

With respect to world agriculture trade, it is of the utmost importance that during the present critical period we understand one another's problems and not allow short-term difficulties to prevent us from pursuing constructive long-term objectives.

You have also raised a number of important suggestions for a cooperative effort to deal with issues relating to agriculture that will warrant our careful attention. As you know, our traditional view has been one of skepticism toward such agreements, based on the view that they might unduly interfere with world agriculture markets and on the unworkability in times of stress of agreements based solely on price. I believe, however, that while agreements of this type raise a number of questions, it would be very useful to explore in earnest the possibilities of greater cooperation or agreements in areas in which they are to

[3] The second, third, fourth, and fifth paragraphs of this letter reflect verbatim the revisions proposed by Shultz, noted in footnote 3, Document 47.

the mutual advantage of producing and consuming nations, including the developing nations. In this respect, I would very much appreciate further details on the types of agreements and cooperation you envisage. I can assure you that these will be studied very carefully by this Government.

In closing, Mr. President, let me emphasize the importance I attach to our personal communications on these matters.

With warm personal regards.

Sincerely,[4]

[4] Printed from an unsigned copy of the letter. The NSC correspondence profile indicates that the President signed the letter on August 8 and that it was dispatched the following day. (National Archives, Nixon Presidential Materials, NSC Files, Box 752, Presidential Correspondence 1969–1974, France Pompidou, 1972)

52. Transcript of a Telephone Conversation Between Secretary of the Treasury Shultz and the President's Assistant for National Security Affairs (Kissinger)[1]

August 15, 1973, 10:30 a.m.

K: Hello

S: Hello Henry

K: George. How are you?

S: Alright thank you.

K: George. You won't be back until next week and I'll be on the West Coast and I wanted to raise one issue with you. Well, one of several. I talked to Simon yesterday. What is his first name incidentally?

S: Bill.

K: Bill. I talked to him yesterday in connection with the oil and other things and raised a more tender problem. One of the major things we have to quiz and that other nations want from us is in the area of economics. And we have no ability now systematically to sell it politically and we have a tendency to sell it on technical economic grounds on its own merits. Now take for example the international monetary

[1] Source: National Archives, Nixon Presidential Materials, Kissinger Telephone Conversations, Box 21. No classification marking. Kissinger was in Washington; Shultz's location could not be determined.

thing. I think you're making good progress. At least I don't know what you're doing but I'm assuming from the expressions of satisfaction of Schmidt and d'Estaing that you are making good progress. That isn't really what we need because their governments are behaving in a beastly way towards us on the Year of Europe. And if they get from you on technical economic grounds, you see what I mean, a degree of cooperation that don't show us elsewhere we are just not expressing our economic policy adequately. And I was wondering with this country . . . I mean take for example, take another problem. Remember the agriculture discussion we had on the way to Reykjavik of Pompidou's idea of an agricultural pool. Now suddenly all our experts are talking to me about that. I'm not sure it's a good idea. I don't understand it. All I would like to bring about though is a situation where we can tell the French if we are going to some form of convertibility and some form of exchange rights [*rates*?] that we are doing that if they behave elsewhere. Are you still there? And not to give it away as just part of a technical monetary discussion.

S: Well we have been . . . You know that we said that we would go along with convertibility under certain conditions in the speeches that were made last September at the IMF meetings.[2]

K: And I strongly urged it at the time. Now what I'm wondering, is it possible for you at Nairobi to hang tough 'cause the Europeans in the meantime have been bastards so that later on we can wrap up some concessions in the monetary field as part of more global negotiation.

S: That would be a pretty delicate proposition.

K: I know.

S: We have as much at stake as anybody in a monetary system that works.

K: I know it.

S: We have a meeting of the deputies.

K: But they have as much at stake as anybody in the security system that works and it doesn't seem to affect them.

S: Well, I talked to Schmidt about the offset business[3] which incidentally is being very badly undercut by the Defense Department which thinks they want to offer cosmetic changes.

K: But I tell you the Defense Department right now. Schlesinger is in over his head in my opinion. I think . . .

S: In his favor . . . trying to think these things through on a comprehensive basis.

[2] See Document 1 and footnote 10, Document 3.

[3] Reference is to the ongoing U.S.–FRG discussions on measures to alleviate the financial cost to the United States of maintaining troops in West Germany.

K: I know you are. I'm not saying these things critically, I am asking, Bill Simon thought that this would be something that would in fact appeal to you.

S: Yeah. Well I.

K: Did he talk to you about it yesterday? He said he might.

S: Yes he mentioned to me that he had this discussion with you.

K: Well what do you think.

S: Well, I think we should see what we can see about it. That is, we have lots of prickly clicks in the negotiation. We won't finish in Nairobi.

K: But I would like, I would like . . . You see what I would like to set up is a situation where the President can give them something they badly want. Or at least in which you make a dramatic move instead of getting the thing sort [of] trickled out. One technical item at a time. You know when I talked to d'Estaing[4] I said you know what you people don't understand is if you made a political concession we could be more generous in the economic field. He said like what? What could you do that Shultz isn't already doing? Since I didn't know exactly what you were already doing I had to start dancing around. But d'Estaing was so pleased you know that I didn't feel that we had much leverage there. And the reason I mention it George is because we're going to head into a really prickly period with the Europeans in September and October.

S: About what. Military side.

K: Everything. They have suddenly taken the position that they started to take on the convertibility—on the you know not the convertibility, on the devaluation in March that they would make specific rules from which we are excluded and then inform us of them and inform us of them by an intermediary which the head of the foreign ministers conference which changes every six months who happens [to be] the Danish Foreign Minister in this period so you can imagine what kind of a negotiation we can have with them. So we are confronted with a bloc that makes . . . confronted with a series of faits accomplis and a negotiator who has no authority. And that is totally unacceptable to us.

S: Well I think we've broken through that to some extent in the monetary area.

K: Yeah. But we've got to make it in the political area. And we above all, and the British have behaved unbelievably badly. We are not surfacing it yet.

S: Really.

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[4] Presumably a reference to Kissinger's July 31 meeting with Giscard. See footnote 1, Document 49.

K: And I want to get your area synchronized with ours so that they can't claim a special relationship in one field and really put it to us in other fields. And this is another thing. Are you doing anything for the British in the Treasury that you are not doing for others in the form of information?

S: Not that I know of. Of course we have this intelligence relationship

K: But that's not

S: Which I think has to be questioned under the circumstance.

K: Well I'm cooling that but that's at CIA. You're not doing any of that.

S: No. But I have developed this little pattern with Schmidt, d'Estaing and Barber that has proven quite useful.

K: No I'm for that. Look basically you were right from the spirit of what we were trying to do but what the Europeans were trying to do is use our overtures to build their identity in confrontation with us and they are doing it by picking the areas where it is safe. And sucking us dry in the areas where it isn't and we've just got to put a stop to that.

S: Well, I'm quite ready to deal with that.

K: Can you give some thought to how you can get us some leverage in the monetary thing? I mean let that little group know that we are trilling it. You know I recognize it is delicate and I have no complete suggestion and I am not yet sure we want to do it but I wondered whether you could think about it.

K: Yeah?

S: Yeah. When are you going to leave for California?

K: Monday.[5] When are you coming back?

S: Well I'll be back by Monday.

K: On Monday.

S: Yeah.

K: When are you . . .

S: In other words I'll be in then Monday morning at the beginning of the day.

K: Well.

S: They have a pretty important meeting of the Deputies of the Committee of 20 in the first week of September.[6]

[Omitted here is discussion unrelated to foreign economic policy.]

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[5] August 20.

[6] The C–20 Deputies met in Paris September 5–7. Reports on the meeting are in telegrams 23510 and 23763 from Paris, September 6 and 7, respectively. (National Archives, RG 59, Central Foreign Policy Files)

53. Memorandum From Secretary of the Treasury Shultz to President Nixon[1]

Nairobi, undated.

SUBJECT

Report of IMF/IBRD Meeting, Nairobi, Kenya, September 24–28

The principal issues at the IMF/IBRD meeting this week concerned monetary reform; the fourth replenishment of International Development Association (IDA IV); aid to Vietnam; and Chinese representation in IMF and IBRD. I believe we made progress on each of the first three; the last question of Chinese representation was deferred, but will need to be dealt with shortly.

1. Monetary Reform—Meeting of Committee of Twenty Ministers

The 20 Ministers' meeting was amicable, but—as anticipated—made no substantive progress. We have set in motion a more intensive formal work program for the reform negotiations. To help dramatize this, we set a deadline of July 31, 1974, for the completion of a basic agreement in the committee. This agreement would subsequently be transformed into revised IMF Articles of Agreement, for submission to governments for formal ratification.

Potentially more important, there seems to be wide acceptance of the notion that the "Big Five" (U.S., Japan, France, U.K., and Germany) should formally meet and try to settle the main issues. We will get together in good time.

On substance, we agreed to publish a "Chairman's report," outlining areas of agreement and issues yet to be resolved.[2] The report does not represent a commitment by governments, and explicitly notes that agreement on any particular issue is subject to final agreement on the reform package as a whole.

While we are not entirely happy with this report, I believe it does represent some considerable convergence and consensus as compared

[1] Source: National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 3, International Financial Institutions. Secret; Exdis. The memorandum was transmitted in a telegraphed message received in the White House Situation Room on October 18. A stamped notation on the memorandum reads: "Noted by Mr. Volcker."

[2] The text of the September 24 "Report to the Board of Governors of the International Monetary Fund by the Chairman of the Committee on Reform of the International Monetary System and Related Issues" is in de Vries, *The International Monetary Fund, 1972–1978,* Volume III, pp. 155–163.

to a year ago. The major disappointment has been that Europeans have in recent weeks backed off from the more positive attitudes expressed in the July meeting,[3] and have been trying to place the blame on supposed "U.S. intransigence." Parts of the press have been taken in by this, and have mistaken the European negotiating ploy for reality. Unquestionably, the European harder line on some aspects reflects their impatience to obtain from the U.S. more sweeping convertibility commitments than we have been willing to give.

In recent weeks, I have made considerable efforts to discuss monetary reform with our Monetary Advisory Committee,[4] various other groups of bankers and businessmen, and with the academic community. There is almost universal support among these groups for the U.S. substantive proposals and for our negotiating approach—in particular, our desire for some flexibility in exchange rates; our emphasis on a reserve indicator system which will keep countries like Germany and Japan from continuing to pile up huge surpluses; and avoiding a premature move to dollar convertibility. They have urged us to stick to our guns on this matter—they say present exchange arrangements are reasonably satisfactory for this transitional period and they do not share the French criticism of interim floating.

I have also had an opportunity on this trip to brief a number of members of Congress as well as both the U.S. and foreign press on what we are trying to achieve. I hope this will improve public understanding and support for our proposals, and offset the reports being put out by some of the Europeans.

[Omitted here is discussion unrelated to international monetary policy.]

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[3] The C–20 met at the Ministerial level in Washington July 30–31, 1973.

[4] Apparently a reference to the Advisory Committee on the International Monetary System. Reports on the Committee's members and its inaugural meeting, held on August 29, are in the August 23 and August 30, 1973, *New York Times*, respectively.

54. Memorandum From Secretary of the Treasury Shultz to President Nixon[1]

Washington, undated.

SUBJECT

Gold Sales

Arthur Burns, Herb Stein, Peter Flanigan, Bill Casey, Paul Volcker and I have reached agreement on the desirability of several significant steps with respect to gold in the near future.

The agreement was reached against the background of credible reports coming to us through both intelligence and financial channels that the financial authorities of the European Community countries are seriously considering an independent decision within the next few weeks—in contravention of current monetary agreements and before a new international agreement has been achieved—to transfer gold among themselves at a price closely related to the current market price ($98.25 last Friday). Some of the European central bankers seem anxious to be able to write up the value of the gold in their reserves from the current official $42.22 price. Others, probably including the French, are concerned about present mandatory procedures for settling a portion of their intra-European debts in gold or gold-related assets at the official price. Undoubtedly, some—but not all European officials—also see the proposed move as enhancing the probability that gold will work its way back into the center of the international monetary system, and facilitate a French-European vision of a new monetary system.

Under the circumstances we feel that:

a) we should strongly urge the Europeans not to take their proposed separate course with respect to gold, since it would be divisive and inconsistent with the efforts to reach broad agreement on a new international monetary system;

b) we should actively support an effort—which we shall probably not have to take the initiative in proposing—to reach a broad concurrence on amending existing agreements so that monetary authorities may sell gold into private markets at the market prices but may not buy gold from any source except at the established official price. (It would

[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, Gold Sales Ongoing 1973. Secret. Sent under cover of an October 29 memorandum from Shultz to Nixon that reads: "This memo brings you up to date on the question of sales of gold and proposes that we again take part in seeking an agreement along the lines you approved last spring."

be hoped that this procedure would permit a gradual phase-out in the official monetary use of gold and would provide some protection against any drift back toward placing gold at the center of the system);

c) we should make clear that we intend to sell some gold and that we expect at least some others also to sell some gold; and

d) we should decide that all restraints would be removed in the near future on private ownership of gold by U.S. citizens, a step for which you already have authority.

We would like to defer until later a recommendation whether the permission for private U.S. ownership should become effective as soon as we are in a position to start sales or only several months later.

There is probably little chance that we could head-off the European proposal unless we firmly reiterate to them that we consider such action deeply prejudicial to the reform effort and support the alternative approach of permission for, and willingness to implement, official gold sales in the market.

Once the U.S. Government started sales from its gold stocks there is a high probability that the Congress would force permission for private ownership if we did not act fairly promptly. This could create uncertainty in the short run if Americans bought, or were expected to buy, gold in volume. However, such action could ultimately add credibility to our oft-repeated statement that we support gradually phasing gold out of the monetary system. Now that the dollar is stronger, we can take the action with less concern that purchases by U.S. citizens would lead to heavy pressures on the dollar or require mammoth sales from our gold stocks.

If you concur, I would like to authorize Paul Volcker, who is now in Europe,[2] to explore our thinking confidentially and fully with Helmut Schmidt, the German finance minister, on Wednesday.[3] Then, if all has gone well meanwhile, Arthur Burns could push for agreement on the proposals when he meets with the governors of the major central banks in Basle on November 10 and 11. If final agreement is not reached in Basle it would still be possible that agreement could be reached at a non-publicized meeting which I expect to have on December 1 and 2 with the finance ministers of Japan, Germany, France, and the UK, probably in the South of France.[4]

It is likely, though not certain, that France—and in particular Pompidou—will oppose the course we support, arguing that it would prejudice the decisions on the future monetary system. It is possible

[2] Volcker was in Paris October 29–30, attending an OECD meeting.

[3] October 31.

[4] They met in late November; see Document 57.

that such opposition would be ineffective and that on this issue the other European countries would not let France prevent an agreement. But, even if the course we support could not be agreed now, we think our efforts in support of it would probably have proved worthwhile. Our support of a new internationally agreed course would make it difficult for the Economic Community countries to adopt an independent new gold system. We would probably at least have headed-off that potentially divisive act.

George P. Shultz

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55. Memorandum From John Reynolds of the Federal Reserve System Board of Governors Staff to the Chairman of the Federal Reserve System Board of Governors (Burns)[1]

Washington, November 1, 1973.

SUBJECT

Possible Consequences of Seeking a New Agreement on Gold

The question has arisen whether it would be in the U.S. interest to seek at this time to negotiate a termination of the gold agreement of March 17, 1968, together with a reaffirmation of Article 4, Section 2 of the IMF Articles of Agreement which provides that "no member shall buy gold at a price above par value plus the prescribed margin."[2]

It appears likely that the several parties would enter such a negotiation with very different objectives. The U.S. objectives would be (1) to permit market sales of gold by central banks at times when this seemed desirable in order to tranquilize foreign exchange markets, (2)

[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold–BIS Meeting, Nov. 1973. Confidential (FR).

[2] Burns had already proposed this idea to Jelle Zijlstra, President of the Netherlands Bank, in an October 26 letter. A handwritten notation on the letter reads: "not actually sent"; however, another handwritten note indicates that Burns's proposal was "Read to Zijlstra by phone, 10/26/73." (Ibid.) The full text of Article IV, Section 2 of the IMF Articles of Agreement reads: "The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin." (de Vries, *The International Monetary Fund, 1966–1971,* Volume II, p. 100)

to prevent official purchases of gold at premium prices, and hence (3) to reduce further the role of gold as an international monetary asset.

European countries might share the first objective. But their main interest in gold at the moment is to make use of it in intra-European settlements which, as a practical matter, they are prepared to do only at a market-related price, well above the official price. Some of them, in addition, wish to reserve the right to buy gold in the market as well as to sell. In general, they wish to increase the usability of gold as means of international settlement, and thus to enhance or at least preserve the role of gold, rather than to reduce it.

Against this background, any negotiation to reach a new agreement on gold seems likely to be difficult, and to precipitate decisions about gold that it has so far been possible to postpone, and that might be contrary to broader U.S. objectives in C–20 negotiations.

Even if the European countries were to agree to the suggested communiqué, some of them would wish to let it be known that they reserved the right to conduct inter-central bank dealings in gold at negotiated prices. Some countries not party to the new agreement would wish to stress that they would not be bound by it. The result of such statements might well be to enhance the role of gold as a monetary asset, to confirm market expectations of at least a de facto rise in the official gold price, and to exacerbate a dispute about gold between the United States and other countries which might otherwise have been postponed and defused during a later stage of the reform negotiations.

The U.S. interest in permitting central bank sales of gold to the market is now much less acute than it was in July, when the gold price was above $120 an ounce (vs. less than $100 now) and when the dollar was weak because the U.S. balance of payments had not yet shown its recent strength. It has never been clear that official market sales of small amounts of gold would have useful lasting effects. Also, U.S. sales might precipitate Congressional pressure to allow U.S. citizens to purchase gold, which could add substantially to demand for gold.

The EEC interest in undertaking official gold transactions at market-related prices is much stronger now that there are substantial intra-EEC debts to be settled. But such settlements could be postponed further, or made in dollars, or made in gold-related assets with provision for later revaluation in line with later C–20 decisions. There is little logic in the present European position on gold. On the one hand, European officials oppose small additional issues of SDRs as inflationary. On the other hand, they propose to add billions to gold reserves through a de facto increase in the official gold price.

On balance, it seems to me—and to my colleagues on the staff—undesirable to seek a new gold agreement at this time because the result might be contrary to the longer-run U.S. interest in constructing a sound international monetary system. It may be that ultimately we will have to compromise on gold questions, but if so, it would be useful to save that card for a stage in the reform negotiations when we can get something useful in return.

56. Editorial Note

On November 13, 1973, Federal Reserve Board Chairman Arthur Burns announced: "The governors of the central banks of Belgium, [West] Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States at the November meeting held in Basel, Switzerland, discussed the agreement with regard to official gold transactions reached in Washington on March 17, 1968, and decided that the agreement should be terminated." (*The New York Times,* November 14, 1973, page 9) Regarding the 1968 agreement, see footnote 5, Document 3.

On November 14, Bundesbank President Karl Klasen sent Burns a letter pledging the Bundesbank's adherence, with West German Finance Minister Helmut Schmidt's consent, to Article IV, Section 2 of the International Monetary Fund Articles of Agreement. In his November 14 covering letter, Klasen reminded Burns that they had agreed upon this letter in Basel. (Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold–BIS Meeting, Nov. 1973)

In a November 20 letter, Burns thanked Klasen for his letter, noting that he would share it with Secretary of the Treasury George Shultz "and with no one else." (Ibid.)

57. Memorandum From Secretary of the Treasury Shultz to President Nixon[1]

Washington, November 26, 1973.

SUBJECT

Meeting of Finance Ministers

Arthur Burns, Paul Volcker and I have returned this afternoon from meeting informally with the Finance Ministers of France, Germany and the U.K. in France. The Japanese were represented at the Vice Minister level due to the death of Mr. Aichi.[2] We covered a large range of issues on long-term monetary reform, discussed the current monetary situation, and compared notes on the economic repercussions of the oil situation.

Based on discussions with Henry Kissinger before I left, I took the opportunity to remind the Europeans and Japanese of the larger stakes in the Mid-East and our concern over the sense of disarray in the alliance created by recent actions.[3] Helmut Schmidt, in particular, pleaded to let bygones be bygones, and urged much more willingness on all sides to consult and work together so that we have a common front against the Arabs' "economic warfare." Giscard d'Estaing merely repeated that Europe is a bystander and, in any event, unable to act as a unit. This inability is vigorously emphasized by Schmidt, who fears for the future of the EC if they can't get together on the crucial oil issue.

On monetary matters, no specific operational decisions or agreements were made. I believe the results were fully in accord with our objectives:

a) We have maintained and strengthened a channel for informal and very frank communication on monetary and other issues, both of a long-term and more immediate character.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 290, Agency Files, U.S. Treasury, Vol. IV, Sept. 19, 1973–Dec. 1973. Confidential.

[2] Aichi died on November 23.

[3] In a briefing memorandum for the President in preparation for a December 3 meeting with Shultz, Kissinger wrote: "Secretary Shultz recently met with the finance ministers of France, the UK, the FRG and Japan to plan the next formal meeting, in January, on international monetary reform. As a result of our problems with the Europeans on other matters, however, he was under guidance to go slow. Because of our improved monetary position, there is little reason for us to change our basic position in favor of flexible exchange rates and against early restoration of convertibility. Our interest in some rules of the game remains but timing of progress in the negotiations should be subordinated to our overall relations with the Europeans and Japanese." A notation on the memorandum indicates Nixon saw it. Kissinger's memorandum is printed in full as Document 201.

b) We have emphasized our view that, in the light of all the uncertainties, we should go slowly and cautiously on restoring par values and convertibility. We can, however, push ahead on other aspects of monetary reform, for at least possible conclusion next summer.

We did not attempt to bridge the gap between us and the French on the convertibility, floating, and gold issues. There was not, in any case, strong pressure from them to do so in the light of the general desire to maintain the present floating arrangements for the indefinite future in the light of the oil-related uncertainties.

The implication is that only partial agreement can be reached on monetary reform by next summer. This may disappoint some, as it becomes known. However, the common desire to defer a decision to lock the world firmly in a par value-convertibility system seems to me wise. It is in accord with the thinking of most of our advisers and many private observers.

George P. Shultz

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58. Memorandum From the Director of the Planning and Coordination Staff (Lord) to Secretary of State Kissinger[1]

Washington, December 10, 1973.

SUBJECT

Memorandum on the Political/Economic Relationship Between the United States, the European Community and Japan

The attached memo, prepared by a member of my staff, discusses a number of economic issues between the United States, the EC and Japan in a deliberately provocative way from a somewhat unconventional point of view. I do not necessarily subscribe to all of the conclusions and in fact have a number of reservations. But I think the memo raises important questions that need to be addressed, and you may wish to try some of them out during the Chiefs of Mission meeting[2]—as devil's advocate.

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[1] Source: National Archives, RG 59, Policy Planning Council, Policy Planning Staff, Director's Files (Winston Lord), 1969–77, Entry 5027, Box 346, Dec. 1973. Confidential. Kissinger wrote at the top of the memorandum: "Win—Interesting. See me."

[2] A European Chiefs of Mission meeting was held in London December 12–13.

The memo is still marked draft since the author wishes to consult with a few colleagues before making final revisions. However, it is in present form complete, highly readable, and I feel timely to read at this point.

Attachment

Memorandum Prepared by Ernest Preeg of the Planning and Coordination Staff

Washington, December 6, 1973.

Why the Political-Economic Relationship Between the United States, the European Community and Japan is Becoming more Political than Economic in Nature, and how the US Might Respond to this Situation

Summary

Certain traditional beliefs concerning the economic relationship among the industrialized countries are questioned and found less convincing than commonly viewed: for example, that international relations are based predominantly on the free interaction of market forces; that there is a clear trend toward growing economic interdependence among the industrialized countries as a group; and that there is a corresponding convergence of economic interests among these countries. The central policy conclusion from this analysis is that North America, Western Europe and Japan will become less and less willing to constrain their internal economic and related policies vis-à-vis each other (although such policy integration is likely to intensify within Europe and North America). The resulting economic relationship among the three industrialized centers will be less clearly defined and will allow far greater flexibility of diplomatic maneuver; moreover, while direct economic interests will remain important, decision issues will become relatively more political in character. Specific policy implications are discussed for the following issues: New (Atlantic) (Trilateral) Charter; international monetary reform; trade policy; the multinational corporation; relations between the advanced industrialized countries and the rest of the world; and a revised international economic institutional structure.

Introduction

It is becoming a tired cliché to say that problems among the advanced industrialized countries of North America, Western Europe and Japan are primarily economic in character, that common economic interests—and conflicts—will inevitably grow in the years ahead, and that economic diplomacy will therefore shift more and more to center stage in the overall policy relationship among these countries.

A major objective of this memorandum is to show that such a conception—at least in the terms normally discussed—is largely misleading and in certain respects a myth. The soothsayers of economic gloom and trade wars are frequently facing backward in time, trying to put back together a bygone Humpty and Dumpty of an economic relationship—call it the Bretton Words system for short—rather than looking ahead to an emerging set of circumstances quite different in character from what has gone before.

This is not to say that mismanagement of economic issues cannot cause great harm to the overall relationship among these countries. There are changes underway in the facts of economic life that must be taken into account if we are to establish a more balanced and harmonious overall relationship. But to quote a familiar adage, "facts can only be used." And at present we often seem to be fighting the facts rather than using them.

Moreover, the political-economic policy configuration among the advanced industrialized countries is becoming more political and less economic in character. The changing policy context has both a domestic and an international dimension. On the domestic side, ever growing governmental powers and responsibilities for internal goals—economic, social, environmental, or whatever—tend to increase resistance to external constraints over national sovereignty in these areas. On the international side, the purely economic objective of maximizing world output of goods and services has been losing ground to the competing, non-economic objectives of national security, internal self-sufficiency and unadulterated chauvinism.

This memorandum deals primarily with policy measures that would be responsive to this changing context of international political-economic relations. However, it is useful first to dwell briefly on some specific conceptual and/or empirical underpinnings of the general statement above. The heuristic vehicle adopted for this is the exposure of three common views about international economic relations as largely mythological in content.

Myth Number 1. The international economy—as expressed in the GATT and IMF articles of agreement—is based predominantly on the free interaction of market forces, with minimal government intervention. Moreover, the direction of national policies should be toward more and more "liberal" treatment of international trade and investment, meaning less government intervention, (although the espousal of the ultimate objective of global free trade is discreetly avoided). Under these circumstances, there is no conflict between the preservation of national political sovereignty in the classical sense and free economic interaction between such laissez-faire oriented nation-states.

Reality Number 1. There is increasing government involvement in and management of national economies. This involves highly political internal issues concerning both the general level of economic activity—full employment, minimum inflation—and, to a growing extent, individual sector performance—self-sufficiency in energy and food, regional development, and industrial competence to produce computers, aircraft, armaments, etc. There is obvious conflict between these national policies and the free international flow of trade, investment and perhaps even technology. As a rule of thumb, this conflict is of greater consequence for smaller countries, highly dependent on trade, since the economic cost of forgoing economic interdependence is usually much greater for these countries.

Myth Number 2. The dynamic of advanced industrialized society in North America, Western Europe and Japan points clearly to growing economic interdependence in coming years among these countries. This proposition can be maintained even with a considerable relaxation of Myth Number 1.

Reality Number 2. It is unclear whether economic interdependence between these three highly industrialized centers will continue to grow and there is good reason to believe that it will decline, (although interdependence is likely to increase within Europe and within North America). The differentials in labor costs, available technology and managerial competence between the US, on the one hand, and Western Europe and Japan on the other, have been reduced greatly since the 1950s, and this in turn should reduce the economic incentives to increased trade and investment. There is also a growing political pressure to limit the power (if not the absolute growth) of the multinational corporation—perceived by some only a decade ago as the Trojan horse that would undermine the nation-state. In addition, the internal policy objectives enumerated under Reality Number 1 would tend to reduce the level of external economic interdependence. And finally, theoretical questions are being raised as to the proper definition of "economic dependence" as it bears on foreign policy relationships, which could dilute the significance of interchange among the advanced industrialized countries. (For example, it would be less painful to the US to have imports of Volkswagens and Toyotas from other industrialized countries cut off than it would be to have petroleum imports from the Mid-East terminated. On this basis, interdependence with other industrialized countries might be viewed as qualitatively less important.)

Myth Number 3. There is a trend toward convergence of economic interests among the advanced industrialized countries. This is the ultimate—or what might be called the "architectonic myth" of much prevailing wisdom. It can be maintained even while making great concessions about Myths Number 1 and 2. However, it is also the most broadly suspect of the three.

Reality Number 3. The divergencies in direct economic interests appear to be growing relative to the convergencies. A current glaring example is petroleum: higher world prices for oil are moving the US toward self-sufficiency in energy (to be accelerated by large government financial support); the shift in control of Middle East oil production from international firms (mostly American) to producer countries will further extricate US direct economic interest from the area; in contrast, Western Europe and Japan are being drawn further and further into dependence on imported oil; the outcome, in all likelihood, is for a growing diversity of national (or regional) interests in the energy field in coming years. (These are simply the "facts," apart from any implication of what the best policy response should be.) It needs to be added that the issue described here concerns direct "economic interests," and not the broader political/security interests of the countries involved.

A Central Assumption: Declining Internal Policy Constraints between North America, Western Europe and Japan

If the facts are indeed as stated (and a more detailed and rigorous analysis would be useful), what are the policy implications? A convenient point of departure is to pose the policy relationship among the industrialized countries in terms of a "tradeoff" between the gains, political as well as economic, from greater economic interdependence, on the one hand, and the constraints on national autonomy that such interdependence implies, on the other. The constraints on national autonomy can be both internal (for example, limiting the use of effectiveness of domestic economic, social, environmental and other policies) and external (for example, reducing diplomatic maneuverability because of dependence on Arab oil).

The stated long-term objective within Western Europe is to accept these constraints on a regional basis in order to achieve the economic gains from economic union—and greater political power as a group vis-à-vis the rest of the world. This objective is more comprehensive and explicit for the European Community of Nine, but the remaining industrialized countries of Western Europe have in effect accepted it as well by entering into free trade and related arrangements with the Community, and allowing their economies to become highly dependent on the Community. A similar relationship exists with respect to Canada's dependence on the US economy, although special policy arrangements have been primarily ad hoc responses to specific needs, and Canada is somewhat ambivalent about its longer term objective.

Among the three industrial concentrations in North America, Western Europe and Japan, however, the tradeoff appears to be tending in the direction of less constraints on internal national—or regional—autonomy, even at some cost to the level of economic interdependence. The more flexible monetary relationship that is emerging is the clearest and most fundamental indicator of this trend, since exchange rate adjustment replaces the need for economic policy coordination in broadest, "macro" terms. But as described below, the trend is evident in other important areas as well.

The central assumption of the policy analysis elaborated here is that North America, Western Europe and Japan will in fact continue to become less and less willing to constrain their internal policies vis-à-vis each other, increasing the relative priority on achieving domestic or regional socioeconomic objectives, and reducing the priority given to the gains from broader international economic interdependence. This assumption rests largely on the "three realities" described above. It reflects the fact that the complexities of an advanced industrialized society, only partially understood—from urban congestion to pollution to structural unemployment to "cost push" inflation—make governments more and more cautious in entering into external commitments that would reduce freedom to deal with such problems.

This does not necessarily mean an absolute decline in trade, or even a relative decline. In fact, there is considerable flexibility in the mix of foreign economic policy instruments that can be brought to bear in achieving an optimum balance between international economic interdependence and national (or regional) autonomy. There are also certain areas of policy that are clearly headed toward closer international coordination. The crucial distinction, however, is that while the prevailing official US view would appear to be that the overall policy framework among the industrialized countries is headed toward progressive harmonization ("intensifying their cooperation in the management of their economies," to quote the draft US–EC statement),[3] the assumption made here is that the degree of policy harmonization—or more pointedly, policy constraints—between North America, Western Europe and Japan, will decline.

This central assumption, while resulting in large part from economic circumstances, has fundamental foreign policy significance. It provides the United States and the others greater flexibility for particular lines of policy, either with respect to the industrialized countries

[3] The draft U.S.–EC Declaration of Principles transmitted in telegram 198317 to all NATO capitals, October 5, contains this phrase. (National Archives, RG 59, Central Foreign Policy Files)

or to other parts of the world. At the same time, however, a deepening separation of the "political-economies" in the three areas could tend to weaken existing political-security ties. In sum, the entente economique among the industrialized countries, as proclaimed in many statements within the OECD and elsewhere, would give way to a more independent interaction between three major economic powers, no one of which is dominant, and which together account for roughly two-thirds of total world trade and investment.

More specifically, this assumption has the following implications for US foreign policy:

1. *Western Europe will finally gain its economic independence from the United States.* "Atlantic partnership" has long been ambivalent as to how independent the European side would be from the US. The implication here is that Western Europe will be progressively less dependent on the US economy and have the capacity to be highly independent in policy terms. Of course, internal divisions will limit the ability of Western Europe to utilize this independence toward concerted goals.

2. *The dollar-centric system will give way to a multipolar economic system.* The existing monetary relationship of managed floating rates seems to have moved in this direction more quickly than current attempts by governments to negotiate a revised monetary system which would treat the dollar in the same way as other major currencies. From the US side, our economic diplomatists must come to realize that under such circumstances their objectives will often be in self-limitation, economic events are no longer subject to their will, and a stable world economy depends not so much on US strength as on recognition of the power of others.

3. *Three distinctive bilateral links with the European Community, Japan and Canada will take on greater relative importance.* These distinctions will not only be on the substance of economic policies, as adapted to the differences in political-economic structures in each of the three areas, but in the broader character of the diplomatic relationship as well. Western Europe for some time to come will be only partially united, with limited ability to reach unified positions or to exert leadership responsibilities; Japan has a crucial role throughout Asia; and the US/Canada relationship is characterized by asymmetry in size and pervasive private sector linkages.

4. *The rest of the world will assume multifarious economic roles in response to the largely tripolar economic orientation of the advanced industrialized countries.* Many will drift toward special relationships with the regional industrialized center. Other major countries, from Brazil to India to Indonesia to Australia, will likely remain independent and important economic powers to be dealt with. The Soviet Union and China

will have new opportunities to play off one industrialized power against the other, for economic or political gain.

5. *A new form of "multilateral" economic system will emerge.* The emphasis of such a multilateral relationship will be far less on "universal" rules tilted overwhelmingly in the direction of free market economies—as was the Bretton Woods system—and more on a recognition of the diversity of political/social/economic systems in various countries or groups of countries.

The Policy Response

The foregoing has described a revised context of political-economic relationships between North America, Western Europe and Japan. The central assumption—declining economic policy constraints among the three (while such policy integration intensifies within Europe and probably within North America)—can be resisted, and policies pursued that would attempt to work in the opposite direction. It is asserted here, however, that such an approach would be unfeasible in political terms, primarily because it is contrary to the economic interests of the countries involved. The relatively low level of economic interchange between the three (for example, as a share of GNP) simply does not justify the costs to the internal political-economies from the policy constraints implied. (In contrast, within Western Europe and within North America, the economic case in favor of regional joint management of policies can probably be sustained.)

The following suggested broad lines for US foreign economic policy are therefore based on the assumption of declining policy constraints among the three. This does not necessarily mean increased friction and conflict. Indeed, the objective of a so-called "growing web of vested economic interests" can cut both ways, and it may well be that a weaker web, and hence reduced policy constraints, will permit greater flexibility in reaching mutually agreeable accommodation to economic problems. What should be quite clear, however, is that the context of economic relationships will become increasingly merged with broader aspects of foreign policy.

The most important political-economic issues among the industrialized countries, in terms of substance or of immediate concern, are:

1. *New (Atlantic) (Trilateral) Charter.* A relatively loose form of trilateral political/economic statement would be most consistent with the above analysis. Such a statement could be complemented by a stronger NATO "Atlantic" declaration covering the security relationship in broadest terms. The statement could be interpreted as a European declaration of economic independence after a generation of American economic hegemony. At the same time, it could lay great emphasis on the new issues facing the advanced industrialized democratic societies, which would clearly distinguish this trilateral grouping of countries as the

vanguard of an unprecedented affluent and technology-oriented society, to which all other countries, developing as well as communist, aspire.

The present draft texts of the US-European Community statement (drawing on *The New York Times* of November 9), indicate a rather inconsistent attitude on both sides. The US wants a "more open" trading system and "intensifying" cooperation in the management of national economies, but on the key substantive issue that would oblige the countries to intensify management of their economies—namely fixed exchange rates—the US holds back with the vague phrase, "stable but adjustable exchange rates." The Community, in contrast, resists the terms "more open" and "intensifying" but is very pointed in the pursuit of "fixed but adjustable parities."

A consistent statement in keeping with the analysis of this memorandum would be to accept the looser EC language for defining the overall relationship, while maintaining the more flexible terminology with regard to monetary reform. On this basis it should be possible to bring Japan in as a cosponsor to the declaration. It would appear in the US interest to keep the economic relationship in this broader, trilateral framework, in view of the interactions that exist between our economic policies toward Western Europe and Japan.

2. *International monetary reform.* This is the most important substantive issue for defining the longer-term political-economic relationship between North America, Western Europe and Japan. The course indicated here would be a highly flexible exchange rate system among the three, thereby allowing greater autonomy for internal national or regional policies. The present managed floating rate system would appear to meet this objective, and there seems to be growing support to make this arrangement the new system, subject to some greater specificity as to how the floating rates are managed.

At this point, however, the Europeans, at least, appear to want to go back to some form of fixed rates, and there are mixed views within the US Government. The fact of the matter is that the exchange rate issue has become more political than economic in its consequences. The present floating rate system is working reasonably well, and there may be some hybrid approaches of "fixed but adjustable parities" that would not be very different, for better or for worse, in abstract economic terms. We need to be extremely careful, however, in assessing the political impact of resuming the defense of a given set of "official" exchange rates, with all that it implies in terms of national prestige—and harmful political embarrassment to a government that has been "forced" to "devalue" its currency or to lose hundreds of millions of dollars to speculators. There is also the broader issue of whether, by a renewed commitment to some form of fixed rates, there is not a more important implied commitment to harmonize internal economic policies—which governments are politically unable to do—and which will therefore lead to periodic frustration, mutual recrimination, and a souring of the overall foreign policy relationship. The European reasons for pursuing a fixed rate monetary system are particularly unclear—and varied—and we should give priority to analyzing their views with great precision.

3. *Trade policy.* This is a very technical area of policy where it is easy to get lost in the forest while negotiating over a large number of sui generis trees. As an attempt to give broad direction to trade policy within the analysis presented here, three points are put forward:

a. There is no conflict between further multilateral reductions of tariffs and some other trade barriers and the more loosely defined overall policy relationship described above. Tariffs, in any event, are mostly of limited economic consequence at this point, and a gradual phasing down or out of them would reduce much of the political friction caused by recent intransigence on all sides in the trade policy field.

b. At the same time, however, the various interventionist policies mentioned earlier—self-sufficiency in food and fuels, regional and industry sector policies—conflict with the liberal trade principles of the GATT and are not now covered in trade agreements. A reasonable accommodation of these national or regional objectives, even at some cost to liberal trade principles, should receive priority attention in our negotiations with the other industrialized countries. Such accommodation may vary from one country or group of countries to another.

c. Discriminatory trading practices, and the formation of "trade blocs," looms as the most political of trade issues. In a multipolar political world, with an inherent tendency for large powers to stake out surrounding spheres of interest, preferential trading arrangements provide a convenient vehicle, symbolic as much as substantive, for establishing such special political influence and responsibilities. The US in almost all cases should strongly oppose these arrangements on political grounds because, on the one hand, we have no sphere of influence that could be enhanced by preferential trading arrangements (the desirability or feasibility of a Latin American-US trade bloc is another first class myth) while, on the other hand, it is normally not in our interest to have other major powers establish their preferential blocs. We should find support on this issue from the many smaller and weaker countries that would prefer not to be drawn into such a dependent relationship, but which are not in a position to resist without the firm support of another major power. There would be exceptions to opposing economic blocs in certain cases, however, either where there is a clear and mutual intent to merge national economies in a fundamental way (as in Western Europe or among some groups of developing countries), which is as much a political as an economic decision, or where the dynamics of a high degree of economic interdependence make a special arrangement virtually unavoidable (such as has been the US-Canadian situation on a number of issues, or as may evolve in terms of currency linkages under a more flexible monetary system).

4. *The multinational corporation.* This is the most vulnerable point for the US vis-à-vis Europe. Our firms are heavily committed and could be held hostage to European demands. Various Community policies affecting foreign firms could involve some measure of discrimination. Our policy response in such a situation is made more difficult by restrictions existing elsewhere, such as in Japan and as proposed in Canada.

The US policy response therefore will need to be more delicate in this area than almost anywhere else, and could consist of the following elements:

a. Insist on the principle that between the US and the Community, there will continue to be nondiscriminatory treatment of each other's firms, on a strictly reciprocal basis.

b. Enter negotiations to limit unfair practices by and unwarranted privileges of multinational corporations. This could involve agreements covering antitrust regulation, tax treatment, and perhaps conditions of international capital transfer. Such measures would not be totally popular with US firms, but many realize that some form of regulation is inevitable, and it is preferable at least to know what the rules are.

c. Encourage European investment in the US and, as appropriate, seek to moderate expansion of US firms in Europe. This would seem to be leaning with the wind in any event, since the incentives of the 1960s for US investment in Europe appear to have diminished. A more balanced relationship would be more acceptable politically in Europe, in keeping with true economic partnership, and would tend to even out the threat of holding foreign firms hostage to unfair treatment.

d. Where Europe insists on developing its own indigenous industry (such as in computers), acknowledge this objective in certain special cases while obtaining an equitable arrangement for affected US firms.

5. *Relations between the advanced industrialized countries and the rest of the world.* There is great variety in economic relationships between the industrialized countries and the rest of the world, involving conflicts as well as common interests. These issues are largely economic in that they affect US economic interests abroad, but the political implications are also of growing relative consequence. This will become more apparent under a more flexible monetary arrangement whereby overall external accounts need to balance out one way or the other.

The following are a few illustrative examples of major issues faced in common by the industrialized countries with other parts of the world:

a. *International trade in petroleum and food.* The economics of this issue are self-evident in that it would be preferable to import these products than to pay the substantially higher cost of internal self-sufficiency, but such economic calculations are seldom at issue, and the policy questions are rather: What price in terms of political dependence are we willing to pay as a consequence of dependence on such imports? Should we distinguish in favor of imports from friendly countries, and if so under what form of commitment? In periods of worldwide shortage, should the US distinguish between friendly and adversary countries in our export policy, and if so, how? Should we give away food to poor and undernourished people for humanitarian reasons and/or to promote international political stability? These are questions not primarily for economists, but for overall foreign policy analysis.

b. *Development assistance.* Again there is general agreement on the economic objective that foreign aid should help in the development process, however defined. But the difficult policy issues are often more political in nature: Should the vehicle for transmitting aid be bilateral government-to-government programs or multilateral institutions? Should aid be conditioned on highly specified criteria, which necessitate extensive outside intervention to monitor the implementation of aid, or on more general terms, leaving greater autonomy of implementation to recipient countries? What are the attitudes of the Congress and of the American people to giving assistance, on social equity or foreign policy grounds, to poorer countries?

c. *Debt rescheduling.* A debt rescheduling negotiation in one sense is a composite economic problem covering all past economic sins of omission and commission. But the actual negotiation is often more political than economic. Neither economics nor international law provide clear answers to a situation where a nation, in effect, cannot fulfill its external obligations—and goes bankrupt. The debtor nation almost invariably holds the upper hand in such negotiations, which complicates the position of the industrialized creditor nations. Moreover, the Soviet Union may well be headed toward a debt rescheduling crunch in the next few years, which would face Western Europe and the United States with a major political problem.

d. *Expropriation.* What is adequate compensation for foreign-owned property expropriated by a sovereign government? Economics and international law are again of limited help in answering this question, as witnessed by the ad hoc, highly political series of disputes in recent years.

6. *A revised international economic institutional structure.* A capstone to the current monetary and trade negotiations could be major revision in the international institutional structure. There are varying possibil-

ities to exploit this opportunity. Single representation by the European Community in international economic institutions, for example, could have great political as well as economic significance. An active role for China and the Soviet Union is another institutional issue that may come to the fore. And a more integrated institutional approach between monetary, trade and investment policies (at present, investment is not covered at all within the institutional structure), could lend stability to future economic relations. However, overly binding institutional commitments—as frequently advocated by international lawyers and more traditional supporters of Bretton Woods—would likely prove undesirable in a more diversified, multipolar system of political-economic relationships.

Beyond Marxism and Capitalism

The underlying these of these various policy issues is that the advanced industrialized countries do not necessarily constitute a monolithic grouping, inevitably converging toward one integrated "post-industrial society." Rather, there are three distinctive concentrations of advanced industrialized activity in North America, Western Europe and Japan. Each is highly self-contained, in terms of having a complete industrial structure. And to the extent that there are external dependencies, for example on fuels and raw materiels, such dependencies are not primarily among the three industrialized centers but with other parts of the world.

An important recent change has been the decline in US economic power relative to Western Europe and Japan, which further underlines the high degree of economic independence among the three. This twilight period in US economic hegemony complicates the interaction among the industrialized countries in that no one has the power to control the overall system of relationships as the United States once did, and yet the new roles stemming from more balanced economic power have not been assumed. Only a mutual recognition of this economic power limitation, translated into a joint collaboration in which no single member can successfully act independently, will provide the basis for a stable international economic system.

This conclusion must be qualified, however, by the high degree of self-sufficiency noted above. For there need not be a stable international economic system—or any international economic system in the normal sense of the term. Each of three industrialized centers could make its separate arrangements with neighboring countries to suit its needs. Such potentially "antagonistic" economic bloc formation would have tendencies toward economic rivalry and conflict, but even this *economic* cost might be kept within reasonable bounds. In political/security terms, however, the result could be disastrous.

What is really at stake, therefore, is the international community of nations in broadest terms. Economic interdependencies are an important part of this community, far more so than under the classical nation-state relationship which neatly separated external from internal policies. Transnational economic relationships today entail a selective merging of national sovereignty in many areas of policy, although these links are often more important within regions and between certain groups of countries than they are, in relative terms, between North America, Western Europe and Japan.

The end result is a world economy now dominated by the three "poles" of the advanced industrialized countries, but with primary impact either within the industrialized region (that is, within Western Europe and North America) or with other parts of the world. The relationship among the three, in contrast, is of relatively less direct economic consequence and hence is leading toward a looser linkage of policies. As a result, economic diplomacy, if that is the proper term, is becoming a highly complex political-economic exercise entailing these varied relationships.

Finally, the advanced industrialized countries as a group will remain for some time to come as the vanguard for an emerging and still only partially perceived "post-industrialized society," that transcends in many ways the simple concepts of both the classical free market economy, with little or no government economic role, and the collectivist dictatorship by what is a rapidly vanishing industrial proletariat. The challenges embodied in such a new form of society are varied, ranging from urban congestion to unprecedented leisure to a growing technology of behavior modification. As for behavior modification, it would appear justified to extrapolate from the individual to the national level and to foresee a major role for the advanced industrialized countries in providing "positive reinforcement" to other aspiring countries to build a more just and peaceful world order—rather than the "aversive stimulus," namely war, that has been the hallmark of the history of international relations up to this point.

59. Memorandum for the President's File[1]

Washington, January 21, 1974.

SUBJECT

Meeting with Shultz, Ash and Stein on January 21, 1974

The President met with Troika at 3:15 p.m. in the Oval Office.

[Omitted here is discussion unrelated to foreign economic policy.]

Mr. Shultz reviewed the meeting of the Group of Twenty at Rome from which he had just returned.[2] He said that the international financial system seemed to be on what he called the "reality track," meaning the general acceptance of flexibility in exchange rates. He thought that there would be agreement in the Group of Twenty in the treatment of SDR's, the adjustment process and the structure of the IMF. This much agreement could probably be reached by July after which the Group of Twenty could go out of business.

Mr. Shultz had laid out the energy problem at the Rome meeting and had strongly asserted that the price of oil now existing was intolerably high from less-developed countries. He felt that his initiative there had started to build up resistance to further price increases. He raised the question of participation of some less-developed countries in the February 11 meeting on oil[3] with the thought that they would help to indicate the seriousness of the situation created for oil importing countries. There was some discussion of possible countries to be invited and the President asked Mr. Shultz to consult with Henry Kissinger on that. He also asked him to consult with Kissinger on the desirability of inviting Finance Ministers to the February 11 meeting.

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[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, Box 93, President's Meeting File, Memoranda for the President's File, Beginning Jan 20 (1974). No classification marking.

[2] The C–20 met at the Ministerial level in Rome January 17–18. Shultz also reported on the meeting in a January 18 memorandum to the President in which he noted: "The two-day Ministerial meeting of the Committee of Twenty on Monetary Reform ended today reaffirming its intention of completing its work by mid-year. It reached agreement on strengthening the IMF by establishing a Council of Ministers which would meet three or four times a year as required. Agreement was also reached on some, but not all, of the technical changes needed to enhance the role of the SDR, and to permit its use during the expected continuation of floating in the period ahead." A notation on the memorandum indicates that Nixon saw it. (Ibid., President's Handwriting, Box 25, Jan 16–31, 1974)

[3] Reference is to the Washington Energy Conference, which look place February 11–13.

Mr. Shultz expressed the view that the United States should not too readily bail out oil importing countries from the problem created by the high oil prices, lest that weaken the resolve to get the price down. At the same time we would have to be sure that international financial strategy and competitive devaluation did not go too far.

Mr. Shultz asked the President's approval for getting rid of the remainder of capital export controls and the President agreed, leaving the timing to Secretary Shultz.

The President commented on the present position of the United States in the world political and economic scene and emphasized our unparalleled strength and leadership position. He said that no country feels that the United States has designs on it, which is a unique position for a superpower. He believed that the United States has a major opportunity to serve as peace maker and stabilizer in the world. He gave as example the willingness of Israel to agree to a troop pull-back in confidence that the United States would protect Israel if necessary. He said that confidence had been greatly strengthened by the willingness of the U.S. to order a worldwide military alert when confronted by the Russians.

The President reflected on the difficulty which everybody shares, including his advisers, in foretelling what is going to happen in the economy. He indicated his strong preference for a steady policy which would pay off best in the long run even though it might miss certain opportunities for political advantage in the short run.

Herbert Stein

60. Paper Prepared in the Department of the Treasury[1]

Washington, March 5, 1974.

Possible U.S. Proposal on Gold

The following possible actions by the U.S. Government seem to me to be worthy of consideration:

Firstly, next week we could inform the finance ministers of at least four, and possibly five, of the other major countries that we plan to lay a gold proposal on the table at the next meeting of the small ministerial group and that meanwhile we believe that some limited market sales of gold might be beneficial in counteracting the inflationary psychology now so widespread in the world. We could say that we would be willing to make such sales by ourselves but feel that the objective would better be achieved if some others joined us.

An important objective of such a sale by the U.S. would be to establish U.S. credibility, and to enhance U.S. bargaining in discussion of the U.S. proposals to be made later, by bringing to the other governments a realization that the U.S. might well be willing to sell large amounts of gold into the market. It would be important to handle the proposal for prompt sales in such a way as not to trigger immediate European implementation of inter-central-bank gold transfers at a market-related price or to trigger offsetting gold purchases by the French or others. It would also be desirable to handle the sale in such a way as not to trigger immediate Congressional action forcing permission for private ownership in the U.S. For this reason presumably the prompt sales would be handled like exchange market intervention and not be immediately announced publicly.

Secondly, at the next small ministerial meeting the U.S. could propose a package agreement which would attempt to trade a U.S. commitment to limit severely possible U.S. gold sales over the next few years in exchange for European commitments not to take what we regard as a backward step toward placing gold back in the center of the international monetary system and to join with us in some steps toward phasing gold out of the system. Specicifically we might propose:

[1] Source: National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 1, Gold—8/15/71–2/9/72. Confidential. A stamped notation on the paper reads: "Noted by Mr. Volcker." There is no indication as to who prepared the paper. Attached to another copy, however, is an undated note from Bennett to Bryant that reads: "Any reaction? I plan to show this to the Secretary and Paul." (Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, Mar.–Apr. 1974)

1. that each of the governments undertake not to sell in either of the next two years more than $500 million in market value of gold apart from the amount, if any, necessary to offset any increase in holdings by its citizens as a result of relaxation of restrictions on private ownership. (Such an undertaking would represent the "bait" being offered by the U.S. and would represent percentagewise a much more serious restraint on the U.S. than on others. This feature is proposed in the belief that a less stringent restraint on the U.S. would not offer much hope of gaining acceptance of the other parts of the package. The proposed limitation on sales would represent the following percentages of present gold holdings:

	(at $100/oz.)	(at $150/oz.)
	%	%
U.S.	1.8	1.3
Germany	4.2	3.1
France	5.0	3.8
Italy	6.1	4.5
UK	23.5	17.7
Japan	23.7	17.9)

2. that each of the governments undertake not to acquire gold either from the market or from other governments during the next two years,

3. that the governments agree to attempt to persuade the C–20 at its ministerial meeting in June[2] to adopt principles for use in subsequent redrafting of the IMF articles to provide

a. there would be no link between the SDR and gold,
b. there would be no mandatory gold component in future subscriptions to the Fund,
c. there would be no gold link in obligations to or rights to draw upon the General Account, and
d. in calculating the value of the liquid assets held by the Fund or by any member, the Fund would value gold at its market price.

Thirdly, we could inform the others of our expectation that in the near future we will permit private U.S. ownership of gold and will sell from U.S. stocks at least enough gold to prevent the added U.S. private demand from creating disorderly market conditions. At the same time we could announce an intention to recommend to the Congress that the par value of the dollar in terms of gold be eliminated.

[2] The C–20 met at the Ministerial level in Washington June 12–13.

61. Note From the Deputy Assistant Secretary of State for International Finance and Development (Weintraub) to the Under Secretary of the Treasury for Monetary Affairs (Volcker)[1]

Washington, March 6, 1974.

Paul:

This is a paper which we prepared for Secretary Kissinger giving some of our views on the gold question. We discussed it at a meeting for his background,[2] without attempting to reach any conclusions. We would appreciate any reactions you have to the paper. The Secretary said he would most appreciate meeting with you and anybody else you wish to designate in about two weeks to talk out the issue and what might be done, using a revised options paper for this purpose.

One option that is not included in the paper, but which should be for various reasons, is how to deal with thwarting the Europeans if they were to go ahead without us in a way which we felt was inimical to our interests.

Sid

Attachment[3]

GOLD AND THE MONETARY SYSTEM:
POTENTIAL U.S.–EC CONFLICT

Summary

The Foreign Policy Context

Within the next few months the long-standing U.S.-European dispute on the role of gold will probably be propelled from the back room

[1] Source: National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 1, Gold—8/15/71–2/9/72. No classification marking. A stamped notation on the note reads: "Noted by Mr. Volcker." Another notation, dated March 8, indicates that copies were sent to Bennett and Cross.

[2] The paper was discussed with Kissinger at a Department of State staff meeting on March 6. The summary attached to the front page of the meeting's minutes notes that Kissinger decided: "That a small State–Treasury group, to include Volcker be assembled to refine the choices in the EB paper and report back in two weeks. The revised paper should include the options of possible unilateral EC action vis-à-vis gold prices and in relation to oil import costs as well as US responses to abort or penalize such action (EB action)." (Ibid., RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Entry 5177, Box 2, Secretary's Staff Meeting, March 6, 1974)

[3] Confidential.

to the main stage of our relationship. The stakes in this dispute are high, involving the long-run stability of the international monetary system and prospects for increased dissension within Europe and between Europe and the U.S.

The Problem

U.S. objectives for the world monetary system—a durable, stable system, with the SDR as a strong reserve asset at its center—are incompatible with a continued important role for gold as a reserve asset. These objectives are in apparent conflict with the EC desire to facilitate the use of gold in international transactions. There is a belief among certain Europeans that a higher price of gold for settlement purposes would facilitate financing of oil imports, although the argument depends on assumptions regarding producers' attitude towards gold as an asset which may not be valid. Adamant U.S. insistence on maintaining the present fixed official price is likely to create international conflict with the EC, and may also lead to unilateral EC arrangements which would defeat our aims for the system.

The Conclusion

The U.S. objectives are important, and should not be given up, but they may be achievable without rigid adherence to the present fixed official gold price. Compromise proposals exist which would make adequate progress towards our objectives for the system while meeting principal EC needs. Since the EC is likely to set forth its proposals before the C–20 winds up its existence this summer, a U.S. position will be needed within the next several months. Tactically, it may also be preferable to discuss possible compromise proposals with one or more EC members before we are confronted with an EC position.

Pressures are building within the EC for settlement of intra-EC balances with gold valued at the market price (or some other price substantially higher than the current official price of $42.20 per troy ounce). Unilateral EC action in this direction would run directly counter to the stated United States position on international gold policy. The EC reportedly will try to avoid a direct conflict through pressing for rapid resolution of the problem within the framework of the multilateral monetary reform negotiations. Therefore, the U.S. position needs to be re-examined in light of present circumstances. This memorandum examines the foundations of this potential U.S.–EC conflict on the gold question, and considers which negotiating positions among various options would best serve U.S. interests.

Gold in the International Monetary System—The Issues

Agreement has been reached in the C–20 monetary reform negotiations that the *SDR should take the place once held by gold at the center of* *the world monetary system.* However, there is *still substantial disagreement* on what the exact future role of gold should be—whether it eventually ought to be *phased out of the system* (the U.S. view) *or retain an important function* as a reserve asset and means of international settlement (the position of some European countries).

U.S. interests in this question are in the establishment of stable, durable world monetary system, based on a strong SDR, which would avoid future monetary crises and conflict, such as those that have plagued the Bretton Woods system in recent years. *In our view a system which included gold as a major reserve asset alongside SDRs would be inherently unstable,* just as bimetallism was in the U.S.

This inherent instability stems from the fact that gold is traded as a commodity on a private market at a variable price subject to the vagaries of world production (largely Soviet and South African) and sales, and of demands by hoarders and speculators. With a fluctuating, and generally rising, free market for gold, a permanently fixed official price is simply not credible, and becomes less so as the gap between private and official prices widens. If, however, the price at which official transactions in gold are made were to be periodically adjusted to the market price, then an unstable situation would rise as between gold and SDRs.

At the present time, the value of the SDR is fixed in terms of gold. However, it has been generally agreed in the C–20 that the new SDR should not be related to gold, but rather to a basket of currencies. In this case, a changing price at which official gold transactions take place would create capital gains (or losses) for gold holders as compared to SDR holders, stimulate speculative central bank demand for gold, and weaken the SDR.[4]

It is the U.S. concern that *any substantial increase* now in the price at which official gold transactions are made *would strengthen the position of gold in the system, and cripple the SDR.* If international liquidity were injected via gold, there would be little likelihood of new SDR allocations.[5] There also would be reduced incentive to sell gold on the private market even after an official price increase since central banks would cling to their gold in expectation of further official gold price

[4] If a fixed SDR–gold price were to be maintained, and periodic free-market related adjustments in the official prices of gold were to be made, then the currency value of the world's primary reserve assets would be tied to a price set on a volatile, unstable market. [Footnote is in the original.]

[5] As can be seen from the table at the end of this memorandum, official gold reserves are now valued at $43 billion at the $42.20 per ounce price. The free market price is almost four times the official price. [Footnote is in the original. The table is attached but not printed.]

increases. In addition, too large an increase in world liquidity might add to inflationary dangers. Finally, the *distribution* of the increase in world reserves would be *highly inequitable,* with eight wealthy countries getting three-fourths, while the developing countries would get less than 10 percent (see attached table). Producing countries (the USSR and South Africa) would benefit from the implicit floor put under the free-market gold price.

To encourage and facilitate the eventual demonetization of gold, our position is to keep the present gold price, maintain the present Bretton Woods agreement ban against official gold purchases at above the official price[6] and encourage the gradual disposition of monetary gold through sales in the private market. An alternative route to demonetization could involve a substitution of SDRs for gold with the IMF, with the latter selling the gold gradually on the private market, and allocating the profits on such sales either to the original gold holders, or by other agreement.

European views on the role of gold in the world monetary system vary considerably. The British and Germans, on one hand, generally agree in principle to the desirability of phasing gold out of the system. On the other end of the spectrum, the French have been the main proponents of a continued important role for gold in the system.

Support for a continued role for gold in the system is based in large part on the belief that "paper gold"—the SDR—does not command sufficient confidence and acceptability to replace gold completely in the system. There is, in fact, still a considerable emotional attachment to gold as a monetary asset, and a basic distrust of bank or paper money not having intrinsic value.

On the other hand, most European officials recognize the basic problems involved in a combined SDR–gold reserve asset system. Belgian Finance Minister De Clerq,[7] for example, speaking at the IMF annual meetings in September stated:

> Any redefinition of the role of gold must be based on the principle stated above: that SDR must become the center of the system and that there can be no question of introducing a new form of gold–paper and gold–metal bimetallism, in which the SDR and gold would be in competition.

Despite these differences among member countries, the EC position has begun to *coalesce* around their desire to *free gold for use in settling*

[6] The French have stated that they do not consider the IMF Articles as binding under present circumstances (the U.S. having suspended its convertibility obligation). We consider the Articles still binding. Other countries have not yet taken a position. [Footnote is in the original.]

[7] Willy de Clercq was the Belgian Minister of Finance and Deputy Prime Minister.

intra-EC debts—a problem raised by the present "immobilization" of gold which has resulted from the wide disparity between the official and free market gold prices. Monetary authorities have been unwilling to use their gold holdings to settle official debts at a price far below the free market price. This has been a *problem particularly for the EC,* whose rules under the "snake" arrangement require that final settlement of debts arising out of intervention to support intra-EC exchange rates must be made in reserve assets in proportion to the composition of reserve holdings. (This "immobility" is, of course, an example of the difficulties inherent in a system in which gold retains a reserve currency role alongside another reserve asset.)

To some extent, the immobility of gold reserves as a means of payment is a result of self-imposed restraints. Countries are free to use reserve currencies and SDRs to settle debts. Moreover, countries are now free to obtain additional currencies (and realize substantial capital gains) through sales of gold to the private market. The EC problem is a result of their particular rules for settlement, which reflect the interest of creditor countries in receiving gold and applying discipline to deficit countries. It is also a result of their reluctance, so far, to sell gold on the private market. The reasons for this reluctance are probably related to the unsettled status of gold in the system, the basic attraction of gold, the expectation of future price increases, and the "thinness" of the private gold market.

Nor is it clear that European countries would give up gold even after a price increase, since one increase may lead to an expectation of further increases. Even under the Bretton Woods system, the Europeans did not often give up gold to settle deficits.

The "immobility" problem is of *particular concern to the French and Italians,* who have substantial outstanding EC debts and especially high proportions of their reserve assets in gold. Recently, with the private price continuing to rise, and final decisions on monetary reform apparently further off than previously thought, other EC countries are coming around to the French-Italian view that this problem must be resolved. However, *the Germans and British,* in particular, are concerned that the *solution be accomplished in a way which would not antagonize the United States.* They wish to settle this issue in the C–20 multilateral context, if possible. Failing agreement there, the EC might feel free to unilaterally make some regional arrangement.

Various European proposals have been made to deal with the gold issue. The basic French proposal in the C–20 was simply to increase the official price of gold although this may have been made with tongue in cheek and received no support other than from South Africa. Other European proposals, and the stated French fallback position, have been variations on the idea that the *official price of gold be abolished,* leaving the SDR as the sole numeraire of the system, and that monetary authorities be free to deal at a negotiated price, or at a price related (perhaps at a discount) to the private market price. In the version reportedly recently proposed to the EC by the UK, such an arrangement would be combined with coordinated central bank sales to the private market. Another possibility reportedly being considered is to have the Italians, who have the greatest need, sell gold on the private market by themselves to avoid unduly depressing the market. The French version of this proposal would allow central banks *either to buy or sell gold on the private market* (obviously in order to avoid depressing the private market and to keep or augment the role of gold in the system).

In lieu of a general agreement permitting official transactions in gold at a price higher than the official price, some EC countries have proposed special arrangements to deal only with the intra-EC problem. Such proposals have heretofore been shelved by a combination of technical problems, and an unwillingness to take unilateral action of doubtful legality and offensive to the United States. Most recently, the EC Commission has proposed a system which would in effect set a higher provisional price, to be corrected when agreement is reached on a new price for gold.

Both the European C–20 proposal and the intra-EC proposals would fall short of a generalized increase in the official price of gold. However, each would amount to a generalized de facto, if not de jure,[8] official price increase, and strengthen the role of gold in the system. A system of sales, but no purchases, to the private market would mitigate this tendency.

The recent oil price increases have added a new dimension to the gold issue, and in the view of some European officials, relegated the intra-EC problem to a secondary position. Although mobilization of gold for intra-EC settlement would help in the financing of imbalances among EC countries, it would not, of itself, provide resources for the financing of the anticipated deficit with the oil producers. For this purpose, it would be useful if the oil producers would invest some of their excess revenues in gold purchases from deficit EC countries at close to a market price. This would be an attractive proposal for European countries, and for the U.S., in that it would not involve future interest burdens and would avoid immediate problems arising from increased Arab ownership of European and American industry. (The Arabs could both sell the gold and use the proceeds for direct investment, so that the in-

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[8] Under the present IMF Articles of Agreement, a generalized gold price increase (uniform par value change) would require approval of countries representing 85% of the IMF weighted voting power. Thus we have the power to block any legal change. [Footnote is in the original.]

dustry ownership problem would not be completely solved.) From the Arab point of view such an asset would have the advantages of being protected from exchange-rate changes and inflation, and subject to absolute national control. Some European officials are thinking in terms of clearing the way for such transactions (which would now be forbidden by IMF rules). *It has been argued that Arabs would only be interested in buying gold at near the market price if they could obtain assurances of some sort of floor price.* We have received word that such a proposal is being floated within the German Government.

From the standpoint of international liquidity needs, a reasonable case can now be made for a generalized gold price increase, since the probable payments patterns stemming from the higher oil prices (overall deficits for Europe and Japan) may lead to a reduction in world reserve liquidity. However, from the U.S. viewpoint (as well as many countries without large gold holdings) substantial new SDR allocations would be preferable when new liquidity creation is needed.

Options for U.S. Negotiating Policy on Gold

Since the U.S. is likely to be presented with pressure to acquiesce in some arrangements to meet the European objectives sketched out above, it is important that we reconsider what our own negotiating posture should be.

At either end of the spectrum of possible negotiating positions are the following:

Option 1: Continue adamant opposition to any proposal involving an increase in price at which monetary authorities carry out transactions in gold. *Advantages:* If successful, we will keep gold from regaining strength as an international reserve asset, maintain the strength of the SDR, and probably eventually obtain the demonetization of gold and a more rational, stable international monetary system. *Disadvantages:* The EC may then go ahead with its own arrangements which would amount to a virtual de facto increase in the official gold price, with undesirable effects on the world monetary system and lead to increased U.S.–EC conflict and bitterness.

Option 2: Acquiesce in a European-type plan involving abolition of the official price, permitting settlement of official balances at a negotiated price, with a "sales only" rule for transactions in the private market. *Advantages:* This would be somewhat preferable to a plan involving an outright increase in the official price, and would maintain an avenue for demonetization through one-way sales to the private market. The SDR would become the sole numeraire of the system. In the short run, tensions with Europe over monetary issues would be reduced. The increase in de facto liquidity might be helpful in present circumstances, and gold sales to the Arabs might help finance western balance of payments deficits. *Disadvantages:* This has most of the disadvantages discussed above of (and may in fact lead to) an outright increase in the official price of gold. We may thereby lose the opportunity to build a stable and rational world monetary system, with adverse long-term consequences involving monetary instability and conflict.

The disadvantages to each of these options are such that a search for additional options is justified. *Intermediate options do exist* which have the potential of meeting EC objectives of mobilizing gold in the short run, while maintaining the desirable trend towards gold demonetization.

Option 3: Complete short-term demonetization of gold through an IMF substitution facility. Countries could give up their gold holdings to the IMF in exchange for SDRs. The gold could then be sold gradually, over time, by the IMF to the private market. Profits from the gold sales could be distributed in part to the original holders of the gold, allowing them to realize at least part of the capital gains, while part of the profits could be utilized for other purposes, such as aid to LDCs. *Advantages:* This would achieve our goal of demonetization and relieve the problem of gold immobility, since the SDRs received in exchange could be used for settlement with no fear of foregoing capital gains.[9] *Disadvantages:* This might be a more rapid demonetization than several countries would accept. There would be no benefit from the viewpoint of financing oil imports with gold sales to Arabs (although it is not necessarily incompatible with such an arrangement).

The only important *disadvantage* of option 3 would be its likely unacceptability to countries who would prefer to cling to gold for traditional reasons. But it would show our sensitivity to the immobility problem, and be a good initial bargaining position. We might, in the end, have to fall back on a fourth option:

Option 4: Accept a European-type arrangement in which the official gold price was abolished, and official transactions at a market-related price were permitted, *but with agreement that a certain portion of gold be given up to an IMF substitution facility,* and that gradual further substitution of SDRs for gold would take place over a longer period of time. (One possible rule among many could be that countries should keep the nominal value of their gold holdings fixed at present levels with any increases in value coming from price increases offset by substitutions. Another variant on this proposal would have countries agree

[9] The additional SDRs might be quite acceptable since, for a time at least, they would be "backed" by IMF gold holdings. Some gold "backing" could be maintained until prejudices against paper money waned—in a manner similar to the evolution of domestic monies. [Footnote is in the original.]

to pre-determined, gradual direct sales to the private market. Again, profits could be shared between gold holders and others. *Advantages:* This would provide adequate momentum towards gold demonetization while providing relief to gold immobility problems. It seems somewhat more compatible with gold sales to the Arabs, if this is desirable. It may be negotiable. *Disadvantages:* It is somewhat less desirable for the medium-term workings of the system than option 3.

Conclusions

The U.S. objectives in reducing the role of gold in the world monetary system are worthwhile, but they may be achievable without insisting on adherence to the present fixed official price of gold. Moreover, such a stand might unnecessarily create international friction. Compromise proposals exist which have good prospects for achieving our objectives for the system while meeting the principal EC requirements. We should be prepared to use these compromises in the near future.

Tactics

Negotiation in a broader IMF forum is likely to be a very divisive and contentious process unless based on a prior U.S.-European understanding. The Europeans, however, are not united, although working on a common substantive position. We could wait for this position to develop further or proceed now with bilateral contacts with one or more EC members. Our waiting to be confronted with the EC position puts the French in a strong position through their veto over any departure from the agreed EC line. The gold issue would be an appropriate one to pursue in bilateral contacts with the Germans and British, both of whom could probably agree to options involving more modest flex in our traditional position than the French or Italians want. But there is, of course, no guarantee that the British and/or Germans could carry the resulting compromise in Brussels. Nevertheless, working out a compromise with some of the major Europeans could reduce the prospects for a U.S.–EC standoff, while leaving a substantial intra-EC disagreement to be bridged by the Europeans.

62. Paper Prepared in the Federal Reserve Board[1]

Washington, March 15, 1974.

Gold: A Possible U.S. Proposal

A. Objectives

1. To meet actual or prospective needs of countries to mobilize their gold reserves for the purpose of financing balance-of-payments deficits.

2. To head off alternative "gold mobilization" actions (e.g., unilateral action by the EEC) that would reverse the evolutionary process by which gold's importance as a monetary reserve asset has gradually been reduced.

3. To clarify the U.S. position on the role of gold as a monetary reserve asset in the long run.

4. To lay the foundation for a longer-run, cooperative solution to the gold question.

B. Basic Features of Proposal

1. Cooperative arrangements among major governments for sales of official gold to the private market. A marketing agent—preferably the IMF—would make the sales out of stocks committed by participating countries to a central pool. (See Annex for description.)[2]

2. Agreement among participating governments not to purchase gold from the market.

3. Agreement among participating governments not to buy or sell gold with any other government.

4. Establishment by the participating governments of a "gold-swap" facility to provide credits (against gold collateral) to a participating country in balance-of-payments difficulty. Such a facility would obviate any balance-of-payments need for the transactions ruled out by B(3). (see Annex for description.)

5. Alteration of certain obligations and provisions regarding gold in the IMF: e.g., elimination of mandatory gold component in future

[1] Source: National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 2, OECD. Strictly Confidential (FR). Attached is an April 24 note from Bryant to Volcker that reads: "This is the note on gold to which I referred in our conversation in Tokyo. If *something* has to be done on the subject, then the attached method of "mobilization" may be less unpalatable than most, or all, alternatives."

[2] Attached but not printed.

subscriptions to the IMF; elimination of gold provisions in transactions with the General Account; expression of par values and related obligations only in SDRs (not in gold).

C. Possible Tactics

1. U.S. officials would indicate privately to the "group of Five" countries[3] that we were prepared to propose an understanding on gold at the next meeting of the group, for consideration as part of a C–20 package agreement this summer or as an independent step.

2. In the interim, the United States might sell a significant but still modest amount of gold in the private market, probably in London. Preferably, this action would be taken in conjunction with market sales by one or two other countries (e.g., Germany). The proximate objectives of these sales could be to exert some downward pressure on the market price (recently in the high range of $160–180), to have a favorable effect in mitigating speculative and inflationary psychology, or to make more credible (to the market and to other governments) the prospect of periodic official sales in the market.

D. Possible Associated Actions by the United States

1. The market sales in C(2) would intensify the pressure to eliminate the restrictions that prevent U.S. citizens from buying, selling, and holding gold. At some point, but probably not before agreement were reached on the proposal in B, these restrictions could be terminated.

2. If the proposal in B were agreed, and if there were concurrence from the other governments participating, the U.S. Treasury might from time to time sell gold to U.S. residents directly. Such sales would need to be coordinated with the sales policy of the marketing agent.

3. At some point, probably in conjunction with presentation to Congress of the C–20 package agreement, the Administration could recommend that the par value of the dollar be expressed only in terms of SDRs, even if B(5) were not agreed.

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[3] The Federal Republic of Germany, France, Japan, the United Kingdom, and the United States.

63. Minutes of Secretary of State Kissinger's Principals and Regionals Staff Meeting[1]

Washington, April 25, 1974, 3:13–4:16 p.m.

[Omitted here is discussion unrelated to international monetary policy.]

Secretary Kissinger: Now we've got Enders, Lord and Hartman. They'll speak separately or together. (Laughter.)

Mr. Hartman: A trio.

Mr. Lord: I can exhaust my knowledge of gold fairly quickly, I think.

Secretary Kissinger: Now, I had one deal with Shultz—never to discuss gold at this staff meeting—because his estimate of what would appear in the newspapers from staff meetings is about the same as mine.

Are you going to discuss something—is this now in the public discussion, what we're discussing here?

Mr. Enders: It's been very close to it. It's been in the newspapers now—the EC proposal.[2]

Secretary Kissinger: On what—revaluing their gold?

Mr. Enders: Revaluing their gold—in the individual transaction between the central banks. That's been in the newspaper. The subject is, obviously, sensitive; but it's not, I think, more than the usual degree of sensitivity about gold.

Secretary Kissinger: Now, what is our position?

Mr. Enders: You know what the EC proposal is.

Secretary Kissinger: Yes.

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[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Entry 5177, Box 3, Secretary's Staff Meeting, April 25, 1974. Secret. According to an attached list, the following people attended the meeting: Kissinger, Rush, Sisco, Ingersoll, Hartman, Maw, Ambassador at Large Robert McCloskey, Assistant Secretary of State for African Affairs Donald Easum, Hyland, Atherton, Lord, Policy Planning Staff member Paul Boeker, Eagleburger, Springsteen, Special Assistant to the Secretary of State for Press Relations Robert Anderson, Enders, Assistant Secretary of State for Inter-American Affairs Jack Kubisch, and Sonnenfeldt.

[2] Meeting in Zeist, the Netherlands, on April 22 and 23, EC Finance Ministers and central bankers agreed on a common position on gold, which they authorized the Dutch Minister of Finance, Willem Frederik Duisenberg, and the President of the Dutch central bank, Jelle Zijlstra, to discuss with Treasury and Federal Reserve Board officials in Washington. (Telegram 2042 from The Hague, April 24, and telegram 2457 from USEC Brussels, April 25; ibid., Central Foreign Policy Files)

Mr. Enders: It does not involve a change in the official price of gold. It would allow purchases and sales to the private market, provided there was no net purchase from the private market by an individual central banker in a year. And then there would be individual sales between the central banks on—

Secretary Kissinger: How can they permit sale to the private market? Oh, and then they would buy from the private market?

Mr. Enders: Then they would buy.

Secretary Kissinger: But they wouldn't buy more than they sold.

Mr. Enders: They wouldn't buy more than they sold. There would be no net increase in gold held by the central banks that was held by the EEC. It could be held by others.

I've got two things to say about this, Mr. Secretary. One is: If it happens, as they proposed, it would be against our interests in these ways.

Secretary Kissinger: Have you accepted it or is this just a French proposal?

Mr. Enders: It's an informal consensus that they've reached among themselves.

Secretary Kissinger: Were they discussed with us at all?

Mr. Enders: Not in a systematic way. They're proposing to send over to Washington the Dutch Finance Minister and the Dutch Central Governor would talk to the Treasury.

Secretary Kissinger: What's Arthur Burns' view?

Mr. Enders: Arthur Burns—I talked to him last night on it, and he didn't define a general view yet. He was unwilling to do so. He said he wanted to look more closely on the proposal. Henry Wallich, the international affairs man, this morning indicated he would probably adopt the traditional position that we should be for phasing gold out of the international monetary system; but he wanted to have another look at it. So Henry Wallich indicated that they would probably come down opposing this. But he was not prepared to do so until he got a further look at it.

Secretary Kissinger: But the practical consequence of this is to revalue their gold supply.

Mr. Enders: Precisely.

Secretary Kissinger: Their gold reserves.

Mr. Enders: That's right. And it would be followed quite closely by a proposal within a year to have an official price of gold—

Secretary Kissinger: It doesn't make any difference anyway. If they pass gold at the market price, that in effect establishes a new official price.

Mr. Enders: Very close to it—although their—

Secretary Kissinger: But if they ask what they're doing—let me just say economics is not my forte. But my understanding of this proposal would be that they—by opening it up to other countries, they're in effect putting gold back into the system at a higher price.

Mr. Enders: Correct.

Secretary Kissinger: Now, that's what we have consistently opposed.

Mr. Enders: Yes, we have. You have convertibility if they—

Secretary Kissinger: Yes.

Mr. Enders: Both parties have to agree to this. But it slides towards and would result, within two or three years, in putting gold back into the centerpiece of the system—one. Two—at a much higher price. Three—at a price that could be determined by a few central bankers in deals among themselves.

So, in effect, I think what you've got here is you've got a small group of bankers getting together to obtain a money printing machine for themselves. They would determine the value of their reserves in a very small group.

There are two things wrong with this.

Secretary Kissinger: And we would be on the outside.

Mr. Enders: We could join this too, but there are only very few countries in the world that hold large amounts of gold—United States and Continentals being most of them. The LDC's and most of the other countries—to include Japan—have relatively small amounts of gold. So it would be highly inflationary, on the one hand—and, on the other hand, a very inequitable means of increasing reserves.

Secretary Kissinger: Why did the Germans agree to it?

Mr. Enders: The Germans agreed to it, we've been told, on the basis that it would be discussed with the United States—conditional on United States approval.

Secretary Kissinger: They would be penalized for having held dollars.

Mr. Enders: They would be penalized for having held dollars. That probably doesn't make very much difference to the Germans at the present time, given their very high reserves. However, I think that they may have come around to it on the basis that either we would oppose it—one—or, two, that they would have to pay up and finance the deficits of France and Italy by some means anyway; so why not let them try this proposal first?

The EC is potentially divided on this, however, and if enough pressure is put on them, these differences should reappear.

Secretary Kissinger: Then what's our policy?

Mr. Enders: The policy we would suggest to you is that, (1), we refuse to go along with this—

Secretary Kissinger: I am just totally allergic to unilateral European decisions that fundamentally affect American interests—taken without consultation of the United States. And my tendency is to smash any attempt in which they do it until they learn that they can't do it without talking to us.

That would be my basic instinct, apart from the merits of the issue.

Mr. Enders: Well, it seems to me there are two things here. One is that we can't let them get away with this proposal because it's for the reasons you stated. Also, it's bad economic policy and it's against our fundamental interests.

Secretary Kissinger: There's also a fundamental change of our policy that we pursued over recent years—or am I wrong there?

Mr. Enders: Yes.

Secondly, Mr. Secretary, it does present an opportunity though—and we should try to negotiate for this—to move towards a demonetization of gold, to begin to get gold moving out of the system.

Secretary Kissinger: But how do you do that?

Mr. Enders: Well, there are several ways. One way is we could say to them that they would accept this kind of arrangement, provided that the gold were channelled out through an international agency—either in the IMF or a special pool—and sold into the market, so there would be gradual increases.

Secretary Kissinger: But the French would never go for this.

Mr. Enders: We can have a counter-proposal. There's a further proposal—and that is that the IMF begin selling its gold—which is now 7 billion—to the world market, and we should try to negotiate that. That would begin the demonetization of gold.

Secretary Kissinger: Why are we so eager to get gold out of the system?

Mr. Enders: We were eager to get it out of the system—get started—because it's a typical balancing of either forward or back. If this proposal goes back, it will go back into the centerpiece system.

Secretary Kissinger: But why is it against our interests? I understand the argument that it's against our interest that the Europeans take a unilateral decision contrary to our policy. Why is it against our interest to have gold in the system?

Mr. Enders: It's against our interest to have gold in the system because for it to remain there it would result in it being evaluated periodically. Although we have still some substantial gold holdings—about

11 billion—a larger part of the official gold in the world is concentrated in Western Europe. This gives them the dominant position in world reserves and the dominant means of creating reserves. We've been trying to get away from that into a system in which we can control—

Secretary Kissinger: But that's a balance of payments problem.

Mr. Enders: Yes, but it's a question of who has the most leverage internationally. If they have the reserve-creating instrument, by having the largest amount of gold and the ability to change its price periodically, they have a position relative to ours of considerable power. For a long time we had a position relative to theirs of considerable power because we could change gold almost at will. This is no longer possible—no longer acceptable. Therefore, we have gone to special drawing rights, which is also equitable and could take account of some of the LDC interests and which spreads the power away from Europe. And it's more rational in—

Secretary Kissinger: "More rational" being defined as being more in our interests or what?

Mr. Enders: More rational in the sense of more responsive to worldwide needs—but also more in our interest by letting—

Secretary Kissinger: Would it shock you? I've forgotten how SDR's are generated. By agreement?

Mr. Enders: By agreement.

Secretary Kissinger: There's no automatic way?

Mr. Enders: There's no automatic way.

Mr. Lord: Maybe some of the Europeans—but the LDC's are on our side and would not support them.

Mr. Enders: I don't think anybody would support them.

Secretary Kissinger: But could they do it anyway?

Mr. Enders: Yes. But in order for them to do it anyway, they would have to be in violation of important articles of the IMF. So this would not be a total departure. (Laughter.) But there would be reluctance on the part of some Europeans to do this.

We could also make it less interesting for them by beginning to sell our own gold in the market, and this would put pressure on them.

Mr. Maw: Why wouldn't that fit if we start to sell our own gold at a price?

Secretary Kissinger: But how the hell could this happen without our knowing about it ahead of time?

Mr. Hartman: We've had consultations on it ahead of time. Several of them have come to ask us to express our views. And I think the reason they're coming now to ask about it is because they know we have a generally negative view.

Mr. Enders: So I think we should try to break it, I think, as a first position—unless they're willing to assign some form of demonetizing arrangement.

Secretary Kissinger: But, first of all, that's impossible for the French.

Mr. Enders: Well, it's impossible for the French under the Pompidou Government. Would it be necessarily under a future French Government? We should test that.

Secretary Kissinger: If they have gold to settle current accounts, we'll be faced, sooner or later, with the same proposition again. Then others will be asked to join this settlement thing.

Isn't this what they're doing?

Mr. Enders: It seems to me, Mr. Secretary, that we should try—not rule out, a priori, a demonetizing scenario, because we can both gain by this. That liberates gold at a higher price. We have gold, and some of the Europeans have gold. Our interests join theirs. This would be helpful; and it would also, on the other hand, gradually remove this dominant position that the Europeans have had in economic terms.

Secretary Kissinger: Who's with us on demonetizing gold?

Mr. Enders: I think we could get the Germans with us on demonetizing gold, the Dutch and the British, over a very long period of time.

Secretary Kissinger: How about the Japs?

Mr. Enders: Yes. The Arabs have shown no great interest in gold.

Secretary Kissinger: We could stick them with a lot of gold.

Mr. Sisco: Yes. (Laughter.)

Mr. Sonnenfeldt: At those high-dollar prices. I don't know why they'd want to take it.

Secretary Kissinger: For the bathroom fixtures in the Guest House in Rio. (Laughter.)

Mr. McCloskey: That'd never work.

Secretary Kissinger: That'd never work. Why it could never get the bathtub filled—it probably takes two weeks to fill it.

Mr. Sisco: Three years ago, when Jean[3] was in one of those large bathtubs, two of those guys with speakers at that time walked right on through. She wasn't quite used to it. (Laughter.)

Secretary Kissinger: They don't have guards with speakers in that house.

Mr. Sisco: Well, they did in '71.

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[3] Jean Sisco was Joseph Sisco's wife.

Mr. Brown: Usually they've been fixed in other directions.

Mr. Sisco: Sure. (Laughter.)

Secretary Kissinger: O.K. My instinct is to oppose it. What's your view, Art?

Mr. Hartman: Yes. I think for the present time, in terms of the kind of system that we're going for, it would be very hard to defend in terms of how.

Secretary Kissinger: Ken?

Mr. Rush: Well, I think probably I do. The question is: Suppose they go ahead on their own anyway. What then?

Secretary Kissinger: We'll bust them.

Mr. Enders: I think we should look very hard then, Ken, at very substantial sales of gold—U.S. gold on the market—to raid the gold market once and for all.

Mr. Rush: I'm not sure we could do it.

Secretary Kissinger: If they go ahead on their own against our position on something that we consider central to our interests, we've got to show them that that they can't get away with it. Hopefully, we should have the right position. But we just cannot let them get away with these unilateral steps all the time.

Mr. Lord: Does the Treasury agree with us on this? I mean, if this guy comes when the Secretary is out of the country—

Secretary Kissinger: Who's coming?

Mr. Enders: The Dutch Finance Minister—Duisenberg—and Zijlstra. I think it will take about two weeks to work through a hard position on this. The Treasury will want our leadership on the hardness of it. They will accept our leadership on this. It will take, I would think, some time to talk it through or talk it around Arthur Burns, and we'll have to see what his reaction is.

Mr. Rush: We have about 45 billion dollars at the present value—

Mr. Enders: That's correct.

Mr. Rush: And there's about 100 billion dollars of gold.

Mr. Enders: That's correct. And the annual turnover in the gold market is about 120 billion.

Secretary Kissinger: The gold market is generally in cahoots with Arthur Burns.

Mr. Enders: Yes. That's been my experience. So I think we've got to bring Arthur around.

Secretary Kissinger: Arthur is a reasonable man. Let me talk to him. It takes him a maddening long time to make a point, but he's a reasonable man.

Mr. Enders: He hasn't had a chance to look at the proposal yet.

Secretary Kissinger: I'll talk to him before I leave.[4]

Mr. Enders: Good.

Mr. Boeker: It seems to me that gold sales is perhaps Stage 2 in a strategy that might break up the European move—that Stage 1 should be formulating a counterproposal U.S. design to isolate those who are opposing it the hardest—the French and the Italians. That would attract considerable support. It would appeal to the Japanese and others. I think this could fairly easily be done. And that, in itself, should put considerable pressure on the EEC for a tentative consensus.

Mr. Hartman: It isn't a confrontation. That is, it seems to me we can discuss the various aspects of this thing.

Secretary Kissinger: Oh, no. We should discuss it—obviously. But I don't like the proposition of their doing something and then inviting other countries to join them.

Mr. Hartman: I agree. That's not what they've done.

Mr. Sonnenfeldt: Can we get them to come after the French election[5] so we don't get kicked in the head?

Mr. Rush: I would think so.

Secretary Kissinger: I would think it would be a lot better to discuss it after the French election. Also, it would give us a better chance. Why don't you tell Simon this?

Mr. Enders: Good.

Secretary Kissinger: Let them come after the French election.

Mr. Enders: Good. I will be back—I can talk to Simon. I guess Shultz will be out then.[6]

Mr. Sonnenfeldt: He'll be out the 4th of May.

Mr. Enders: Yes. Meanwhile, we'll go ahead and develop a position on the basis of this discussion.

Secretary Kissinger: Yes.

Mr. Enders: Good.

Secretary Kissinger: I agree we shouldn't get a consultation—as long as we're talking Treasury, I keep getting pressed for Treasury chairmanship of a policy committee. You're opposed to that?[7]

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[4] From April 28 to 29, Kissinger was in Geneva for talks with Soviet Foreign Minister Andrei Gromyko.

[5] France held a Presidential election on May 19.

[6] George Shultz's tenure as Secretary of the Treasury ended on May 8, when he was replaced by William Simon.

[7] The summary attached to the front page of the minutes notes that "The Secretary is inclined to oppose the proposal on grounds of non consultation by the Europeans as well as on the proposal's merits. The Secretary agreed to talk to Arthur Burns in this sense."

[Omitted here is discussion unrelated to international monetary policy.]

64. Memorandum From the Under Secretary of the Treasury (Bennett) to Secretary of the Treasury Simon[1]

Washington, May 9, 1974.

YOUR MEETING WITH MINISTER DUISENBERG

Minister Duisenberg on Monday[2] will probably urge that we cooperate with him by expressing a willingness to enter into an effort to find a formula which can be agreed both by Europe and by the United States for a change in the present rules with respect to gold. He is likely to say that he believes that, as a result of the new oil price pressure on a number of countries, including Italy, France, Spain and Portugal, it is quite likely that the Europeans will decide to take unilateral action if an agreement cannot be worked out within the next several months with the United States. He will probably, therefore, argue that we should seriously consider accepting arrangements along the lines outlined in the attached translation of the European position agreed in the recent meetings at Zeist in Holland.[3]

The current European proposal basically has three provisions:

1. that governments be permitted to buy gold from one another at a market related price;
2. that governments be permitted to buy gold from the market; and
3. that some agreement be established among governments to reduce the potential fluctuation in the market price of gold.

In addition, some of the European governments are suggesting that there be an arrangement to require governments collectively to sell

[1] Source: National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 5, The Netherlands (General). Limited Official Use. A copy was sent to Volcker. A handwritten notation on the memorandum reads: "MON. 5/13 12 Noon for 12:30 PM Luncheon Meeting." No record of this meeting has been found. Telegram 100622 to USEC Brussels, May 15, contains the text of a statement given to the press on the meeting. (Ibid., RG 59, Central Foreign Policy Files) The May 14 *New York Times* also contains a report of the meeting.

[2] May 13.

[3] See footnote 2, Document 63. The translation is attached but not printed.

over a period as much gold onto the market as governments have bought from the market, but no detailed plan has been developed to apportion the responsibility to sell to particular governments.

My suggestion is that you respond to Duisenberg along the following lines:

1. We are very grateful for your receiving the Treasury representatives in the Hague[4] and for making the trip to Washington to explain the European thinking to us.

2. We share a common conviction that an agreed multilateral solution would be preferable to unilateral moves by one or more European countries.

3. We share a concern that unilateral current account measures, such as those recently announced by Italy,[5] will seriously disrupt the fabric of international cooperation and will cause economic damage to us all.

4. At the same time we recognize that the increase in oil prices will more seriously affect particular countries and that it is in our common interest to intensify international financial cooperation, as exemplified in the European and United States credit lines for Italy and the proposed expansion of IMF facilities.[6]

5. We can understand why countries in particularly difficult positions will wish to consider cashing in some of their holdings of gold, but we do not think it realistic to think that any country will find it appropriate to attempt to finance a large share of its imports in this fashion, since it is unlikely that the private market would accept a substantial amount of gold without a significant decline in price.

6. It is understandable that potential sellers of gold would wish the rules to be changed so that foreign governments could be among the potential purchasers, but there is no evidence of any significant desire on the part of other governments at this time to acquire additional gold. If any other governments were, for example, contemplating buying Italian gold largely out of a desire to help Italy, then it would probably be preferable for that assistance to be extended on a loan basis.

7. There are four principal serious dangers which we see in the European proposals as we now understand them:

[4] According to telegram 2138 from The Hague, April 30, Volcker was scheduled to meet with Duisenberg in The Hague on May 4. (National Archives, RG 59, Central Foreign Policy Files) No memorandum of conversation of this meeting was found.

[5] On April 30, the Italian government announced new import deposit regulations on manufactured goods. (*The New York Times,* May 1, 1974, p. 1)

[6] In January 1974, IMF Managing Director Witteveen suggested the establishment of a new IMF lending facility to assist countries experiencing large balance-of-payments deficits caused by the recent sharp increase in oil prices.

a. The proposals contain no elements which would clearly signal to the public that governments intend in fact to carry forward their announced intention to phase gold out of its central place in the international monetary system;

b. On the contrary the emphasis in the European proposals upon stabilizing the gold price creates a probability that internal pressures will be developed within the system for further moves toward establishing a single official price for gold. That would be a long step back toward an overly rigid, potentially explosive monetary system;

c. There is also the danger that a sudden write-up in the value of the gold portion of the official reserves of many nations could result in practice in the political process in those nations generating inflationary, overly expansive domestic monetary and fiscal policies; and

d. The sudden large increase in the apparent liquidity of selected developed countries would probably strongly reinforce the demands of the developing countries for preferential arrangements for the provision of liquidity to them. The resulting confrontation could endanger the possibility of reaching a meaningful advance through widespread multilateral agreement at the concluding session of the C–20 ministers.[7]

In the light of these considerations, we will study the European proposals further. In the meantime we hope that the Europeans will also reflect further upon their own proposals with particular reference to the need to insure that any action taken does not turn out to be retrograde but rather constitutes a constructive step in the evolution toward a more serviceable international monetary system. We must be aware of the danger of taking short-sighted steps in the light of a short-term economic situation while unleashing unnecessarily destructive consequences for our common long-term interests.

Having said all this, I suggest that you should imply that we shall wish to talk further with the Europeans but that you do not say at this time specifically at what time and in what group we should talk. My present expectation is that our next discussion should be with the ministers of the group of 5, probably on Monday, June 10, just before the next ministerial meeting. A meeting earlier than that does not look feasible in the light of the political developments in France and Germany,[8] but in any event it is unlikely that Duisenberg would be included in that meeting.

At this stage, I doubt that you wish to be very forthcoming in suggesting the possibility we will be able to strike a deal, but in fact I think the European initiative does now give us a promising opportunity to

[7] The C–20 Ministers met for the last time in Washington June 12–13.

[8] France held a Presidential election on May 19. In the Federal Republic of Germany, Chancellor Brandt's surprise May 6 resignation necessitated a parliamentary vote on May 16 to choose a new Chancellor.

make a bargain that would be much better from our point of view than allowing things to continue to drift as they have been. A separate memorandum is being prepared for you on that subject.

Jack F. Bennett[9]

[9] Printed from a copy that bears Bennett's typed signature.

65. Letter From Secretary of the Treasury Simon to the Chairman of the Federal Reserve System Board of Governors (Burns)[1]

Washington, undated.

Dear Arthur:

I continue to feel that it is imperative that a comprehensive decision be reached this week on the U.S. position regarding gold. Before placing a recommendation before the President on the subject I would appreciate another opportunity to discuss the matter with you, if possible today.

We are in agreement I think on most points, including the desirability of responding constructively to the European proposals in the current economic situation. I may place greater importance on putting forward a comprehensive set of American proposals now to avoid the danger of divisive actions by the European Community countries. I regard the current occasion, when the C–20 negotiations are coming to a conclusion and when we have the two new financially-oriented leaders coming to power in France and Germany,[2] as an unusually good opportunity to see agreement on practical steps toward already agreed basic objectives.

At the same time it is my impression that we are in agreement on the dangers implicit in the specific combination of proposals put for-

[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, May 1974. Confidential. In a May 30 memorandum to Burns, Wallich noted: "Jack Bennett tells me that he is drafting a letter from Simon addressed to you," and offered his comments on the issues he expected Simon to raise. (Ibid.)

[2] On May 19, Valéry Giscard d'Estaing was elected President of France. On May 16, Helmut Schmidt was elected Chancellor of the Federal Republic of Germany. Both men had extensive backgrounds in economics, including service as the Minister of Finance for their respective countries.

ward by the Europeans. To combat the tendencies inherent in their proposals toward re-establishment of an official price for gold you have argued forcefully that we should insist, at least for the time being, that the agreement barring government gold purchases in the market should remain in force.

We agree that governmental sales of gold in the market should continue to be permitted, and I would be prepared to accept your suggestion that we require annual limits on governmental sales to reduce the danger of any immediate inflationary impact.

We are in agreement, I think, that governments should continue, without restriction, to be able to borrow from any source on the basis of gold collateral loans.

We may also agree regarding the desirability of changing the rules to permit the IMF to make some sales from its gold stocks in order to acquire additional resources to aid its members.

You have felt, I believe, that we should not agree to a settlement of the gold issue without first obtaining greater European concurrence regarding some of the important points of our proposals in the monetary reform negotiations. Since there is already agreement embodied in the draft outline of reform on the establishment of indicators I doubt that any more is achievable in that area at the moment.[3] Possibly we could insist that the outline be changed to incorporate our long-standing contention that no government willing to obey the guidelines for floating should have to obtain permission from the Fund to float, or possibly to incorporate our position that any major government should honor a request not to increase its investments in obligations stated in the currency of a country wishing to limit the further expansion of obligations denominated in its currency.

Our differences up to now have probably been primarily two: firstly, whether to make known our intent to permit U.S. private citizens to hold gold and to make sales from U.S. stocks to satisfy that demand, and secondly, whether to permit transfers of gold among governments at individually-negotiated market-related prices.

On the first of these points it seems clear to me that the Senate vote yesterday[4] and the comments I have heard since then from Con-

[3] In March 1973, the C–20 Deputies agreed to draft an Outline of Reform of the international monetary system. By May 1974, the drafting process was nearly complete.

[4] On May 29, the Senate passed legislation approving a $1.5 billion U.S. contribution to the International Development Association. Included in the bill was a provision eliminating the ban on private gold ownership by U.S. citizens as of December 31, 1974. The President, however, retained the authority to eliminate the ban before year's end if he so chose.

gressmen on sentiment in their body on this subject make it most unlikely that we could in any event postpone private ownership past year-end. In fact putting prospective private ownership in our package may actually strengthen our hand in delaying the change while at the same time increasing our credibility and bargaining strength vis-à-vis the Europeans.

On the second point I suggest that our best course at the moment is to set aside the question of just how we will put forward our position in the negotiations to see whether we can at least agree on what outcome of the negotiations would be ultimately acceptable to us. My own feeling, both from an economic and political point of view, is that if we got all the other desirable aspects of the package, including tight limits on the amount of governmental sales during the coming few years, we should be willing to accept a package which would either permit intergovernment sales or establish an IMF warehousing facility or both. If we could reach an agreement on this point perhaps we could then reach agreement on the best order in which to present our negotiating position.

I sincerely hope we can make some prompt progress toward an agreed position.

Sincerely yours,

William E. Simon[5]

[5] Simon signed "Bill" above his typed signature.

66. Memorandum by Secretary of the Treasury Simon[1]

Washington, June 1, 1974.

MEMORANDUM TO

Secretary Kissinger
Chairman Burns
Counselor Rush
Chairman Stein
Assistant to the President Flanigan

U.S. Proposals on Gold

On the basis of our several meetings on this subject, and after extensive further discussions with Chairman Burns, I would like to request your concurrence in my putting forward the position outlined below in my scheduled informal meetings with IMF Managing Director Witteveen and with the senior financial officials of the other major nations over the next few days.

In my view, the proposed position would:

—respond constructively to the recent European initiatives and thus reduce the likelihood of a breakdown in international monetary cooperation through decisions by some European governments to go their separate ways in the near future in their monetary treatment of gold;

—assist nations in adjusting to the new patterns of payments resulting from the large increases in the prices of oil and some other materials; and

—facilitate the further evolution of the international monetary system in directions already generally agreed.

The proposed position would represent a desirable exercise of U.S. leadership at a time when there is an unusually good opportunity to seek agreement with the new financially-sophisticated governments in France and Germany.

The U.S. position would provide that:

1. Governments should be permitted to sell gold at individually-negotiated, market-related prices to any buyer subject to a limitation—to insure against any inordinate sudden inflationary impact—that no government would sell more than 10% of its present holdings during any twelve-month period during the next three years unless the IMF gave its concurrence to larger sales.

[1] Source: National Archives, Nixon Presidential Materials, White House Central Files, Staff Member & Office Files, Council of Economic Advisers, Herbert Stein, Box 105, Meetings Files, International Monetary System, May–June 1974. Confidential.

2. The IMF should be permitted to sell from its gold stocks and would be expected gradually to make such sales to obtain additional resources to assist its members.

3. Any IMF member government should be able, as an alternative to direct sales, to employ the IMF to act as its agent in selling gold from its government stocks on an orderly basis over time with an appropriate commission to the IMF and with the IMF being prepared to extend assistance to the selling government at the time the gold was transferred into the custody of the IMF; such IMF assistance should be equivalent to a substantial proportion of the current market value of the gold and should not restrict the selling government's access to other IMF facilities.

4. Governments should be permitted without restriction to pledge gold as collateral for loans received from other governments or from private lenders.

5. Each government should be permitted at any time to buy, from the market and from other governments, as much gold as it has sold net during the previous twelve months.

6. Gold valuation and settlement obligations should be removed from the Articles of the IMF and from other multilateral monetary agreements.

7. At a time when the change can be introduced without severe risk of market disruption, U.S. citizens should be granted permission to invest in gold, and it should be anticipated that the U.S. Government would sell sufficient gold from its stocks to insure that such permission did not have an undesirable effect on the U.S. international payments position.

Since my meeting with Witteveen is scheduled on Tuesday afternoon,[2] I would appreciate your prompt response. When I have your concurrence I'll arrange with Ken to seek the President's agreement.

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[2] June 4.

67. Memorandum by the Chairman of the Council of Economic Advisers (Stein)[1]

Washingon, June 3, 1974.

MEMORANDUM FOR

Secretary Simon
Counselor Rush
Chairman Burns
Secretary Kissinger
Assistant to the President Flanigan

SUBJECT

Secretary Simon's Memorandum of June 1 on U.S. Proposal on Gold[2]

We are in agreement with paragraphs 4 through 7 of the suggested American proposals but consider it important that paragraphs 1 and 2 should be modified and paragraph 3 should be omitted. We are basically worried about the danger that U.S. acceptance of these items would imply acquiescence in the idea of a supported price for gold, which would lead then in succeeding steps to pegging the price and restoring gold to the center of the international monetary system.

Paragraph 1. In our appraisal the limitation on sales should be omitted from this provision. That limitation would merely have the undesirable effect of lending support to an effort at gold-price maintenance. The argument that the sales limitation would prevent a steepening of inflation abroad and that the U.S. has a particular interest in this we find unconvincing. Those countries which are willing to engage in highly inflationary policies—a seemingly widespread attitude abroad—will do so pretty much regardless of how much gold they are permit-

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[1] Source: National Archives, Nixon Presidential Materials, White House Central Files, Staff Member & Office Files, Council of Economic Advisers, Herbert Stein, Box 105, Meetings Files, International Monetary System, May–June 1974. Confidential.

[2] Document 66. In a June 1 memorandum to Stein, Fellner noted on the subject of Simon's memorandum: "I mentioned both of the following suggestions to Bill Simon and I think he was quite receptive but this draft was by then practically finished or even on its way to its recipients. Could we talk about the matter before you answer? *As for point 1* of the draft: given the present kind of floating, inflation in other countries need not hurt us, so why should we propose that kind of limitation or even submit to it? *As for point 2 of the draft:* We should *insist* on sales by the IMF to create additional supply when we allow additional demand to develop due to American private holdings. This would be far preferable to selling substantial amounts of our official gold, since there may well come a time when the foreign central banks will try to 'stabilize' the price of gold (essential in terms of dollars) and it then will be desirable for us to have a lot of gold for interventions." (National Archives, Nixon Presidential Materials, White House Central Files, Staff Member & Office Files, Council of Economic Advisers, Herbert Stein, Box 105, Meetings Files, International Monetary System, May–June 1974)

ted to sell. Quite aside from this, in a world of flexible exchange rates such policies abroad would result in rising dollar rates rather than in a spread of the additional inflation to the U.S. Furthermore the rise in the dollar rates which would be brought about in such circumstances would not weaken our export prospects since it would merely offset the effects of the deterioration of foreign competitive positions resulting from their inflation.

Paragraph 2. In our appraisal the provision should stipulate that the IMF *will indeed be selling gold* out of its own large stock. We should thereby create an additional source of supply when additional demand will come into play as a result of private American ownership. The alternatives would be (a) to sell part of our own official gold holdings at that time, and (b) to let American residents buy gold from abroad. The disadvantages of (a) would be that we would have less "official" gold at a future time when central banks abroad might well develop arrangements under which important American objectives would require having a large stock for interventions. The disadvantages of (b) would be that it would raise the dollar price of our imports. Any estimate of the future American private demand is so wholly conjectural that we should not build policy on guesses that this demand will be small.

Paragraph 3. In our appraisal this provision for the IMF to act as an agent in the sale of gold, should be omitted, essentially for the same reason why Paragraph 1 should be modified. Paragraph 3 would give institutional support to efforts at gold-price maintenance. We also think that if the IMF has this role in translating gold into a larger amount of reserves than it is now worth, the LDC's will demand a share of the reserves so generated.

Herbert Stein

68. Memorandum From the President's Counselor for Economic Policy (Rush) to President Nixon[1]

Washington, June 4, 1974.

SUBJECT

U.S. Position on Gold

Attached is a brief memo by means of which Secretary Simon has attempted to obtain a unified U.S. position on gold.

Secretary Kissinger, Chairman Burns, and I agree with Secretary Simon's proposals and recommend that you authorize him to put them forward. Because of a conflict of interest, Mr. Ash has disqualified himself from participation in matters involving policy toward gold.

The proposals would contribute to the fight against inflation in the U.S. They would be popular with Congress and the American people. The Congress will probably legislate permission for private ownership of gold within a matter of weeks in any event if we don't propose it.

President Giscard and Chancellor Schmidt have indicated to Secretary Shultz that the Europeans will probably do something on their own very soon if a deal cannot be made with us. Secretary Shultz gave them reason to hope that we would come forth with a constructive response to the European proposals and the current extreme European concern about the economic and political situation in Italy. Secretary Kissinger, Secretary Simon and I are strategizing on how to get the maximum proposals in dealing with the new French and German governments.

Mr. Stein disagrees with two aspects of the proposals as indicated in his attached memorandum.[2] But, Secretary Kissinger, Secretary Simon and I think the package needs to be taken as a whole for negotiating success.

[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, President's Handwriting, Box 27, June 1974. Confidential. A stamped notation on the memorandum indicates Nixon saw it.

[2] Printed as Document 67.

The urgency arises because Secretary Simon is beginning meetings with the major financial leaders starting late today and this subject will be foremost in their minds.

Kenneth Rush

Approve[3]

Disapprove

See me

Attachment

Memorandum Prepared in the Department of the Treasury[4]

Washington, undated.

A Suggested U.S. Position on Gold

Background

For most of the postwar period the U.S. Government, and only the U.S. Government, freely exchanged its currency for gold with authorized foreign holders. In 1968 the major governments agreed not to buy from, or sell to, the private market, and a two-tier gold price system arose. In August, 1971, the U.S. discontinued transactions in gold with foreign authorities at the official price. The only operationally significant price of gold since then has been the private market price.

In his outline of U.S. monetary reform plans at the IMF meeting in September, 1972, Secretary Shultz stated: "I do not expect governmental holdings of gold to disappear overnight. I do believe orderly procedures are available to facilitate a diminishing role of gold in international monetary affairs in the future."

Since that speech no practical steps have been taken to implement a diminishing role for gold. Last year the major countries did agree that governments could sell into the private market, but no sales have taken place. Even though the market price of gold has been in the $150 to $180 range in recent months—compared to the pre-August, 1971 official price of $35 per ounce—some governments may have refrained from selling out of fear that government sales into a thin market with no possible governmental buyers would lead to a severe price decline.

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[3] President Nixon initialed this option.

[4] No classification marking.

About a month ago the European Community finance ministers—in part because of current concern over Italy's financial difficulties—came up with three proposals:[5]

i. that governments be allowed to trade gold among themselves at market-related prices,
ii. that governments be allowed to buy from the market, and
iii. that some sort of intergovernmental mechanism be set up to limit fluctuations in the market price of gold.

The Europeans have been told that these proposals are unacceptable to the U.S. Government since they would create strong tendencies to move the international monetary system back toward an inflexible—indeed explosive—rigidity.[6]

U.S. Proposals

The U.S. now needs to put forward a position which would:

—respond constructively to the recent European initiatives and thus reduce the likelihood of a breakdown in international monetary cooperation through decisions by some European governments to go their separate ways in the near future in their monetary treatment of gold;
—assist nations in adjusting to the new patterns of payments resulting from the large increases in the prices of oil and some other materials; and
—facilitate the further evolution of the international monetary system in directions already generally agreed.

The proposed position should represent a desirable exercise of U.S. leadership at a time when there is an unusually good opportunity to seek agreement with the new financially-sophisticated governments in France and Germany.

The U.S. position should provide that:

1. Governments should be permitted to sell gold at individually-negotiated, market-related prices to any buyer subject to a limitation—to insure against any inordinate sudden inflationary impact—that no government would sell more than 10% of its present holdings during any twelve-month period during the next three years unless the IMF gave its concurrence to larger sales.

2. The IMF should be permitted to sell from its gold stocks and would be expected gradually to make such sales to obtain additional resources to assist its members.

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[5] See footnote 2, Document 63.

[6] See Document 64.

3. Any IMF member government should be able, as an alternative to direct sales, to employ the IMF to act as its agent in selling gold from its government stocks on an orderly basis over time with an appropriate commission to the IMF and with the IMF being prepared to extend assistance to the selling government at the time the gold was transferred into the custody of the IMF; such IMF assistance should be equivalent to a substantial proportion of the current market value of the gold and should not restrict the selling government's access to other IMF facilities.

4. Governments should be permitted without restriction to pledge gold as collateral for loans received from other governments or from private lenders.

5. Each government should be permitted at any time to buy, from the market and from other governments, as much gold as it has sold net during the previous twelve months.

6. Gold valuation and settlement obligations should be removed from the Articles of the IMF and from other multilateral monetary agreements.

7. At a time when the change can be introduced without severe risk of market disruption, U.S. citizens should be granted permission to invest in gold and it should be anticipated that in the light of conditions at that time the U.S. Government would feel free to sell gold from its stocks if that should appear desirable to insure that the permission for private ownership of gold did not have an undesirable effect on the U.S. international payments position.

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69. Editorial Note

On June 4, 1974, President's Special Assistant Jerry Jones wrote President's Counselor for Economic Policy Kenneth Rush that his June 4 memorandum on gold "has been reviewed and approval has been given on Secretary [of the Treasury William] Simon's negotiation proposals." (National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, President's Handwriting, Box 27, June 1974) On June 7, Rush sent Economic Decision Memorandum #2 to President Richard Nixon for his signature. The memorandum was intended to give effect to the President's decision on gold and it substantially replicates the position contained in the Treasury Department memorandum printed as an attachment to Document 68. The sole difference occurs in the first point of the position, which omits the phrase, "to insure against any inordinate sudden inflationary impact." The final sentence of the decision memorandum reads: "Secretary Simon is authorized to utilize the elements of this position at the June meeting of the C–20 and in other negotiations." There is no indication whether President Nixon signed the memorandum. (Ford Library, President's Handwriting File, Subject File, Box 19, Finance—Gold)

On June 7, West German Chancellor Helmut Schmidt sent a message to Secretary of State Henry Kissinger in which he shared his conclusion, based on a recent trip to Paris, "that President Giscard d'Estaing wants to see further progress made towards European unification." This development, the Chancellor continued, "improves the prospects of gradually reaching decisions on European policy which lie within the ambit of the basic attitude the Federal Government has always taken. It goes without saying, of course, that this will first require all members to put their economies back on a stable basis. In this connection the balance-of-payment situation continues to be extremely critical for France, as it is for other members. Italy, as we all know, is close to catastrophe. It would be of decisive help to some members if conditions could be established which would permit them to mobilize their gold reserves—primarily as proof of their credit worthiness. A solution of this problem along the lines considered by the Finance Ministers of the Nine is today, therefore, no longer an economic but rather an eminently political question. Boiled down to its basic element, the alternative is: Either the 'Gold solution' or developments which will have consequences of unforeseeable magnitude for some West European Nations." Schmidt recalled that former Secretary of the Treasury George Shultz had told him that the United States "would not refuse to entertain such a solution"; Schmidt then asked Kissinger to help persuade William Simon, the current Secretary of the Treasury, "of the political necessity of such a remedy. The objective should be to have this question settled at the forthcoming meeting of Finance Ministers in Washington. Without your help this will not be possible." (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 143, Geopolitical File, Germany (Federal Republic of Germany), Chronological File, May–July 1974)

On June 11, the G–10 Finance Ministers and central bankers met in Washington and agreed that a country could borrow against its gold reserves at a price determined by itself and the lending country; in other words, the value of national gold reserves offered as collateral for an international loan could be assessed at a price above the official price of gold, which remained at $42.22 per ounce.

On June 12 and 13, the C–20 met at the Ministerial level in Washington and approved the Outline of Reform of the international monetary system. For the text of the outline, as well as the accompanying final report of the Committee of 20, see de Vries, *The International Monetary Fund, 1972–1978,* Volume III, pages 165–196. The communiqué issued on June 13 at the conclusion of the C–20 meeting was sent to all diplomatic posts in telegram 127634, June 14. (National Archives, RG 59, Central Foreign Policy Files) At a June 21 Cabinet meeting, Simon reported: "We had a good meeting of the C–20. We took some meaningful steps toward the outline of a new monetary system—with gold replaced by SDR's." (Ford Library, National Security Adviser, Memoranda of Conversation, Box 4)

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70. Memorandum by the Under Secretary of the Treasury for Monetary Affairs (Bennett)[1]

Washington, August 5, 1974.

MEMORANDUM FOR

The Honorable Henry Kissinger
Secretary of State

The Honorable Arthur Burns
Chairman, Federal Reserve Board

The Honorable Kenneth Rush
Counsellor to the President

The Honorable Herbert Stein
Chairman, Council of Economic Advisers

SUBJECT

Gold

Secretary Simon asked that I forward the attached to you with the request that you consider concurring in his forwarding the attached draft memorandum to the President.

In view of the sensitive nature of the proposal I hope that it will be possible to limit distribution of the document within your group. Attached are:[2]

1. A draft memorandum to the President;
2. A memorandum discussing procedures for a proposed auction,

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[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, June–Aug. 1974. Confidential.

[2] The first attachment is printed below. The others are attached but not printed.

together with a draft General Services Administration announcement of such an auction;

3. A draft Treasury press release announcing the removal of gold ownership restraints and a planned auction of gold;

4. A draft Executive Order to terminate the gold ownership restraints; and

5. A draft letter from the President to the Congress, notifying the Congress, in accordance with legislative requirements, that the removal of restraints on gold ownership will not adversely affect the international monetary position of the United States.

Jack F. Bennett

Attachment

Draft Memorandum From Secretary of the Treasury Simon to President Nixon

Washington, undated.

SUBJECT

Discussions on Gold

As you know, I shall be having discussions with the Finance Ministers of Germany, France, Japan and the U.K. during the first week of September in Europe. I recommend that you concur in my informing them of two basic U.S. positions regarding gold, always assuming, of course, that there are no serious adverse developments in the international exchange markets in the meantime.[3]

Firstly, I recommend that I be authorized to tell them that we do not think it would be desirable either to request the repeal of the legislation removing restrictions on private U.S. investment in gold at year-end, or to wait to the last moment to permit that private ownership. Under current conditions there appear to be no advantages to delaying that private ownership until year-end. Moreover, administration of the present regulations would become increasingly difficult as the year-end approaches, and earlier action could have a salutory, though

[3] Over the weekend of September 7–8, Simon and Burns met with British, French, Italian, Japanese, and West German Finance Ministers and officials in the village of Champs-sur-Marne near Paris. No record of the meeting has been found, but a summary of the press conference held by French Finance Minister Fourcade at the conclusion of the meeting is in telegram 21209 from Paris, September 9. (National Archives, RG 59, Central Foreign Policy Files)

small, impact in reducing the budget deficit and inflation. I suggest that I should also tell them that, when private ownership is permitted, we plan to make sales of gold from the Treasury's holdings in amounts roughly comparable to the new investment demand in the United States. Such sales would prevent the new private investment demand from adding a balance of payments drain on top of our already large cost of imports of gold for industrial and artistic purposes. On the other hand, I would expect to make clear our expectation that sales of gold by the United States would not represent more than a small share of our existing gold holdings, which have a value on the order of $40 to $45 billion at current market prices.

Secondly, I recommend that I be authorized to say to the Ministers that we think it would be desirable for governments collectively to announce some further steps toward the agreed objective of reducing the international monetary role of gold. It probably would contribute to confidence that the change in domestic U.S. policy would not lead to any market disturbances if the new international measures could be announced prior to the date on which private U.S. ownership became legal.

Under present international understandings, national governments are free to sell gold into private markets, to value gold in their stocks at whatever price they choose, and to use gold as collateral for borrowings, but governments may not buy gold from the market or trade amongst themselves at a market-related price, and the International Monetary Fund is not permitted to sell gold from its stocks at a market price. On the basis of my recent discussions in Europe, I now have the opinion that there would be a widespread favorable response to a U.S. suggestion that:

—The IMF now be allowed to sell its gold gradually to acquire currency resources to lend to its member nations, including the less-developed countries;

—Governments be allowed to buy from the market and to trade among themselves freely subject only to two transitional safeguards; namely,

a) There should be no intergovernmental agreement to take actions or refrain from actions in order to keep the price of gold within any particular limits; and

b) During the next two years, no government would make purchases from the market when the effect would be to take more gold from the market than had been sold by governments to the market during that two-year period.

It seems to me that these measures would move us a long way toward the objective of demonetizing gold while keeping safeguards against any actions which could be construed as tending to re-establish the monetary role of gold.

It is still possible that the government of France might refuse to go along with an international consensus on such measures with respect to gold, although I am sure France will be under considerable pressure from its European colleagues to accept such a proposal. I would plan to explain our viewpoint and seek to gain acceptance of such proposals at the September meetings; but I recommend that I be authorized to agree with the other governments to proceed, if necessary, even in the absence of French agreement.

Following the discussions in the first week of September, I would propose submitting to you the necessary documents to authorize an announcement on September 16 that private investment in gold in the United States would be permissible as of October 15, that the U. S. would be auctioning a stated amount, probably about $250 million, of its gold stock on October 15 and that there would be additional further gold auctions in accordance with need from time to time thereafter.

After reaching, I hope, widespread agreement with the Finance Ministers of the major countries in the first week of September, and announcing the schedule for private ownership on September 15, I would suggest that we would then propose the changes with respect to gold policy for general consideration by the Annual Meeting of the IMF starting on Monday, September 30.[4]

Naturally, I will report to you as this schedule unfolds, but I would appreciate your concurrence to start the ball rolling.

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[4] The IMF and World Bank held their annual meeting in Washington September 30–October 4.

71. Memorandum From the Chairman of the Council of Economic Advisers (Stein) to the Under Secretary of the Treasury for Monetary Affairs (Bennett)[1]

Washington, August 6, 1974.

SUBJECT

Memorandum for the President on Gold[2]

It seems to me that on a subject as important and esoteric as this the President deserves to be given a description of the pros and cons of the proposed course of action, rather than a single recommendation. You would know better than I what the cons are, but at least the following points might be mentioned:

1) To inject an operation of such uncertain magnitude and impact into the present nervous economic and political situation may be unwise, and if that can be deferred it should be.
2) There are people who will think that the sale of gold is the dissipation of our last patrimony.
3) There are less primitive people who think that we should preserve our gold stock for sale against the possibility that the Europeans might try to fix a price of gold.

I think the memo should mention that we don't have the foggiest idea of the amount of additional gold American citizens will want. It should also point out that the budget effect is essentially arbitrary, and neither economists nor anyone else will consider that reducing the deficit by selling gold has the implications usually associated with balancing the budget. The anti-inflationary effect, recognized to be small, might be trivial and result from the sale of Treasury gold, not from the removal of restrictions on private U.S. ownership. In fact, the memo is confusing on that point: it seems to suggest that the budget effect and the anti-inflation effect are connected with the removal of the restriction.

I doubt that we should say that we plan to make sales in "amounts roughly comparable to the new investment demand in the United States." We don't know how much that is. I think we should say that we will sell some, and I think we should do it, but I think we should keep a free hand about the amount.

[1] Source: National Archives, Nixon Presidential Materials, White House Central Files, Staff Member & Office Files, Council of Economic Advisers, Herbert Stein, Box 106, Meetings Files, Meeting on Gold, Secy. Simon's Office, 8–12–74. Confidential.

[2] The attachment to Document 70.

(I assume you have verified that gold sales reduce the deficit.)

Subject to these comments I concur in sending the memo to the President, although I think it would have been good procedure to have a meeting on the question.

Herbert Stein

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72. Letter From the Chairman of the Federal Reserve System Board of Governors (Burns) to Secretary of the Treasury Simon[1]

Washington, August 9, 1974.

Dear Bill:

I am responding to your memorandum of August 5 on gold.[2]

I agree with your view, as expressed in the draft memorandum for the President, that we should be prepared to communicate a position on gold to the Europeans at the meeting in early September. But I still prefer the proposals outlined in your memorandum on the same subject dated June 1, 1974,[3] to the current position suggested in the August 5 document.

For example, I agree that the IMF should be allowed, after appropriate changes in its Articles of Agreement, gradually to sell its gold in private markets (point 2 of the June 1 memorandum). And I continue to believe it would be desirable to modify the IMF Articles of Agreement to remove gold valuation and settlement obligations (point 6 of the June 1 memorandum). If inter-governmental transactions in gold at individually-negotiated, market-related prices were to be permitted, there should be a quantitative limitation on sales (point 1 of the June 1 memorandum).

I can agree with the general thrust of the provision in the August 5 memorandum against official purchases from the market that would increase total governmental holdings. But that provision as currently formulated would be extremely difficult to monitor and enforce, and

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[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, June–Aug. 1974. No classification marking. Drafted by Bryant and approved by Wallich.

[2] Document 70.

[3] Document 66.

in any case implies a first-come, first-served criterion that many governments may find objectionable. I would prefer to stipulate that each individual government would be permitted to buy from the market and from other governments, only as much gold as it had sold net to the market during the previous twelve months. Moreover, I see no need to limit this stipulation to the period of the next two years.

On a point not covered explicitly in your June 1 memorandum, I agree with your suggestion that there should be no inter-governmental effort of any sort to keep the market price of gold within any particular limits. It would be especially important to have such a prohibition in the event that other countries, acting individually or in parallel, were to revalue their official gold holdings at a market-related price.

I cannot concur in the recommendations in your draft memorandum of August 5 to approve private ownership of gold by U.S. citizens prior to the date required by legislation, and to make sales of gold out of the Treasury's holdings via auctions to private citizens.

Allowing private ownership of gold could well add to the uncertainties affecting financial markets at a time when they are already seriously strained. For example, private gold ownership might give a further fillip to disintermediation and thus put further pressure on our financial institutions. Moreover, there are no reliable estimates of the potential demand of U.S. citizens; but given the present state of confidence in currency values and concern about inflation, there is a significant risk that massive purchases might be made. If this were to occur, our international accounts would be further unbalanced and the dollar could come under sharp pressure in the exchange markets. I see no offsetting advantage that would justify taking these risks at the present time. Indeed, depending on market developments, it might become desirable by, say, next October to seek repeal of the legislation requiring private ownership as of December 31, 1974.

I am equally concerned about the risks of auction sales of gold at the present time. In these times troubled by inflation, Treasury gold auctions might be misunderstood by some parts of the public. For example, some might mistakenly deduce either that the Treasury had given up in the struggle against inflation or that it had been forced as a last resort to highly unorthodox measures. Certainly the auctions would receive enormous, disproportionate press attention—which would intensify the risks of misinterpretation.

There is an additional consideration that leads me to this position. Despite some modest progress resulting from the Committee of Twenty deliberations, the role of gold and other reserve assets in the international monetary system is still quite uncertain. It would be premature, in my opinion, for the United States to act unilaterally and begin disposing of its reserve assets on a sizable scale prior to having reached a better international understanding on the respective roles of SDRs, gold, and reserve currencies as official reserve assets. Let us not lose sight of the fact that the auction of Treasury gold would cause a net reduction of our international reserves, while for other countries, the sale of gold for foreign exchange would merely change the composition of their reserves.

All things considered, it would seem preferable to postpone private U.S. ownership until the end of the year, and Treasury gold sales at least until the end of the year. And, as noted earlier, I would not want to foreclose the option of requesting Congress in the fall to consider altering the legislation requiring private ownership.

I shall be glad to have an opportunity, at the Monday meeting,[4] to discuss these points further with you.

Sincerely yours,

Arthur F. Burns[5]

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[4] August 12. On August 12, Bennett sent a memorandum to Kissinger, Burns, Rush, and Stein that reads: "Attached is a suggested redraft of the Memorandum to the President and a suggested agenda of questions for the discussion scheduled for this afternoon." According to Bennett's memorandum, the meeting was scheduled for 5:30 p.m. (National Archives, Nixon Presidential Materials, White House Central Files, Staff Member & Office Files, Council of Economic Advisers, Herbert Stein, Box 106, Meetings Files, Meeting on Gold, Secy. Simon's Office, 8–12–74) No other record of this meeting has been found.

[5] Printed from a copy that bears Burns's typed signature.

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73. Letter From Secretary of the Treasury Simon to the Chairman of the Federal Reserve System Board of Governors (Burns)[1]

Washington, August 22, 1974.

Dear Arthur:

Following up on our brief lunch-time conversation yesterday, I would like to suggest that we put aside discussion of the appropriate

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[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, June–Aug. 1974. Confidential.

time for lifting the restrictions on private investment in gold in the U.S. until we have some time together on the flight back from Paris.[2]

It still seems highly desirable to me, however, that we attempt to take advantage of our meeting with the other ministers—and the current period of relative calm in foreign exchange markets—to seek agreement on some further steps which would demonstrate continuing progress toward the agreed goal of phasing gold out of the center of the international monetary system. Could we reach agreement on my presenting to the ministers a set of proposals along the following lines:

1. The major nations should agree to the desirability of amending the IMF Articles:

a. to make clear that the SDR now stands at the center of the system,
b. to remove the existing barriers which would prevent the IMF from selling any of its gold at market prices to gain foreign exchange resources for use in its authorized operations, and
c. to remove the requirement which otherwise would require that 25% of future quota increases be paid in gold.

2. Major nations should agree to discontinue the current absolute prohibition against government purchases of gold from the market and government-to-government trading in gold at market-related prices and should replace this prohibition with a transitional agreement which would last until a further modification were agreed and which would provide that:

a. no government would sell more than 10% of its present holdings of gold within any 12 month period, in the absence of an exceptional IMF concurrence to larger sales,
b. no government would make gold purchases from the market when the effect would be—according to records maintained by the IMF—to take more gold from the market than had been sold by governments into the market during the previous 12 months, and
c. no government would enter into an intergovernmental agreement either to take actions or to refrain from taking actions for the purpose of keeping the market price of gold within any particular limits.

In this formulation I have attempted to frame a reasonable compromise between our differing views as revealed during the last big meeting on the subject. Reluctantly I have added to the package the 10% limitation on sales, the requirement that repurchases be related to sales during the last twelve months only, and the indefinite extension of the

[2] See footnote 3, Document 70.

transitional period. All of these changes would display a hesitance which concerns me somewhat and all would tend to make negotiation more difficult, but I'm willing to give the package a serious selling effort. Under the circumstances I hope you can forego a provision that purchases by any government be related to sales by that government only. I'm convinced that a package with such a provision would not be negotiable.

Please call me if you would like to discuss the subject further before we depart.

Sincerely yours,

William E. Simon[3]

[3] Simon signed "Bill" above his typed signature.

74. Editorial Note

On August 27, 1974, President's Counselor for Economic Policy Kenneth Rush sent President Gerald Ford a memorandum on the U.S. position on gold. Attached to the memorandum were three documents: Economic Decision Memorandum #2, referred to in Document 69; Rush's June 4 memorandum "transmitting a suggested U.S. position on gold prepared by Secretary Simon," Document 68; and Council of Economic Advisers Chairman Herbert Stein's June 3 memorandum on gold, Document 67. A notation on Rush's August 27 memorandum to President Ford indicates the President saw it.

On September 25, President's Special Assistant Jerry Jones wrote to Rush concerning the U.S. position on gold: "Your memorandum to the President of August 27 on the above subject has been reviewed and the following comments were made on September 24: —I am returning this to you as I clean up desk. Several weeks ago we had meeting on this. What was decision? Or, was position deferred? Please follow-up with the appropriate action." (Ford Library, President's Handwriting File, Subject File, Box 19, Finance—Gold)

75. Letter From the Chairman of the Federal Reserve System Board of Governors (Burns) to Secretary of the Treasury Simon[1]

Washington, September 3, 1974.

Dear Bill:

I have been giving careful consideration to your letter of August 22 on gold policy.[2] I certainly agree that you have gone a considerable distance towards meeting my views on the details of your proposals. If you are determined to stay on that path, I will not press further my objection to your suggested rule governing official purchases of gold in the private market (point 2b in your letter). I would assume that, since most of the elements of your proposed position require amendment of the IMF Articles of Agreement, actual transactions governed by a new agreement should probably await completion, or near-completion, of the amendment process; but I do not insist on even that.

Having said the foregoing in the interest of resolving our differences, I feel it is my duty, both personally and officially, to point out once again my reasons for questioning the wisdom of pursuing the path you wish to follow.

First of all, there is no pressure now from our European counterparts to reach additional agreements on gold—at least there is no pressure from the central bankers. This, I believe, is largely attributable to the understanding reached in June, and implemented this past weekend by Italy and Germany, on gold-collateralized loans.[3] This understanding went a substantial way towards meeting the practical problem that countries in balance-of-payments need might otherwise have had in utilizing their official gold holdings. I am not aware of any other practical problem that requires early action on gold.

Second, and this is a fundamental point, the appropriate role of gold and other reserve assets in the future international monetary system is still obscure. Little progress has been made in reaching

[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, Sept.–Dec. 1974. Personal and Confidential.

[2] Document 73.

[3] On August 31, West German Chancellor Schmidt and Italian Prime Minister Moro announced that the Federal Republic of Germany would loan Italy, which was suffering from a large balance-of-payments deficit due in part to the oil crisis, $2 billion. In return, Italy offered a portion of its gold reserves as collateral. In keeping with the June 11 G–10 agreement on gold (see Document 69), the value of the Italian gold reserves for the purposes of this transaction was assessed at a price above the official price of gold; in this case, the assessment price was 80 percent of the 2-month average price of gold on the open market.

agreement on many aspects of the future world monetary system. Your letter refers to "the agreed goal of phasing gold out of the center of the international monetary system" and the desirability of amending the IMF Articles "to make clear that the SDR now stands at the center of the system." As things stand now, however, such statements are largely rhetoric. Until we and other countries have forged much more of a genuine consensus on the desired shape of the monetary system as a whole, we should not, in my view, isolate the gold question and deal with it apart from other critical issues of monetary reform. Such an effort could unnecessarily weaken our over-all bargaining position.

It seems to me and to my colleagues here that an early relaxation of the present restraints on inter-governmental gold transactions and on official purchases from the private market could well release forces and induce actions (for example, balance-sheet revaluations of official gold holdings) that would increase rather than reduce the relative importance of gold in the monetary system. This may or may not be a desirable outcome; in either case let us be on our guard lest we drift into it.

I hope these thoughts will be helpful to you in preparing for our forthcoming Paris meeting.

Sincerely yours,

Arthur F. Burns[4]

[4] Printed from a copy that bears Burns's typed signature.

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76. Letter From the Chairman of the Federal Reserve System Board of Governors (Burns) to Secretary of the Treasury Simon[1]

Washington, November 13, 1974.

Dear Bill:

In recent days I have been giving further thought to the several aspects of our gold policy that we recently discussed.

[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, Sept.–Dec. 1974. Personal and Confidential. Drafted by Bryant.

I continue to feel that the legislation permitting ownership of gold by private U.S. citizens as of December 31 is ill-timed. Recent press reports and market talk suggest that there may be substantial investment and speculative interest in gold if, as presently required by law, the prohibition is lifted. There is thus a risk of extreme price movement in the gold market, which in turn could excite speculative interest in other markets. Beyond that, if U.S. citizens actually were to buy large amounts of gold, thrift institutions could experience further disintermediation, and there would also be downward pressure on the dollar in exchange markets.

We already have more than enough uncertainty and tension in financial markets at the present time without taking on the additional risks that would be associated with private ownership of gold. In my view, therefore, we should seek repeal of the legislation requiring the termination of the prohibition on ownership.

I recognize, of course, that the President may not find it expedient or desirable to seek new legislation. Moreover, even if he were to decide to do so, it is not at all clear that Congress would be receptive to such a request. Hence plans for implementing the existing legislation must go forward.

In the event that private citizens are in fact able to buy and hold gold after December 31, I feel that the market should be virtually free of governmental intervention. In particular, I would be inclined to oppose at this time any effort to maintain an "orderly market" via sales or auctions out of the Treasury gold stock. The primary argument that has been used by proponents of private ownership is that a prohibition on U.S. citizens' purchases and sales is an infringement of their rights and freedoms. Treasury sales of gold could be viewed as undercutting this philosophy. Moreover, once some Treasury sales had been made, it might be difficult to resist pressures for further intervention in the future—either to support the price or to keep it from rising. All in all, it would seem better to let the market find its own level and bear the costs of any speculative excesses that might manifest themselves at the outset.

Given the uncertain state of the international monetary system, there are other reasons to refrain from selling gold out of the Treasury stock. The role of gold and other reserve assets in the future is still obscure. It would be premature, in my opinion, to begin disposing of our reserve assets on a sizable scale prior to having reached a better international understanding of the respective roles of SDRs, gold, and reserve currencies as official reserve assets.

If private ownership is allowed as of December 31, I recognize that an announcement of policy will need to be made well before the end of December. Such an announcement should leave the Treasury with all its options, including the option of selling gold in case that were deemed best at some later date.

Sincerely yours,

Arthur F. Burns[2]

[2] Printed from a copy that indicates that Burns signed the original.

77. Memorandum From Secretary of the Treasury Simon to President Ford[1]

Washington, November 18, 1974.

Decisions on Gold

Following the discussion in the Cabinet meeting on November 14,[2] I would like to recommend that you provide decisions on two basic questions regarding gold.

I. Should the Congress be asked to postpone beyond December 31 the date on which U.S. citizens will become free to invest in gold in bullion form?

Option A. The Congress could be asked to consider a postponement as an important item of business during the lame duck session on the grounds:

—That there may be substantial investment and speculative interest in gold which could lead to:

[1] Source: Ford Library, President's Handwriting File, Subject File, Box 19, Finance—Gold. Official Use Only. According to the minutes of its November 21 meeting, the Economic Policy Board Executive Committee approved Simon's memorandum to the President. In attendance at the EPB meeting were Simon, Seidman, Greenspan, Ash, Eberle, Butz, Cole, Ingersoll, Seevers, Yeutter, Katz, Richard Bell of the Department of Agriculture, and Howard Worthington of the Department of the Treasury. (Ibid., U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 57, Economic Policy Board Meetings, EPB—Nov 1974)

[2] The Cabinet did not meet on November 14. The President did meet with his Cabinet on November 15 from 11:11 a.m. to 12:25 p.m. (Ibid., President's Daily Diary) Brief notes on the meeting are ibid., James E. Connor Files, Box 3, Cabinet Meetings File, Nov. 15, 1974. On November 12, President Ford wrote Simon: "What are we doing + when on the gold purchase + sale matter?" (Ibid., President's Handwriting File, Subject File, Box 19, Finance—Gold)

further disintermediation from our thrift institutions with consequent damage to the housing industry, and

downward pressure on the dollar in the exchange markets since all gold for private investment will need to come from imports of gold in addition to the substantial amounts already being imported for industrial and artistic use; the additional gold imports would tend to raise the dollar prices of all our exports and imports and would thus contribute to inflation.

—That there is already enough uncertainty and tension in financial markets without our taking on the additional risks that would be associated with private ownership of gold.

Option B. A decision could be made to allow the legislation to go into effect on December 31 on the grounds:

—That there are now no clear-cut crises in the international exchange markets or the domestic financial markets which could be used as a justification to the Congress for repeal of legislation only recently signed by you.

—A request by you would in itself create an uncertainty because it would not be clear what response the Congress would make to the request, and because the request itself might be interpreted as a panic action.

—A request could be construed abroad as a shift in the U.S. position that gold should be phased out of a central role in the international monetary system and should be moved toward a position like that of other commodities.

—That the possible effects of private gold investment on the exchange value of the dollar and on disintermediation could be reduced or offset by limited sales of gold from Treasury stocks.

—That continued restriction would be an infringement on personal freedom not justified by an adequate public purpose.[3]

It is my understanding that *Option A* is favored by Arthur Burns and that *Option B* is favored by Alan Greenspan, Bill Eberle, Bill Seidman and me.

II. If it becomes clear that the new legislation will go into effect on December 31, should the Treasury make plans for an early sale of a limited amount, say $300 million worth, from its gold stock?

Option 1. The Treasury could plan to stay out of the market and let the market price be determined by other supply and demand forces on the grounds:

[3] President Ford initialed his approval of Option B. Simon was notified of the President's decision in a November 30 memorandum from Jones. (Ibid.)

—That Treasury intervention in the market would run counter to the rationale that the Government should not infringe on the citizens' freedoms with respect to gold.

—That once Treasury sales had begun there would be pressures for the Government to take full responsibility for the future market price of gold.

—That the history of past efforts to influence the free market price of gold was not encouraging and that such action at present might lead to demands for intervention in other markets.

—That it would be premature to dispose of any of our reserve assets prior to a better understanding of the respective roles of special drawing rights, gold and reserve currencies as official reserve assets in the future international monetary system.

Option 2. The Treasury could plan to auction a limited amount of gold, presumably through a public auction handled by the GSA in a manner comparable to that used in sales of Treasury silver a few years ago, on the grounds:

—That an unwillingness of the Treasury to part with any gold at this time would undermine the credibility of the U.S. official position that gold should be phased out of the center of the monetary system.

—That the increased import demand for gold, in the absence of official sales, could have an inflationary impact through increasing the dollar value of all other types of imports into the U.S.

—That the revenue generated by the gold sales would permit the Treasury to reduce its market borrowings and thus reduce its competition with those who wish to borrow from the market for housing and other purposes; the gold sales would tend to offset any disintermediation effect by those who withdrew funds from thrift institutions to buy gold.

—That in the absence of an early Treasury sale, there would be a strong possibility that the price of gold would run up substantially during the early period of next year when an initial surge of public interest would not yet be offset by a large supply, particularly of retail-size small bars of gold, so that any necessary Treasury sales at a later date might take place in an already fragile market in which the Treasury sales would cause a precipitous decline in price. In such an event, those U.S. investors who had bought gold early in the year might well have a strong feeling that the Government had treated them unfairly or at least had not acted with the appropriate degree of candor.[4]

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[4] President Ford initialed his approval of Option 2. Simon was notified of the President's decision in a November 30 memorandum from Jones. (Ibid.) On December 3, Simon announced that 2 million ounces of gold would be auctioned off on January 6, 1975. (*The New York Times*, December 4, 1974, p. 1)

It is my understanding that Arthur Burns feels we should not plan an early sale although we should keep the matter under review in case we should wish at a later time to make a sale. It is my understanding that the second Option is favored by Alan Greenspan, Bill Eberle, Bill Seidman and me.

In any event, whatever your decision on these two basic questions, I am tentatively planning to propose for your approval, after review by the Economic Policy Board Executive Committee, a public statement to be made in the first half of December, attempting to make clear to the public our position on gold and also pointing out some of the cautions which must be exercised in dealing with the bullion market.

William E. Simon

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78. Memorandum From Secretary of the Treasury Simon to President Ford[1]

Washington, undated.

Our Negotiations with France on Gold

Our negotiations with France on gold are at a critical stage, and the French have proposed that the matter be discussed at Martinique. While it might not prove possible to reach a settlement on this issue, I think the *time is right to try.* A resolution of the gold issue between the United States and France would settle the matter worldwide.

The French Position

The orthodox French view is:

—That gold should be valued by governments in their accounts at a "realistic" or market-related price (say, $150 per ounce) rather than the present "unrealistic" official price of $42.22 per ounce.

—That central banks should immediately be completely free to trade with each other and deal in the private market at such a market-related price.

[1] Source: Ford Library, National Security Adviser, Trip Briefing Books and Cables for President Ford, Box 6, 12/14–16/74—Martinique General (5). Confidential; Nodis. An attached December 13 memorandum from Hormats to Kissinger refers to a memorandum from Simon on gold, and a notation on Hormats's memorandum indicates Ford saw it. The attached NSC correspondence profile, which lists as its subject "Treasury input re discussion of gold issue at Martinique summit," indicates that it was noted by the President.

—That gold will play a key if not central role in the international monetary system.

This view is deeply engrained in French policy and has strong public support. It is based on the traditional French attachment to gold as the only asset safe from the perils of political strife and economic turmoil, and it also reflects the belief that gold helps to assure French "independence" by providing the only alternative to a dollar-dominated world monetary system.

While Giscard certainly shares these orthodox French views on gold—and would be constrained by French public opinion even if he didn't—some of the French Government's public positions on the subject sound very much like those taken by the United States. Most importantly, both they and we say we want to diminish the role of gold in the international monetary system. Why Giscard takes that position is not clear—he may think this tactic will lead to the kind of international monetary system centered on gold at a high price that he favors, and he may feel that France would be isolated if it pressed for such a system directly and openly. Whatever the reason, it might be desirable to take the French at their public word and try to build an agreement on those points where our views seem to converge.

If a settlement can be reached, it would be helpful to all sides. However, the U.S. is not a demandant on this issue, and failure to reach agreement will in no way mean a loss of U.S. prestige or position.

Elements of a Possible Agreement

A main interest of the U.S. is to move progressively to phase gold out of the international monetary system—the instability of the gold price, limited production and competing demands for non-monetary uses make it a poor foundation for the system. Thus we propose that:

—There should be *no* intergovernmental agreements setting the price or price range for gold.

—Gold should have *no* relationship to the International Monetary Fund different from any other commodity.

A main interest of the French is to eliminate the present rules that prevent governments from trading gold at a market-related price. Also, the French want agreement to prevent sales of IMF gold, and may also want to limit sales of U.S. gold to the market so as to avoid any sharp downward pressure on the market price for gold.

Thus it is conceivable that we could reach an accommodation involving:

—Elimination of all governmental restrictions on gold, and of the special status for gold in the IMF (just as the special IMF status of the dollar has already been eliminated).

—Prohibition of intergovernmental price fixing for gold.

—Limitations (but not prohibition) on the rate of sales to the market of IMF, U.S., and possibly other governments' gold.

The issues are highly technical and the possibilities of misunderstanding are great. Thus it would be desirable, after a general discussion, to have Minister Fourcade and me meet with our deputies to discuss this matter in detail.

Suggested Talking Points

1. The U.S. supports strongly a diminished monetary role for gold, and we understand the French share that objective.

2. We know the French Government favors the removal of all restrictions on governmental transactions in gold, and we accept that as an ultimate objective.

3. We would think it worthwhile to explore the prospects for an agreement covering both these points, and possibly necessary transitional arrangements. I suggest that our Finance Ministers meet separately to explore the possibilities.

William E. Simon[2]

[2] Printed from a copy that bears Simon's typed signature.

79. Memorandum From Henry Wallich, Member of the Federal Reserve System Board of Governors, to the Chairman of the Federal Reserve System Board of Governors (Burns)[1]

Washington, December 13, 1974.

SUBJECT

Note Concerning Gold Discussions at Martinique

From the Reuters report of Bennett's statement, it appears that a major change of emphasis is planned in our gold policy.[2] While we still ask for a transition period during which central banks cannot buy gold in the market or from each other at market-related prices in excess of previous sales, this transition period, which in the past seemed to be the principal rule of policy, now seems to become an exception, with the absence of such restraints after the transition being treated as the significant feature.

The principal objections to such a shift are:

(1) It should not be negotiated with the French alone, but with other interested countries, some of whose positions on gold have been influenced by our past positions.

(2) This policy is in conflict with our own action in selling gold. We are reducing our own holdings of a reserve asset while enabling other countries to make more effective use of theirs for monetary purposes.

(3) The danger of a new and higher official gold price becomes more concrete. It is true that such a price, in order to be made to stick, requires a willingness of one or more central banks to buy all the gold that is offered at that price. I doubt that there is such a central bank today. Thus, there seems no great immediate danger of a return to the Bretton Woods system or the gold standard. But it is probable that gold will have been moved closer to the center of the monetary stage.

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[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, Sept.–Dec. 1974. No classification marking.

[2] Bennett's statement was not found. However, on December 11, the *Los Angeles Times* published a Reuters report on comments made by Simon on December 10 about the issue of gold at the U.S.-French meeting at Martinque. The report noted: "The United States is now saying that provided suitable arrangements can be made for a transitional period—from a position where gold still forms a large percentage of official reserves to a situation where it is regarded as a 'commodity'—then central banks should be free to buy and sell. But Simon said that the United States wanted to be sure that any transitional arrangements imposed limits which would not have the effect of placing gold more securely at the center of the financial system."

(4) One useful purpose served by a policy of freeing the use of gold is that in times like these we may like to see countries have maximum reserves in order to maintain liberal trade policies. I am tempted to argue that the emergency is sufficiently serious to justify postponing our long-term objectives for the world's monetary system, which involve elimination of gold. But obviously there are means of supplying gold-holding countries with credit that would have the same favorable effect on their trade policies, if the credit terms are made easy enough.

From the briefing paper for the President[3] it would appear that Treasury sees a basis for understanding with the French because the French have made what seems to me a semantic concession concerning the treatment of gold as a commodity. This surely is not a change of mind on their part concerning the basic importance of gold. Hence agreements based on this misleading appearance of a common ground are likely to prove disappointing.

(5) The memorandum to the President does not propose to trade our position on gold for the French position on oil. Apparently there would be no further benefits from making concessions to the French viewpoint on gold.[4]

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[3] Document 78.

[4] Solomon and Bryant also had objections. In a December 11 memorandum to Burns, Solomon asserted that to accept Bennett's proposal would be to concede "the position that the French took throughout the C–20 discussions" and "to promote the role of gold in the future monetary system." Solomon commented: "It seems a shame to decide this one aspect of reform now, especially when none of the other Europeans is pressing the issue. We certainly do not need to make this concession to the French to get them to agree to the U.S. recycling proposal, given France's balance of payments vulnerability." On December 12, Bryant wrote a memorandum to Burns in which he also warned that the "early relaxation" of the rules on official gold transactions could "increase rather than reduce the relative importance of gold in the monetary system." Bryant continued: "Even if one thought it desirable to push ahead on the gold question, would it be the best course to strike an understanding in bilateral conversations with the French? Does France have enough to give us, even in the area of energy policy, to make it worthwhile playing the gold chip bilaterally with them?" Both memoranda are in the Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, Sept.–Dec. 1974.

80. Memorandum of Conversation[1]

Martinique, December 15, 1974, 4:30–6:30 p.m.

PARTICIPANTS

Valery Giscard d'Estaing, President of the French Republic
Jean Sauvagnargues, Minister of Foreign Affairs
Jean-Pierre Fourcade, Minister of Economy and Finance (Second Half)
President Gerald R. Ford
Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
William Simon, Secretary of the Treasury (Second Half)
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

SUBJECTS

Defense Cooperation; CSCE; F–104 Replacement; Monetary Issues

[Omitted here is discussion unrelated to foreign economic policy.]

Monetary Issues

Giscard: [To the Finance Ministers] Did you make economic progress?

Fourcade: We made progress on gold, and on IMF we have a friendly agreement and disagreement. [He hands over a paper.][2]

Giscard: On gold, I decided to change the calculation of our reserves to give them the face value. We will have a deficit of $7 billion because of oil. Against this deficit, we have one half gold and one half other currencies. If we value it at the market value, the gold will become $12 billion and the total will be $15 billion. We have delayed it only to get an understanding with the major countries. Schmidt said go ahead. But I thought we would meet and wanted to wait for that.

The monetary question has been one of deep disagreement between the United States and France. There is still American hostility from the '65 period. I am not a supporter of the gold standard. I tried to achieve some new kind of system, and we were close to it before the oil crisis. The practical point for us is to do it in a way which doesn't look like we are undermining the foundation of the monetary system. I would like to put out our balance of payments in January and resolve the gold question. Would that be a problem?

[1] Source: Ford Library, National Security Adviser, Memoranda of Conversations, Box 8. Secret; Sensitive. The conversation took place at the Hotel Meridien. All brackets, except those that indicate an omission, are in the original.

[2] Not further identified.

President: There has been recent pressure to authorize American citizens to hold gold and for the Government to sell some gold. The legislation early this year was forced on us as part of an IDA bill.

Simon: They passed it over our objections.

President: They pinned us down to December 31, 1974. The result is the authority is mandatory, so we didn't want to wait until December 31.

Simon: We will auction two million ounces.

Giscard: To whom?

Simon: It is an auction to citizens.

Giscard: With the objective to sell all your stocks?

Simon: Not at all. We just wanted to supply at least partially some of the demand to ease the balance of payments problem.

Giscard: One of the motives in France for holding gold is the inheritance tax. It is small and can be hidden to escape taxes.

President: My instinct is that we would have no objection to your proceeding.

Giscard: We will let you know two days ahead.

Your people in Treasury are violently opposed to monetizing gold. Why? Five years ago it was protecting the dollar, but now it is floating.

Simon: The concern is that if everyone raised the price and kept it at the center of the system, it would make the system more vulnerable.

President: What would you say in the communiqué?[3]

Simon: We would leave it out and handle it in the January meeting of the Five. We have no disagreement with you about the ultimate role of gold. The disagreement is how we get there.

Giscard: How will we deal with the questions and answers?

Simon: We can say we agreed on the destinations but in getting there we wanted safeguards. We would prohibit or restrict central bank system purchase of gold. We would not want gold support but would treat it as a commodity.

Giscard: We could mention closer cooperation to reestablish control of the general economic development. If the situation developed in dangerous ways, we would meet in the Five, or at Presidential level, if necessary, to deal with it. We must find a way to avoid offending our other EC partners. We need to have some new approach. The Group of 20 failed.

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[3] For the text of the joint communiqué issued after President Ford's and President Giscard's December 14–16 discussions in Martinique, see *Public Papers: Ford, 1974*, pp. 754–757.

President: We agree. And a statement from this meeting would solidify what was done in our communiqué with Schmidt.[4]

Kissinger: It would have a very positive effect. We don't have to describe the mechanism.

Giscard: "If needed, we could take the initiative for a meeting to organize cooperation for dealing with economic problems."

President: We would not go into details.

Simon: The Group of Five meeting would be secret. It would be just before the meeting of the 20.

Giscard: Twenty is perfectly useless except to permit a meeting of the Five.

[The meeting ended.]

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[4] For the text of the joint communiqué issued after President Ford's and Chancellor Schmidt's December 5–6 discussions in Washington, see *Public Papers: Ford, 1974,* pp. 721–725.

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81. Memorandum From Edwin Truman of the Federal Reserve System Board of Governors Staff to the Chairman of the Federal Reserve System Board of Governors (Burns)[1]

Washington, December 18, 1974.

SUBJECT

Under Secretary Bennett on the Discussions of Gold in Martinique

At the International Monetary Group meeting on December 17, attended by Governor Wallich, R. Solomon and me, Under Secretary Bennett gave a report on, and an interpretation of, the discussion of gold issues with the French in Martinique.

1. *Purpose of the discussions*

a. No effort was made to tie down an agreement on gold.

b. Any attempt to reach an agreement was left until January.

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[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, Sept.–Dec. 1974. No classification marking. Copies were sent to Wallich, Solomon, and Bryant.

2. *Valuation of gold holdings*

a. The French intend to revalue their gold holdings on January 1, 1975, although they have not told their European colleagues yet. The French will neutralize the profits.

b. The United States does not intend to revalue its gold holdings at this time because Congress would want to spend the profits.

c. In Bennett's view, the agreement in Martinique on this aspect of gold is consistent with the understandings reached last summer—with respect to gold collateral loans.

3. *Other aspects of the gold question*

a. The French were reported to be in favor of the elimination from the I.M.F. Articles of the official price for gold.

b. The French were reported to be in favor of the elimination from the I.M.F. Articles of the *mandatory* provisions concerning gold.

c. The French were reported *not* to be in favor of the removal from the I.M.F. Articles of all mention of gold.

d. The French continue to oppose the sale on the market of the I.M.F.'s gold, although they might favor a "return of such gold to the shareholders."

e. The French continue to want to remove all restrictions on gold forthwith. On this point, Bennett reported that the U.S. representatives had agreed with the French view for the long run. During a transitional period, the U.S. representatives said, certain safeguards were necessary:

(1) There should be a limit on how much gold a country could buy *net* from the market; of course, a country could buy back any gold that it had sold to the market. In other words, the limit would apply to how much countries could add to their *present* stocks of gold.

(2) There should be no cartel agreement to fix the price of gold.

4. *The next steps*

a. In Bennett's view the French indicated that they might be prepared to reach a "full agreement" on gold in January, although the thrust of the agreement would be against their basic philosophy. They are particularly concerned with the problems that would be presented because they would have to go before the legislative committee chaired by M. Couve de Murville.[2]

b. It was suggested that agreement might be reached in which all (major) countries participated with the exception of France. Such an

[2] Maurice Couve de Murville was head of the French National Assembly's Foreign Affairs Committee.

approach would follow the model of the 1968 Washington Arrangements on gold.[3]

c. The French view is that if no comprehensive agreement can be reached on gold, then all the options must be left open. Bennett admitted that the French might still cling to the view that gold should be a monetary asset.

d. In Bennett's view the United States should favor more than the elimination from the I.M.F. Articles of the official price and mandatory provisions concerning gold. He said that the French had indicated that "we can work out transitional arrangements" consistent with the U.S. view on the role of gold in the long run.

Comment

It was not clear at the end of Bennett's report, whether or not the United States favored pushing toward a "comprehensive agreement" on gold at this time. It was also not clear whether or not the United States would favor a less than comprehensive agreement. Several participants in the International Monetary Group meeting expressed concern about an agreement in which the official gold price and mandatory provisions governing gold were removed from the I.M.F. Articles but which left other options open. For example, if the I.M.F. could still accept gold in exchange for currencies or in payment of quota subscriptions, at what "price" would it accept such gold?

[3] See footnote 5, Document 3.

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82. Message From British Prime Minster Wilson to President Ford[1]

London, undated.

Jim Callaghan and I are looking forward very much to our visit to Washington at the end of next month,[2] when we hope to be able to dis-

[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 24, United Kingdom (18) (9/11/74–12/31/74). No classification marking. Forwarded under cover of a December 30 letter from British Ambassador Ramsbotham to President Ford. Kissinger subsequently forwarded both documents to the President under cover of a December 31 memorandum. (Ibid.)

[2] Prime Minister Wilson visited Washington January 29–31, 1975.

cuss all the major issues confronting the Western world. However, I felt it would not be right to wait until then to share with you one particular anxiety I have.

As you will know we have all been watching with close attention your efforts to minimise unemployment while continuing to fight inflation. Of these two grave threats to our economies—and ultimately perhaps to our cohesion and our institutions—the former seems to us to be growing more serious.

To a major extent the decline in activity and growth which is taking place is certainly attributable to the five-fold increase in world oil prices, which has taken huge sums of money out of the normal circulation and put it into the reserves of a few governments. This deflationary impact is thus one aspect of the complex of financial, economic, energy and trade problems which the action of the oil producers has set us. All of them need to be tackled by co-operative effort, and your Administration has given invaluable leads in this direction. It is, I think, no less true in this economic aspect than in the others that we all need to have continuously in mind the effect on others of our own actions and policies.

We in the United Kingdom have thought it right against this background to stimulate activity and many of our European allies are doing the same. Each one of us by doing so helps to avert a socially dangerous build-up of unemployment within his own country and at the same time helps to maintain international activity and to reduce the temptation for the more hard pressed countries to fall back into measures of a protectionist nature.

But the US is the motor of the industrial world: and if the motor fails then the rest of us will inevitably come to a halt. The published indicators which have come out in the last few weeks have successively shown a picture of a motor which is indeed slowing down. The recession now looks likely to be deeper and longer than had been expected and I understand that even the more optimistic forecasters do not now expect any significant upturn before the second half of 1975.

It is right to let you know that for us in Britain, and no doubt for many others, this is a deeply worrying prospect. The confidence of business, the support of labour for domestic economic policies of freedom from restriction in international trade all depend on the conviction that all our governments will act to prevent recession from deepening into depression.

I look forward to discussing all this with you and telling you something of how we are tackling our problems in Britain, but wanted to express my concern now because I know that you will be thinking about economic matters in the next week or two.

83. Memorandum From Secretary of the Treasury Simon to President Ford[1]

Washington, January 18, 1975.

SUBJECT

Results of International Meetings this Week on Monetary and Development Issues

We made major progress this week in resolving a number of key international financial issues in meetings of the Group of 10 Finance Ministers, the IMF "Interim Committee" and IMF/IBRD "Development Committee."[2]

I believe we reached agreement on a package of measures which will help restore confidence on the world economic scene, and is fully consistent with U.S. objectives in the financial and energy fields. I am extremely pleased by the breadth and depth of the agreement. The main points are as follows:

1. *Safety Net.*[3] Agreement was reached among the major OECD countries to implement our proposal for a $25 billion "safety net," and that a new Solidarity Fund to do this should be established at the earliest possible date. Membership will be open to any OECD country following cooperative economic and energy policies. Detailed

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[1] Source: Ford Library, L. William Seidman Papers, Box 206, Name Files, Simon, Wm., 1/18–31/75. No classification marking. Initialed by Seidman.

[2] The G–10 met at the Ministerial level in Washington on January 14 and 16. The IMF Interim Committee and IMF/IBRD Development Committee had been established and held their inaugural meetings in October 1974. The Interim Committee (formally known as the Interim Committee of the Board of Governors on the International Monetary System) succeeded the Committee of 20 as the primary international monetary reform group, while the Development Committee (formally known as the Joint Ministerial Committee of the Boards of Governors of the World Bank and the Fund on the Transfer of Real Resources to Developing Countries) addressed the problems of developing countries. The Interim Committee met in Washington on January 15 and 16. The Development Committee met in Washington on January 17.

[3] In a November 14, 1974, speech before the University of Chicago Board of Trustees entitled "The Energy Crisis: Strategy for Cooperative Action," Kissinger proposed the creation of a financial solidarity fund within the OECD to assist oil-consuming countries beset by large balance-of-payments deficits resulting from the rapid increase in oil prices. Asserting that private lenders alone should not have to meet the needs of such countries, Kissinger suggested that "the governments of Western Europe, North America, and Japan should move now to put in place a system of mutual support that will augment and buttress private channels whenever necessary. The United States proposes that a common loan and guarantee facility be created to provide for redistributing up to $25 billion in 1975, and as much again the next year if necessary." For the text of Kissinger's speech, see Department of State *Bulletin,* December 2, 1974, pp. 749–756.

preparatory work is to be completed in time to permit signature by governments of a specific agreement, the main lines of which are now set, by the end of February 1975.

2. *IMF Oil Facility.* Agreement was reached among IMF countries that the IMF Oil Facility should be continued for 1975, but on a much more limited basis than had been proposed by the Europeans and others. At our insistence, borrowing from oil producers and others for this Oil Facility will be limited to about $6 billion (or 5 billion SDR's). Others had favored an open-ended Oil Facility which might borrow 7 to 14 billion or more from these sources in 1975.

There was widespread support for a provision to seek contributions from oil producers and industrial countries to subsidize interest costs of the IMF Oil Facility for poor developing countries. I made clear in various discussions that the U.S. could not be counted on for a budgetary contribution to such a subsidy, though I left open the possibility that some financing might be available for this purpose by a sale by the IMF of a small portion of its present gold holdings.

In response to the U.S. view that the IMF Oil Facility and special borrowing from oil producers should be phased out, and emphasis shifted back to traditional forms of IMF financing, it was agreed that the policies, practices and resources of the IMF will be reviewed to make possible increased use during 1975 of the Fund's ordinary holdings of currencies to meet the needs of nations in difficulty.

3. *IMF Quotas.* Agreement was reached in principle to increase IMF quotas of member countries by a total of approximately 32.5 percent. The oil producers' share of the total IMF quotas will be doubled in order to call for greater participation and a greater voice for these countries in the activities of the International Monetary Fund. Details of this quota increase are to be worked out later, but I made clear that the U.S. could agree to the increase only if our present voting share in the IMF is retained. The U.S. now has a veto over certain IMF activities and we do not want to give up that veto. I believe the proposed total increase in quotas is justified by developments in the world economy since the last increase five years ago. When final agreement is reached in the fall, we will have to seek Congressional approval of the quota increase.

4. *IMF Amendments.* Agreement was reached on the general lines of a number of amendments to the IMF Articles, with the particulars to be worked out over the months ahead. The amendments are designed to improve the structure of the IMF and bring it more in line with current realities. One amendment supported by the U.S. would provide that member countries can float their currencies in particular situations—a practice which is not now legally permissible under the IMF Articles. Another would reduce the role of gold in the IMF.

5. *Gold.* Considerable progress was made with the French and others to narrow our differences with respect to the broader question of gold and its role in the international monetary system. However, further negotiations will be necessary before we can reach an acceptable solution to the gold question. Our aim is to arrive at a workable solution which will take gold out of the center of the international monetary system and reduce its importance as a monetary asset, while allowing countries greater freedom in being able to utilize their gold holdings.

6. *Support to the Poorest Developing Countries.* The developing countries did not give strong support to our proposal for a trust fund to provide additional funds for the poorest countries to be financed by profits from the sale of IMF gold and by loans from OPEC and other countries.[4] The Germans, French and Dutch strongly opposed creation of a working group to study our proposal. The developing countries generally supported a World Bank proposal for a "third window" with subsidized interest rates. Some developing countries supported an Iranian proposal for a new fund for financing development projects. It was finally agreed that the Boards of the Fund and Bank would study both the "third window" and the U.S. Trust Fund. This is an area where forward movement isn't going to be easy. My announcement of our ratification of our IDA pledge helped a great deal, however, in maintaining a constructive atmosphere.

7. *Comment.* The Interim Committee and the Development Committee were both established a few months ago largely at the U.S. initiative. I believe that bringing together finance ministers from time to time in these forums is a useful way of getting decisions on difficult and technically complex financial issues. I am very encouraged by the results of the meetings we have just completed. They show that misguided press reports to the contrary, the Administration is playing an important leadership role on these matters, and is getting the international community to come to grips with critical financial and energy issues.

William E. Simon

[4] In Kissinger's November 14, 1974, address to the University of Chicago Board of Trustees, he also proposed the creation of a special trust fund to assist the 25 to 30 developing countries most seriously affected by the rapid increase in oil prices. Kissinger called for "the creation of a separate trust fund managed by the IMF to lend at interest rates recipient countries could afford. Funds would be provided by national contributions from interested countries, including especially oil producers. The IMF itself could contribute the profits from IMF gold sales undertaken for this purpose."

84. Memorandum From Henry Wallich, Member of the Federal Reserve System Board of Governors, to the Chairman of the Federal Reserve System Board of Governors (Burns)[1]

Washington, May 2, 1975.

SUBJECT

Gold

From conversations I have had with Jack Bennett, it is my impression that Treasury wants to shift somewhat their position on inter-central bank gold transactions. Bennett now seems prepared to start his negotiation in Paris with the position that central banks should not deal with each other in conformity with our position. However, he argues strongly that this position is not saleable. I interpret this to mean that if you insist on this position, Bennett would not retreat from it and would have to accept failure of the negotiation. This should be clarified to make sure my understanding is correct.

As a possible basis for getting an agreement, I raised with Bennett, without committing you, the following two-pronged alternative:

1. Distinguish between inter-central bank gold sales that reflect an emergency situation for the selling country, such as a sharp drop in reserves or a large prospective deficit, and the use of gold in routine transactions such as intra-snake settlements. The former would be permitted, the second ruled out.

2. To balance off this softened position, the ceiling on the world's official gold stock would be lowered over time, along the lines suggested in our luncheon conversation with Witteveen.[2] No country would be required to sell gold as the ceiling moved down, but repurchases of gold previously sold to the market and perhaps also intra-central bank "emergency" sales, would be progressively limited by this descending ceiling.

The descending ceiling might strengthen our position in negotiations with the French. It would be a hint that the U.S. might continue to sell gold. A decline in the price of gold is of course what the French most fear, with regard to their official holdings as well as their large private holdings.

Some further flexibility could be injected into the U.S. bargaining position by being more accommodating on the treatment of the gold

[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, Jan.–May 1975. No classification marking. Copies were sent to Bryant and Solomon.

[2] No record of this conversation has been found.

held by the IMF. Our main objective would be not to keep this gold completely frozen in the IMF but to use it or dispose of it in some way. My preference would be to let the IMF use it for the benefit of the LDC's, by some such method as the trust fund proposed by the U.S., which is to be partly financed by profits on IMF gold sales. The French want restitution of the Fund's gold to the original contributors at the official price. While an inferior method, this would nevertheless serve to dispose of the fund's gold and get the problem out of the way. The fund's resources can always be increased, if necessary, by quota increases.

85. Paper Prepared in the Department of the Treasury[1]

Washington, May 19, 1975.

Proposed Understandings with Respect to Gold

Among the Governments Represented in the G–10

No participating government will take actions individually, or in concert with others, to attempt to peg the market price of gold at any particular level or to maintain it within any particular range or to use gold as a regular settlement medium.

Each government agrees that its trading in gold will be governed by the general understandings outlined below until such time as an agreement is reached among the governments concerned to modify or eliminate the understandings. An intensive review to consider possible changes in the understandings will be held within two years. The understandings are that:

a. No participating government will purchase gold from any source when the effect would be to increase the total gold holdings of IMF member governments and of the IMF above the level of their combined holdings on May 1, 1975;

b. No government will purchase gold directly from another government, or purchase gold from any source if such purchases would

[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, Jan.–May 1975. No classification marking. Attached to a May 20 note from Truman to Burns that reads: "Attached is a statement on gold that Jack Bennett said that he had distributed for discussion at the G–10 Deputies' meeting last week in Paris. Mr. Bennett reported to the International Monetary Group that this statement represented 'his personal understanding of the position of the United States.' "

cause the gold held by the purchasing government to exceed its holdings on May 1, 1975, except that a government may, regardless of the level of its gold holdings, purchase gold from another government to facilitate a sale of gold by the latter government because of an emergency need to mobilize a portion of its gold holdings.

Among the Executive Directors of the IMF

a. During 1975 the IMF will be authorized to sell at the official price approximately SDR 100 million to a special account to be administered by the IMF for the purpose of lowering the effective interest rate paid by the most seriously affected developing countries on drawings in 1975 from the Oil Facility, provided the special account receives commitments for an appropriate volume of additional voluntary contributions from governments.

b. During the next several months the Executive Board will work in cooperation with the Secretariat of the Development Committee to prepare for consideration by the Development Committee and the Interim Committee not later than December 31, 1975, a detailed proposal for establishment of a trust fund to be administered by the IMF for making medium term concessional loans to the poorest member governments using in part funds received through voluntary contributions and in part funds acquired through gradual resale in the market of gold, sold to the Trust Fund by the IMF at the official price of gold.

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86. Memorandum From the Chairman of the Federal Reserve System Board of Governors (Burns) to President Ford[1]

Washington, June 3, 1975.

In preparing for the June 10–11 meeting of the International Monetary Fund's Interim Committee, the Treasury and Federal Reserve have agreed on all aspects of a U.S. position except for one point. But that one point is of fundamental importance. The manner in which it is resolved may well determine the shape of the world's monetary arrangements, and therefore affect our economic and political interests over the next generation.

[1] Source: Ford Library, William Simon Papers, Drawer 23, Folder 2, Gold, 1974 (Nov)–1975. Strictly Confidential (FR). Copies were sent to Simon, Kissinger, Greenspan, Lynn, and Seidman.

The broad question at issue is whether central banks and governments should be free to buy gold, from one another or from the private market, at market-related prices. (Market prices have recently been in the range of $160 to $175 per ounce; the official price is $42.22 per ounce.) The Treasury is willing to accept a large measure of freedom for such transactions. The Federal Reserve is opposed.

The specific point of controversy is whether to allow individual governments to increase their gold holdings above a specified ceiling (for example, actual holdings as of May 1, 1975). The Treasury is willing to agree to the position, taken strongly by the French Government, that there should be no ceiling on the gold holdings of an individual government. The Federal Reserve believes that individual country ceilings are essential, and that the United States should not agree to any new international arrangements on gold unless they incorporate such ceilings.

The January 1975 communiqué of the International Monetary Fund's Interim Committee,[2] an internationally agreed document, stated that freedom for national monetary authorities to enter into gold transactions should "ensure that the role of gold in the international monetary system would be gradually reduced." Individual country ceilings on gold holdings, which the Federal Reserve favors, would contribute to this objective. The Treasury's position, on the other hand, will be interpreted by many as a withdrawal from the January understanding.

There are four basic elements in the Federal Reserve's stand on gold:

First, there is no compelling practical problem that requires early action on gold issues. Sizable borrowing facilities exist to help countries tide over emergency needs for balance-of-payments financing. Countries needing to use their gold holdings can either sell some gold in the market or arrange to use their gold as collateral for loans. Hence, there is no economic reason for being concerned about deferring a resolution of outstanding gold issues.

Second, until we and other countries have forged a genuine consensus on the desired shape of the future world monetary system, we should not isolate the gold question and deal with it apart from other critical issues of monetary reform. Moving ahead on gold in the absence of such a consensus may inadvertently and dangerously prejudge the shape of the future monetary system.

[2] For the text of this communiqué, issued at the end of the January 15–16 meeting, see de Vries, *The International Monetary Fund, 1972–1978,* Volume III, pp. 218–220.

Third, early removal of the present restraints on intergovernmental gold transactions and on official purchases from the private market could well release forces and induce actions that would increase the relative importance of gold in the monetary system. In fact, there are reasons for believing that the French, with some support from one or two smaller countries, are seeking such an outcome. Countries such as France that are opposed to ceilings on their individual gold holdings undoubtedly want the freedom to buy in the private gold market so as to support the market price. It is an open secret among central bankers that, at a later date, the French and some others may well want to stabilize the market price within some range. In my judgment, therefore, there is a significant risk that the Treasury's recommended position would inadvertently foster, or at least permit, an increase in the relative importance of gold in the monetary system.

Fourth, a large measure of freedom for governments to trade in gold at a market-related price may easily frustrate efforts to control world liquidity. For example, such freedom would provide an incentive for governments to revalue their official gold holdings at a market-related price. (France has already done so.) This in turn could result in the addition of up to $150 billion to the nominal value of countries' reserves. Liquidity creation of such extraordinary magnitude would seriously endanger, perhaps even frustrate, our efforts and those of other prudent nations to get inflation under reasonable control. This is a matter of great concern to Mr. Witteveen, the head of the IMF, and to many other financiers.

As our government's policy on gold has evolved, the Federal Reserve has sought to avoid taking a rigid position. I have gone some distance to try to conciliate the French view:

First, I have reluctantly agreed to a partial return of the International Monetary Fund's gold holdings to member countries; this action, strongly desired by France, would augment the gold stocks of France and other countries, but would weaken the IMF itself.

Second, I have proposed the important concession that a government may buy gold from another government, irrespective of its established ceiling, if the purchase will accommodate an emergency need by the selling government to mobilize its gold holdings; also that a government which had made a sale under emergency conditions could repurchase that amount from another government without involving the emergency provision.

Third, in view of a desire to come closer to the French view, I have suggested some lifting of the ceiling that would apply to an individual country's gold holdings (e.g., from 100 per cent to 105 per cent of the actual holdings as of May 1, 1975).

Indeed, I have even been willing to go further. I have consulted Henry Kissinger as to whether there is some political quid pro quo we might want to extract from the French in exchange for acceding to some part or all of their desired position on gold. But Henry tells me there is none at this time. Resolution of gold issues in their preferred manner is very important to the French, and they will probably be willing to pay a lot to get their way. If we do ever accede to French views on gold, we should at least use our bargaining leverage to achieve some major political advantage.

If the United States took a stand on the gold question that failed to satisfy the French in current international negotiations, would there be adverse economic or political consequences? I doubt it, for two reasons. First, some other European countries (most importantly, the Germans and the British) are unlikely to participate with the French in a European, go-it-alone policy on gold. I have a secret understanding in writing with the Bundesbank—concurred in by Mr. Schmidt—that Germany will not buy gold, either from the market or from another government, at a price above the official price of $42.22 per ounce.[3] Second, there is in my judgment a reasonably good chance of a "successful" negotiation in Paris next week, even if it proves impossible to win French acceptance of individual country gold ceilings and other aspects of the U.S. position on gold issues. The political pressures to reach agreement on increases in IMF quotas are great. A package that included these quota increases and some other relatively uncontroversial matters, but did not include agreement on gold, seems feasible and should be an acceptable outcome for the United States.

All in all, I am convinced that by far the best position for us to take at this time is to resist arrangements that provide wide latitude for central banks and governments to purchase gold at a market-related price. It is my understanding that this position is supported by Japan, the United Kingdom, by some other developed countries, and by most if not all developing countries. This position also commands strong support in our own country among those of the financial and academic communities that are sensitive to these issues. Severe criticism on the part of prominent and influential financiers would inevitably follow if the Treasury's present position prevailed.

Finally, I must point out that the Treasury's position on gold will have to be aired in Congressional Hearings when changes in the IMF

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[3] See Document 56. On May 31, Burns wrote a memorandum for the record that reads: "In a letter of November 14, 1973, President Klasen of the Bundesbank assured Chairman Burns, with the explicit consent of the German Finance Minister, that the Bundesbank would be guided by the provisions of Article IV, Section 2 of the Articles of Agreement of the International Monetary Fund. These provisions prohibit a government from purchasing gold, either from another government or from the market, at a price above the official price. At the present time the official price of gold in dollars is $42.22 per ounce." (Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B52, Gold, Jan.–May 1975)

Articles of Agreement come up for approval. In my judgment, Mr. Reuss,[4] who is a leader on issues of this type, will denounce the Treasury's position on gold once he understands it. This is one more reason why you should ponder the gold issue very carefully.

[4] Henry Reuss (D–Wisconsin) was Chairman of the House Banking, Currency, and Housing Committee.

87. Memorandum From Secretary of the Treasury Simon to President Ford[1]

Washington, June 3, 1975.

Need for Your Advice on Next Week's Monetary Negotiations

I would like very much to meet with you this week to get your advice on the important negotiations which I shall be participating in next week in Paris. The ministers and Central Bank governors of 20 representative developed, LDC, and OPEC countries will be meeting all week in the so-called IMF Interim and the IMF/IBRD Development Committee. I want you to know that on one important aspect of these negotiations I have not been able to gain the concurrence of Arthur Burns on the position which I feel strongly that I must be able to take. Arthur is sending you a separate memorandum on the subject.[2] My views are set out below.

There is general agreement between Arthur and me—and I believe with all the foreign officials as well—that it would be desirable for agreement to be reached in these meetings both on some gradual steps to update the international monetary system and on some practical measures of financial assistance for a number of LDC's hardest hit by the increase in commodity prices, primarily oil. Such an agreement now looks far from assured even though progress in reducing differences has been made in the many high-level meetings on the subject over the last few years.

[1] Source: Ford Library, U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 1, L. William Seidman II. Confidential. Copies were sent to Kissinger, Greenspan, Lynn, and Seidman.

[2] Document 86.

At this point agreement has literally not been reached on the distribution among member countries of the proposed one-third increase in the IMF quotas, which measure shared participation in the rights of governments to borrow from the IMF in case of need and the obligation of governments to lend to the IMF when other governments are judged deserving of assistance. But at this point I believe the differences on this subject have been narrowed sufficiently that I am fairly confident agreement on this aspect can be reached if the wider differences on two others can be overcome. In the quota discussion I have indicated that, in order to make a contribution toward allowing the OPEC country quota to be doubled from about 5% to about 10%, we would recommend to Congress that the U.S. subscribe to less than a third of the new quota increase, in the process reducing our quota share from 22.9% to 21.9%. This offer I think is now judged reasonable by most other countries.

The second issue is one on which I—and I believe almost all other ministers—feel that the French are taking an extreme position. Despite the fact that all major governments are today allowing the foreign exchange market values of their currencies to float to some degree, the French are attempting to insist that the revised IMF Articles of Agreement must state that each government should be obligated, through intervention in the foreign exchange markets or by other means, to maintain the foreign exchange value of its currency within a narrow band around some par value established with the concurrence of the IMF. Deviation from this practice could be made only in extraordinary circumstances, only for a temporary period, and only with the permission of the IMF. My predecessors and I have agreed that governments should collaborate through the IMF to avoid disorderly foreign exchange market conditions, but we have rejected the French position for a number of reasons. First, any prompt attempt to set up a rigid structure of par values in this period of rapid change in international economic affairs would probably backfire and cause disruption and disturbance both to exchange markets and to international business operations. Second, while it is possible that over time the international monetary system may evolve toward par values, the probability or desirability of that evolution is by no means generally agreed, so that it would be premature to attempt to base the revised IMF articles on that presumption. Third, Henry Reuss, who is generally deferred to on the Hill on international monetary matters, has warned us repeatedly against coming to Congress with any amendments to the IMF articles which do not make clear that continued floating of the U.S. dollar is fully legitimate and not subject to any license from the IMF. We have indicated flexibility regarding the exact wording of the exchange rate amendment but have indicated to other governments that we feel they should join with us in attempting to persuade the French to modify their position and, if necessary, should join with us in simply outvoting the French. Success in this effort is not assured but seems probable at this point if a way can be found around the difficulty on a third matter, gold.

The Interim Committee has already agreed that the official international price for gold should be abolished and that the monetary role of gold should be phased down. It is already agreed that governments can sell gold in the market as they see fit, and that ultimately gold should probably have a legal status no different from that of other commodities. It is also agreed that the substantial amount of gold held by the IMF should not be immobilized forever. But there is no agreement on exactly how the IMF gold will be put to use and on what constraints, if any, should be applied to government purchases of gold in the near future.

Publicly the French are still taking what both Arthur and I regard as the extreme position that all IMF gold, about $7 billion, at the official price of $42 per ounce, must be returned promptly to the member governments. We have told the other governments that we have no basic objection in principle to this restitution of gold but that, in view of the strong opposition to it by most governments, including in particular the majority of the LDC governments, the effort at total restitution should be abandoned. Last week in Paris we got the impression the French might now be willing to accept—as I suggest we should be—a German-proposed compromise that involves restituting a part of the IMF gold, using some for trust funds to help selected LDC's, and setting aside the rest for later decision by an 85% majority. The French also now seem to have come to the point of accepting a rule, which most other governments seem ready to accept, that in future no government would buy gold when the effect would be to increase total gold holdings of all governments combined. This rule applies a global limit on official gold holdings but does not impose separate limits on individual countries operating within the global limit. In addition, the French are willing to agree that no government should trade in gold with the objective of attempting to peg the price of gold. All of these are concessions from the traditional French theological position with respect to gold.

But the French say vehemently that they will never accept two rules proposed by us in addition to the global limit and other rules mentioned above. The proposed additional rules, which I have put forward strongly at Arthur's urging, would prohibit an individual government from buying gold which would increase its holdings above an initial level—say, 105% of its May, 1975 holdings—unless the gold were being bought from another government which was faced with an emergency need to liquidate some of its gold holdings.

The rules would also prevent a government from buying gold directly from another government unless the gold were being bought from a selling government faced with an emergency need to sell some of its gold holdings or unless the gold were being bought to recover gold which the purchasing government had earlier sold in emergency circumstances.

In rejecting these U.S. proposed rules the French have been supported also by the other European nations. On these particular suggestions it is probably the U.S. which is in an isolated position, and perseverance in insisting that these U.S. proposals be adopted would probably prevent agreement next week, even if—as now seems likely—the French can be brought around on the other points.

My recommendation is that we be willing next week to drop our proposed limitations on gold purchases by individual nations if a satisfactory package in all other respects can be negotiated and if our failure to drop the limitations would be the deciding factor in preventing total agreement.

First, I think failure of the week's meeting, for which high hopes have long been held out, would be a very serious blow to our influence abroad, particularly since it would come so soon after the Indo-China tragedy and so soon after we issued in Paris last week all sorts of glowing promises of increased cooperation with the LDC's.[3] It is my impression that the Secretary of State would strongly concur in this judgment.

Second, I suspect failure in this effort by the finance ministers would undermine the future usefulness of their moderate international forum and would inevitably lead to greater emphasis on other much more politicized meetings such as those of the UN General Assembly, the Producer/Consumer Conference, and the UNCTAD. The U.S. took a leading role in urging establishment of the Interim Committee and the Development Committee and should not now seriously undermine its own struggling offspring.

Third, I do not believe the proposed individual limits are needed. What difference does it make if some government increases its gold holdings to, say, 125% of its present holdings given the strong possibility that other governments, including the U.S. and also the IMF,

[3] From May 26 to 28, Kissinger and Simon were in Paris attending meetings of the International Energy Agency Governing Board and the Organization for Economic Cooperation and Development Council. For the texts of Kissinger's statements and informal remarks, as well as the IEA communiqué and the OECD communiqué and declaration, see Department of State *Bulletin*, June 23, 1975, pp. 837–858.

will be disposing in the market of far more than that government's purchases? I agree with Arthur that there probably are some foreign officials who would like to find some loopholes for trying to nudge the system back toward a rigid gold base by encouraging government-to-government transactions in gold, but the danger of that type of thing happening is greater if we don't make further progress through an agreement which ties down the consensus we have now that some IMF gold should be sold, that governments should not try to peg the price of gold, and that total combined holdings of gold by governments cannot be increased. Moreover, the present time is a favorable time for relaxation of restraints since there appears to be no major government which today has the spare funds and the inclination to add to its gold stock.

Fourth, failure to conclude an agreement now tying down all the other useful aspects of apparent agreement would also run the risk of evaporation of other important areas of consensus before we could ever get this close to over-all agreement again some day. These other areas of consensus are important to our economic and political interests. They include the quota increase, the introduction of greater flexibility and effectiveness into the IMF exchange rate provisions, and the establishment of an effective permanent policy-level council in the IMF to insure more meaningful collaboration on future international monetary problems which may arise. Agreement on gold and these other matters has been considered, and I am convinced should continue to be considered, an integrated package.

Arthur has suggested that we might try to avoid the blame for a "failure" in the meetings by splitting the package apart, agreeing on the quota increase now, while putting aside the other aspects of amending the Articles to some future time. I doubt whether this approach would work in any event since the French are strongly insisting on a comprehensive package or none at all. The approach would have the disadvantage of giving away our principal bargaining strength, since the other countries are primarily interested in the quota increase and we have been the one primarily interested in the other amendments. Our credibility for the future would also be undermined, since the centerpiece of our position for several years has been the need for a comprehensive package. We need it in part because of the desirability of not approaching the Congress piecemeal, and in part because the other amendments are very desirable steps in the gradual evolution of the monetary system toward a more smoothly adaptable mechanism.

Finally, agreement by the U.S. not to insist on the individual gold limits would not be viewed as weakness or withdrawal by other governments. Their overwhelming view at the moment is impatience with what they regard as the theological squabbling between the U.S. and

France. They would receive a U.S./French agreement with great acclaim.

I am sorry to drag you into this degree of detail, but I believe the issues are important and despite months of trying Arthur and I haven't yet been able to arrive at a fully coincident view. Your advice would be helpful.

William E. Simon

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88. Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Enders) to the President's Assistant for Economic Affairs (Seidman)[1]

Washington, June 4, 1975.

SUBJECT

President's Meeting with Secretary Simon Tomorrow on the Role of Gold

1. Two points remain to be settled on gold: (a) whether or not there will be a limit in the amount of gold countries can hold in the future, and (b) whether countries will be permitted to trade in gold.

2. In our view we can sacrifice the first, but must obtain the second.

3. France will never accept a country limitation on its gold holdings. If we insist on this point, there will be no agreement reached on gold at this time. This is undesirable from several viewpoints.

—Without a package agreement on demonetizing gold, the Europeans will be tempted to set up a new gold-based currency bloc. Their scope for doing so will increase in the future as their oil deficits diminish.

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[1] Source: Ford Library, L. William Seidman Papers, Box 69, Economic Policy Board Subject File, Gold. Confidential. Attached to an undated note from Nuel Pazdral, Enders's Special Assistant, to Seidman that reads: "Mr. Enders asked that the attached memo be transmitted to you now, with the note that it has not yet been approved by Secretary Kissinger." Also attached is a June 5 note from Seidman to President Ford that reads: "Attached is a memorandum from Tom Enders on the gold issue which reached my office after the briefing paper was submitted yesterday." The briefing paper to which Seidman referred was his June 4 memorandum to the President summarizing Documents 86 and 87 and requesting a Presidential decision. The President did not indicate his decision on the June 4 memorandum from Seidman. (Ibid., William Simon Papers, Drawer 23, Folder 2, Gold, 1974 (Nov)–1975)

—Our leverage for obtaining something satisfactory on gold is now at a maximum because we can block a quota increase in the IMF which other countries want much more than we do.

—Unless we give in on the country limitation point, we will not get agreement from others to go ahead with the IMF Trust Fund for the least developed countries, which Secretaries Kissinger and Simon proposed last Fall.

4. The role of gold in the system can be reduced even without a country limitation on gold holdings as long as (a) there is a global limitation and (b) central banks cannot use gold for settlements among themselves except in narrowly defined emergencies.

5. Germany has joined France in resisting this second condition, not for doctrinal reasons, but for political solidarity.

6. In order to resolve the issue, we must first swing Germany, thus isolating France. We recommend (a) that Chairman Burns first gain the Bundesbank's support for a compromise; (b) that the President write Schmidt proposing it; and (c) that Chairman Burns follow up with Schmidt this weekend.

Thomas O. Enders

89. Letter From President Ford to West German Chancellor Schmidt[1]

Washington, June 6, 1975.

Dear Mr. Chancellor:

The Ministerial Meeting of the IMF Interim Committee next week presents an important opportunity to move the international mone-

[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 36, West Germany—Egon Bahr Correspondence, Unindexed (5) (4/28/75–7/3/75). No classification marking. Attached to a June 5 memorandum from Seidman to the President that reads: "The attached letter represents the agreed upon position of the Federal Reserve Board, the Treasury Department and the State Department with respect to the gold position presented to you yesterday. It is their recommendation along with that of Alan Greenspan that it be signed and sent out today." A meeting on gold took place in the Cabinet Room on June 5 from 12:42 to 1:30 p.m. In attendance were President Ford, Simon, Kissinger, Seidman, Burns, Scowcroft, Hormats, Porter, Lynn, Director of the Presidential Personnel Office Douglas Bennett, and Counselor John O. Marsh, Jr. (Ibid., President's Daily Diary) No other record of this meeting has been found.

tary system forward. At the same time it is an opportunity for a responsible reaction to the current needs of a number of seriously affected less developed countries. It is my understanding that our Ministers of Finance may be close to agreement on a comprehensive package achieving these ends, but I am informed that disagreement on one aspect of future rules concerning gold could stand in the way of such an agreement.

For our part we have tried very hard to modify our position so as to facilitate an agreement. In recognition of possible political concerns of the French government we have this week reluctantly indicated that we will withdraw our previous insistence that no individual government in the future should increase its holdings of gold if that concession will suffice to reach an over-all agreement. On the other hand, we—and I believe a number of other countries—do feel strongly that some safeguards are necessary to ensure that a tendency does not develop to place gold back in the center of the system. We must ensure that there is no opportunity for governments to begin active trading in gold among themselves with the purpose of creating a gold bloc or reinstating reliance on gold as the principal international monetary medium. In view of the world-wide inflation problem, we must also guard against any further large increase of international liquidity. If governments were entirely free to trade with one another at market-related prices, we would add to our own common inflation problem.

Of course, we must ensure at the same time that gold is not immobilized. Any government faced with an extreme financial need must be able to sell its gold to another government. We propose, therefore, that the 10 major countries agree that no one of them will purchase gold from another government unless the selling government is faced with needs arising from an extreme financial position. In my judgment that rule would give ample flexibility for all legitimate future trading of gold, while giving a reasonable protection against abuse of the newly established freedom for governments to buy gold.

I would urge you to give this important matter your personal attention in the hope that your representative at these meetings could be in a position to agree to arrangements along this line. If you are available to meet with Secretary Simon on Monday morning, June 9, I would be glad to have him visit you and Minister Apel at that time for further discussion of the matter. If you would like to have President Klasen present, Chairman Burns would also be prepared to fly up from Basle to join the meeting. They would, however, have to leave Bonn in time to reach the scheduled meeting of the G 5 Ministers in Paris at 1:00 p.m. Secretary Simon would, of course, be delighted to have Minister

Apel, President Klasen and other members of the German Delegation join him for the flight to Paris.[2]

Sincerely,

Gerald R. Ford

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[2] On June 6 at 5:51 p.m., Kissinger spoke to Enders on the telephone and criticized him for having "cooked up a letter to Schmidt without telling me." Enders took responsibility for sending the message without Kissinger's approval, saying that he had "assumed it was alright after that memo I sent you last week." Kissinger told Enders that while he approved of the letter's content, he did not approve of its tactics: in particular, Kissinger said that he "would never send Simon for serious negotiations with Schmidt." "You do not understand what I want Schmidt to do with Simon," Kissinger told Enders, "It is not to conduct serious negotiations." When Enders told Kissinger that Schmidt had not yet replied, Kissinger noted, "The fact that it is a Presidential letter makes it high power." Enders responded, "Well, we have a fair size interest in preventing a gold bloc. It is a question of which Europeans could coalesce three or four years from now." Kissinger retorted, "Three or four years from now is a long time. Well it is done now." (http://foia.state.gov/documents/kissinger/0000CF5A.pdf)

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90. Memorandum From the President's Assistant for Economic Affairs (Seidman) to President Ford[1]

Washington, June 10, 1975.

SUBJECT

Negotiating Strategy on Gold

The central question regarding our negotiating strategy on gold at the International Monetary Fund Interim Committee meeting in progress in Paris is whether IMF countries should be allowed to freely trade gold between themselves.

Secretary Simon and Chairman Burns had reached agreement on a compromise based on attempting to secure Chancellor Schmidt's support for the original U.S. position that such gold trading should be done only in emergencies. However, Chancellor Schmidt declined to support this position and instead is supporting the French position that intercountry trading of gold should be allowed under a global limit.

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[1] Source: Ford Library, President's Handwriting File, Subject File, Box 19, Finance—Gold. No classification marking. A stamped notation on the memorandum indicates that Ford saw it.

We have received a joint call from Secretary Simon and Chairman Burns asking direction on which of two recommended options should be supported by the U.S.

Option 1: Gold should be traded between countries only on an emergency basis.

This position is supported by Chairman Burns and the central bankers of almost all countries on the basis that it is the most certain way to prevent gold returning to the center of the international monetary system.

Secretary Simon and Paul Volcker would support this position if they felt agreement on it was attainable but the French remain intransigent on the issue.

Option 2: Gold could be freely traded between governments under a global limit.

This is essentially the French position and is supported by most other European finance ministers. Secretary Simon is willing to accept such an arrangement in order to obtain an overall agreement. All other issues on the agenda at the meetings (quotas, etc.) have been agreed on by the participants. Secretary Simon believes that failure to reach an agreement on the gold issue will prevent any overall agreement.

This position is supported by Secretary Dunlop and N.Y. Federal Reserve Director Paul Volcker. Alan Greenspan also supports this option on the assumption that no deferral can be obtained to negotiate this matter at a later date.

A decision on this matter is needed today.

Decision

Option 1	Gold should be traded between countries only on an emergency basis.[2]
Option 2	Gold could be freely traded between governments under a global limit.

[2] President Ford initialed this option.

The Economic Summit at Rambouillet, June 1975–January 1976

91. Telegram From the Embassy in France to the Department of State[1]

Paris, June 25, 1975, 1147Z.

16454. Subject: President Giscard d'Estaing May Make New Specific Proposals to the U.S. about Worsening Economic Situation.

1. During diplomatic corps reception at the Elysée Palace the evening of June 24, President Giscard d'Estaing took me aside for a private conversation. He is very concerned about deteriorating economic conditions in France and Europe, and feels that joint action with the United States is required to turn the situation around. He said he might be in touch with President Ford to initiate discussions based on specific proposals although he might decide to use other channels.

2. Giscard said there are a number of aspects of the economic situation which worry him, and he focused on two of them during our conversation—international monetary relations and unemployment.

3. On monetary problems, Giscard said the dollar is too undervalued for the economic health of Europe. The "lack" of U.S. Government support for the dollar is disconcerting, Giscard said, and our insistence on maintaining floating rates is also hurting. Looking back at recent monetary talks, Giscard said both the French and Americans could have shown more flexibility, and he expected to be in touch with us soon with some specific new proposals and with the hope that more flexibility would be shown by both sides. I assured Giscard that we maintained a flexible attitude toward discussions of this issue. I reminded him that the United States originally opposed the institution of floating rates in 1971, but naturally we had no choice but to go along when the Germans and Dutch took the initiative. On the whole, floating rates have not worked too badly. The dollar has held up pretty well except in relation to certain European currencies; the massive currency speculation that we witnessed prior to floating rates has diminished considerably; and the Europeans have had less need to intervene in currency markets to protect the dollar. I assured him, however, that we were prepared to look carefully at any new proposal that he might launch.

[1] Source: National Archives, RG 59, Central Foreign Policy Files. Secret; Cherokee; Nodis. The Cherokee channel was a channel for the exchange of eyes only messages between the Secretary and an Ambassador.

4. On unemployment, Giscard said the French and German economies are continuing their downward trends. It had been expected that recovery would have been evident by this time. He wanted to know the latest news about the situation in the United States.

5. I said that according to the latest estimates of the President's Council of Economic Advisers, the U.S. economy had reached its lowest point and is starting to recover. The big questions are whether recovery will be at an acceptable or inflationary rate and how much strength the recovery will have. Indications now are that both will be acceptable. I told him that on the basis of my experience in private industry, I could predict that employment would recover much more slowly than the overall economy. This is due to the reductions in excess labor previously employed as a hedge against shortage, increased rationalization of labor, and increased mechanization, which is a continuing process in highly competitive industry.

6. Giscard said he wished he could see a reversal of increasing unemployment in Europe, but there is nothing similar to the U.S. situation on the horizon. I said that traditionally Europe tends to lag several months behind the United States, so the beginning of recovery in the United States today could mean a similar development in Europe some months later. Giscard said he hoped so, but felt that joint action between Europe and the United States would be advisable to push the process along. He said he or his associates would be in touch with us to initiate discussions on specific proposals.

7. *Comment:* Unemployment is a sensitive issue in all countries. In France, it could be a source of serious political instability. Giscard is now looking beyond the vacation period toward the fall when unemployment in France is likely to rise to the psychologically significant figure of one million. Although maximum efforts have been made to dampen the impact, such as 90 percent unemployment compensation for a full year, the GOF leadership dreads a repeat of the May 1968 disturbances if unemployment does not stop rising. Whether Giscard's remarks on the monetary negotiations presage some further flexibility in the French position remains to be seen.

Rush

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92. Editorial Note

On July 3, 1975, Department of State Policy Planning Staff Director Winston Lord sent Secretary of State Henry Kissinger a memorandum on "International Disagreement on Economic and Monetary Issues," in order to prepare him for his July 9–12 trip to Europe. Lord described French President Valéry Giscard d'Estaing's and West German Chancellor Helmut Schmidt's concerns that the global recession was "undermining confidence in their leadership and threatening serious social discord unless recovery is rapid." In the case of Chancellor Schmidt, this concern had led to his repeated appeals "for more international coordination of economic policies which is really an appeal to the United States to take the lead with strong economic measures aimed at rapid recovery from recession." President Giscard, meanwhile, regarded French "recovery as inextricably linked to agreement on some steps toward international monetary reform." Assistant Secretary of State for Economic and Business Affairs Thomas Enders had recently recommended "that we hang tough with the French, attempting to increasingly isolate them and drive a better bargain eventually," but Lord now suggested another tack: "We feel that the balance may be shifting very rapidly toward negotiating seriously with the French and others to reach agreement by the time of the Bank/Fund meetings the first week of September. The French seem to be increasingly anxious to come to terms as indicated by Giscard's recent démarche to Ambassador Rush on monetary reform issues. [See Document 91.] Jack Bennett's resignation from the Treasury should help clear the atmosphere and make agreement more likely." Lord identified a number of advantages to a monetary agreement: it would improve relations with the French, reassure the West Germans, and facilitate the overall implementation of U.S. foreign economic policy. A compromise with the French was possible, Lord argued, one "that would result in a more stable and acceptable international monetary system." (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 140, Geopolitical File, France, Chronological File, July–Aug. 1975)

In telegram 159921 to Paris, July 8, Kissinger informed Rush: "In response to Giscard's approach to you of June 24, you should convey to him that the President and I share his concern for the economic health of Europe and America and that we appreciate how closely these are linked. You should tell him that we will welcome any proposals he may care to put forward and assure him that they will receive the most serious attention within our government." (Ford Library, National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France—State Department Telegrams, From SecState—Nodis (3)) The next day, Rush reported in telegram 17829 from Paris, that he had passed Kissinger's message to President Giscard, via the French President's Assistant, Claude Pierre-Brossolette. (National Archives, RG 59, Central Foreign Policy Files)

Kissinger discussed monetary policy in a July 10 talk with President Giscard, who laid particular emphasis on the deleterious political implications of the international monetary situation. A report on their conversation is in telegram 17951 from Paris, July 10. (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 140, Geopolitical File, France, Chronological File, July–Aug. 1975)

93. Memorandum From Secretary of the Treasury Simon to President Ford[1]

Washington, July 26, 1975.

SUBJECT

Possible Conversation with the President of France on Economic Matters

The President of France, Mr. Giscard d'Estaing, has made known through the press and discussions with European officials that he would like a heads of state meeting among major industrial countries this fall to discuss the monetary system and the world economic outlook. There are reports that during the Helsinki meeting he may seek your agreement to such a conference.

Giscard d'Estaing has launched a campaign to try to force the United States to agree to a fixed exchange rate between the dollar and other currencies—a rate which the U.S. Government would be obligated to maintain even at the cost of our having to borrow from other governments on terms we would not favor, or higher interest rates and restraints on the domestic economy. He would want such a rate for the dollar to be set at a substantially higher level than the rate which now prevails in a generally free market, thereby weakening the competitive position of the United States in international trade and risking future problems for the U.S. balance of payments.

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[1] Source: Ford Library, William Simon Papers, Drawer 25, Folder 9, Pres—Memos to & from W.E.S., 1975 (May–Aug). No classification marking. Attached to a July 24 memorandum from Department of the Treasury staff member F. Lisle Widman to Simon that reads: "There are reports in the press that Giscard d'Estaing may approach President Ford directly with his proposal for a heads of state conference while the two are in Helsinki next week. There may be no foundation whatsoever to these reports, but you may, nevertheless, wish to alert the President to the possibility of an approach. He certainly needs to be fully aware of the issue. There is attached a memorandum which could be used for this purpose should you desire to do so. I have discussed this proposal by telephone with Chuck Cooper who agrees that the President should be advised of this situation either orally or by memorandum." President Ford was in Helsinki July 29–August 2 to attend the Conference on Security and Cooperation in Europe.

In effect, Giscard would like to restore the conditions which prevailed before August 1971, when there was an overvalued and non-competitive dollar, as well as a system of rigid exchange rates which kept the monetary system subject to continuous uncertainty, speculation and recurrent crisis.

The French have virtually no support for an early return to par values and fixed exchange rates, although some countries would accept such a system as a long-term goal. I have told the Congress flatly that the U.S. would not agree to any obligation to return to par values. There is strong support for this position in the Congress.

There is no enthusiasm among Giscard's EC colleagues for the type of summit meeting he has proposed. Nevertheless, because they would not like to block a proposal on which the French President's prestige is at stake, some of them may concur in the concept of a summit meeting to discuss not the monetary system but "general economic conditions." It is possible that Chancellor Schmidt may press you for such a meeting while you are in Bonn.[2] Unfortunately, any conference for this purpose would take on the appearance of a European démarche on the Administration in favor of more expansionary U.S. economic policies—an even larger budgetary deficit. It would constitute interference in U.S. domestic affairs on a politically divisive issue. Also, since the U.S. would almost certainly not be able to agree to the more expansionary moves the Europeans would want us to take, we would appear to be refusing to act cooperatively.

If Giscard or others propose a heads of state conference on either the international monetary situation or general economic issues, I recommend you say that you could not accept a conference on general economic issues because of the domestic political implications, and that the discussion of monetary issues is best continued in existing channels (i.e., Finance Minister committees and informal sessions). Meetings on the monetary issues are scheduled for the end of August.[3]

William E. Simon

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[2] President Ford was in the Federal Republic of Germany from July 26 to 28, visiting Bonn and Linz. See Document 94.

[3] The Interim Committee met in Washington on August 31.

94. Memorandum of Conversation[1]

Bonn, July 27, 1975, 9:50–10:45 a.m.

PARTICIPANTS

Helmut Schmidt, Chancellor, FRG
Hans-Dietrich Genscher, Deputy Chancellor and Minister of Foreign Affairs, FRG

President Gerald Ford
Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

[Omitted here is discussion unrelated to foreign economic policy.]

Schmidt: The whole economic situation in Italy, despite the appearance over the last year, is deteriorating. Unemployment will rise, the differences between North and South will grow; the Communists have shown themselves excellent administrators and have detached themselves from Moscow to become more attractive.

If the economic situation of the world were going up, the economic situation in Italy would be drawn up with the rest. If that doesn't happen, the economic situation in Italy would deteriorate rapidly. But let's save the economic situation for the broader meeting.

Giscard says what I have been saying since a year ago May. I have kept quiet currently because I too am pessimistic. He says the greatest threat to the West is not the Communists or the Southern flank of NATO, but the economic ability of the West. If it were a political or military crisis, the leaders would get together and act. Since it is economic, we leave it to our Finance Ministers. If we leave it this way for five years, there will be a political disaster. He thinks the Western leaders have to get together to make a last attempt. He thinks it is a dramatic situation.

Wilson is more hesitant because he fears creating expectations.

The President: His situation is different.

Kissinger: He is already in the situation Giscard wants to prevent.

Schmidt: His inflation rate is twenty percent. The Saudis are losing their money at twelve percent because of inflation. How long will they continue that? The British are aware of it—Callaghan is more afraid than Wilson.

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[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 14. Secret; Nodis. The meeting took place in the Chancellery. President Ford visited the Federal Republic of Germany from July 26 to 28, at the start of a 9-day tour of Central and Eastern Europe. This memorandum of conversation is scheduled to be published in full in *Foreign Relations*, 1969–1976, volume E–15, part 2, Documents on Western Europe, 1973–1976.

The President: Wilson may be afraid of a meeting to expose what the situation is and raise expectations.

Schmidt: Wilson would come, but he is not enthusiastic. This is one topic for the Quadripartite lunch at Helsinki.[2]

Let me speak a few frank words. The leadership here should be by the United States. Your strong leadership is needed, without appearing to do so.

The President: That is difficult. What would you recommend?

Schmidt: The British will have unemployment—it will soon be six percent. In France, it is also too high. Ours is too high, slightly over one million, and by February it could go to 1.5. Don't take this down. We are an export economy. Our exports to the U.S. have fallen to less than 50 percent over the last year. Our industrial activity is down to 65 percent of capacity. It is the same with France.

The President: Ours is about 75 percent.

Schmidt: My obsession is with the fact that the economic leaders in the U.S.—Simon, Greenspan, and regrettably even Burns—look too much to domestic problems and not to world effects. For example, New York City banks are 3 percent higher, so people sell German bonds back in order to get the higher New York rates. Also the dollar is rising so people seek profit by switching from marks and francs into dollars. So floating currencies—of which I was a great advocate—when the rate is so volatile, could destroy the Western economies.

The President: I read a piece by Laffer,[3] who is opposed to the float. But the American consensus in the United States is to float.

Kissinger: But five years ago they were all for rigid rates. The Chancellor's point is that the uncertainties of fluctuating rates could undermine political stability.

Schmidt: In all of Europe, the boards of the big industrial companies are so skeptical they do not invest, so employment stays low. My program to create domestic demand—we lowered taxes, made money cheap, we gave investment credit, we held back wage requests by persuasion—didn't work because foreign demand for goods dropped badly. Domestic demand reacted well, but about two-thirds of the total demand is foreign, so that is the critical aspect. Also, many of the consumers saved rather than investing. Savings are the highest since Kreisler.[4]

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[2] A memorandum of conversation from the July 31 Quadripartite luncheon meeting is in the Ford Library, National Security Adviser, Memoranda of Conversation, Box 14.

[3] Arthur Laffer was a University of Chicago associate professor of business economics.

[4] Not further identified.

The President: The same with us. Heavy investment goods aren't selling. Housing.

Kissinger: What is your solution?

Schmidt: There is another negotiation coming. If OPEC announces a ten percent price hike—the Shah[5] wants 30 percent—the increase will add to this pessimism. In order to get things under control, we first must show that we want no confrontation with OPEC but we will cooperate to work things out. Second, if we could tell the world we see the dangers eye to eye and will concert our actions to meet it—even if we don't actually do it.

Kissinger: We will be under domestic pressure for a confrontation with OPEC. Would you explain this to the President and also the need to concert?

Schmidt: We would react negatively in Europe to a confrontation with OPEC. If oil prices go up, it eventually benefits the U.S. and the Soviet Union, who are rich in raw materials. But there is no chance for Europe, who could not stand a confrontation. They need stable prices and assured supply.

If there is any different outlook on oil in Europe, it is in Great Britain, which will soon have its own supply. The Europeans want to come to terms with the energy suppliers.

The President: Is there a negotiating area with respect to price and supply?

Schmidt: Yes, but we can't join a policy of confrontation. It would so raise unemployment as to be disastrous.

The President: My immediate reaction is favorable to a meeting. Simon is a hard liner. My tendency is to work closely—on the economic side—the perception of us working closely would help us with the producers and the Soviets.

Kissinger: But we should prepare carefully so there are results.

Schmidt: We have confidence in Shultz. Simon and Greenspan are domestically oriented.

Kissinger: But Shultz is difficult to use in a governmental body. Could we use a private group.

Schmidt: I agree that a meeting should be carefully prepared. Heads of government are not equipped to discuss such matters without preparation.

The President: I have full confidence in Shultz, but we couldn't, we use him officially. He has the confidence of the Congress also.

Schmidt: If an economic conference should take place this year, we shouldn't expect too many results. If we could create the impression

[5] Mohammad Reza Pahlavi was the Shah of Iran.

we intend to work together and coordinate our policies, that will be enough. It should be done before the real winter comes.

The President: What do you think OPEC will do?

Schmidt: The Saudis will try to retard any such step until the end of the year. Not so with the Shah and Algeria. Of Perez[6] I am not sure—he is annoyed with the United States.

Kissinger: Mostly for domestic reasons.

Schmidt: We are having a study completed now. I think there are differences opening up among the OPEC countries.

Kissinger: If we stick together.

Schmidt: Yes.

Kissinger: We have looked at commodity agreements to see how we could split up the producers.

Schmidt: I think we could separate the poor, non-oil countries from OPEC.

Kissinger: And some non-oil commodity countries. Right now they are all tied up together.

Schmidt: What is the situation in Japan?

The President: We have a meeting with Miki the day we get back. I had a good trip there last fall.[7] I think it was a good trip and it reassured them. Economically, I think they are better off than Europe. They have oil agreements with China. I think they are better off now than a year ago.

Kissinger: The collapse of Indochina has had a more profound effect in Japan than anywhere else.

Schmidt: In what direction?

Kissinger: In a more self-assertive way to separate from the U.S. For the first time they have asked to discuss defense matters at the Prime Minister level.

The President: Yes. With Tanaka, we didn't discuss defense.

[The party then joined the plenary meeting.][8]

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[6] Carlos Andres Perez was the President of Venezuela.

[7] President Ford visited Japan from November 19 to 22, 1974.

[8] The brackets are in the original. According to a memorandum of conversation prepared in the Department of State that covered only the larger meeting, it began at 11:15 a.m. and took place in Chancellor Schmidt's conference room in the Chancellery. Joining the meeting were Ambassador Martin Hillenbrand, Sonnenfeldt, Hartman (who drafted the memorandum of conversation), West German Economics Minister Hans Friderichs, West German State Secretary (Foreign Office) Walter Gehlhoff, Pohl, West German Political Director (Foreign Office) Guenther van Well, von Staden, West German State Secretary (Federal Chancellery) Manfred Schueler, West German Federal Chancellery official Carl-Werner Sanne, "and several others." (Ford Library, National Security Adviser, Memoranda of Conversation, Box 14)

Schmidt: Let me welcome you again in this broader session. We agreed to discuss economic and financial matters, reserving the others for tonight on the boat. Would you begin, Mr. President?

The President: Thank you very much. We are delighted to be here. Let me outline our domestic economic situation. Last fall at the economic summit conference in Washington[9] there was a consensus that the real problem was 12–14 percent inflation. Not one economist recognized the coming precipitous rise in unemployment. People last winter stopped buying high-value investment items and began to save. The result is high unemployment and recession. We have had very high inventory liquidation—almost at an alarming rate. The past two months, things have been encouraging. Inflation is down to about five–six percent. Unemployment is about nine percent, but there are encouraging developments. New unemployment is at 400,000 when three months ago it was 600,000. We estimate the unemployment rate by year end will be eight percent and by mid-1976 at 7.5–7 percent. GNP was bad the first quarter, somewhat better the second quarter, and four–five percent the third quarter and seven percent in the fourth quarter.

Some economists think it would go to nine percent. We have some fiscal problems. Our deficit is now about $60 billion. Congressional pressure may force it to around $70 billion. Next year's forecast depends partly on whether there is a tax reduction. If there is, it would be $35–40 billion; with a continuation of the tax credit, it would add $15–20 billion. We are encouraged by the signs in home building. By year end, the rate could be one/one-half million, up from 700,000.

Automobiles have been bad. The savings rate is the highest it has been in years. The consumer confidence factor has improved recently. Of the tax rebate, only $2 of the $10 billion has yet been spent, so that is potential spending. Our balance of trade is encouraging, although that doesn't help in the world economy.

Schmidt: That discourages us.

The President: Interest rates are declining. The supply of money is above the rates the Federal Reserve Bank has projected: 11–12 percent as compared to seven–eight percent. We think inflation will be around five–six percent and unemployment seven–eight percent. That is my general appraisal.

Schmidt: Thank you. I would like Friderichs to give us a brief review.

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[9] Apparently a reference to the conference on inflation held in Washington on September 27 and 28, 1974.

Minister Friderichs: Our real GNP for the first quarter is from 3.5 to 4 percent. The price increase was about 4–5 percent; however, it was above five percent seasonally adjusted. Capacity utilization was below 70 percent—the worst in heavy industry. Domestic demand has been stabilized by domestic programs. The main difficulty is in exporting. We export 23 percent of our GNP and exports are down in real terms by 16 percent. New demands are down 22 percent. This in net is our economic situation.

Exports to the U.S. are important to us. In energy policy we have exchanged views. For this winter, our consumption has declined and stocks are high. We must assume there will be oil price increases, probably from $1 to $1.50 a barrel. The key countries to watch are Algeria and Venezuela. We are worried about the winter of 1976–77 because if the economic situation in industrial countries improves, oil demand will rise. For other commodities, discussions have been held. We expect some raw material agreements. We are thinking for a new device using IMF gold to stabilize prices.

Schmidt: Pohl would sketch out our financial situation.

Pohl: We are facing our biggest budget deficit—about 60 billion DM. This results from a tax cut and increased expenses. We have no trouble financing it because the private sector hesitates to invest and savings are up.

In the IMF negotiations, I think we are close to compromise. I think an agreement on increase in guarantees is possible by the end of August and also an agreement on gold transactions. On this we are closer to France and the European position is generally unified. On the use of IMF gold, we are closer to an agreement.

The exchange rate system issue is still open, with basic dispute between the U.S. and Europe. The differences are not bridgeable right now. We are pleased that the dollar rate has gone up. Your interest rates are higher than ours and that worries us.

Schmidt: Thank you. Let me add a few words from the European, not German, viewpoint. It is in the interest of Europe that you make the Federal Reserve Board realize their interest rate policy is not just a domestic concern. Your high rates bring up the price of the dollar which is good, but it disrupts our capital markets. I think France will not try to block the results of the IMF.

The future regime of world exchange rates, after the collapse of the Bretton Woods system, won't be solved at the IMF meeting, but I think it is not insoluble. Since the U.S. is the strongest country monetarily—tradewise we are about even—it must overcome its domestically oriented mind. We need a fixed but adjustable rate system. In the meantime we should bring about a common management of the float to avoid these devastating fluctuations. For smaller companies, it is difficult to deal in dollars when you don't know whether there will be a ten percent change within six months. In the Bretton Woods system, all currencies were pegged to dollars and all transfers were in gold. You stopped that in 1971, and we understand that. If you won't transfer gold you have to participate in managing the rates so they are predictable over the longer period. This inflation and oil and commodity prices are the real problems of the world economy.

The political effects of the recession—really a depression—threaten political stability in several countries—Italy, where the Christian Democrats may accept the Communists in government. France also, where there is always a potential for domestic upheaval. The British problem is not social unrest, but strikes and paralysis. Here also, the problem is not upheaval, but bad election results. I don't know about Japan.

The economic problems are a greater threat to the West than the Soviet Union, the Middle East, or Southern Mediterranean problems. Giscard and I both feel that the strongest country—the U.S.—must take the lead. It is a dramatic situation.

The President: I concur that we must integrate our economic thinking and actions, both because of the domestic political situation in Europe and also in the United States. We have gone through a traumatic economic situation over the past year. The American people have gone through it with patience and stability. Compared to the 1930's, it is quite surprising. We are anxious for economic and political reasons for economic improvement. We have an election next year and want to enhance the economic improvement in the months ahead. I think we can make progress in concerting our policies.

Schmidt: We can continue at lunch. We are relieved at your statement about cooperation. We are at your disposal any day or night. I look forward to the Quadripartite meeting in Helsinki, where we can discuss how to bring about this cooperation. Our private entrepreneurs—more in Europe than in the United States, because you were the first into a depression and now, properly, the first to come out—need this sense of cooperation in order to give confidence.

[The meeting ended.][10]

[10] Brackets are in the original.

95. Memorandum by West German Chancellor Schmidt[1]

Bonn, undated.

Private Memorandum

on International Concertation of Economic Action

After the high-level talks on the world economic situation, which has led to a tangible improvement in the climate, what is important for us now is to agree on concrete steps to stabilize the world economic situation. Otherwise I believe there is a danger of a set-back in international public opinion.

1. Our most pressing task is to reactivate private investment and to get back to a satisfactory rate of growth.

The Federal Republic of Germany and France have therefore agreed at the end of August to put into effect new conjunctural programs, based chiefly on public investments, to stimulate domestic demand. Denmark will follow suit. It can be assumed that this course will also be adopted by the Benelux countries. The British program steers in the same direction: Its primary aim is to curb wage costs and inflation-rates, since economic growth in Great Britain has suffered primarily from wage cost inflation. The US Government should examine whether the upswing in the USA is already so secure that no further fiscal measures are necessary.

2. In order to encourage firms to invest, I feel it is necessary to continue the cheaper money policy.

However, the German Federal Bank is here increasingly coming up against limits set by the monetary policy of the Federal Reserve Board. The Federal Reserve Board has in recent weeks returned to a tighter money policy which in the United States has already led to a rise in interest-rates. This means for the German Federal Bank that it is not only psychologically but in particular also in practice very difficult to stick to its low interest-rate policy, which is essential to reactivate our economy, because the manifestly higher interest-rates in the United States exercise a pull on our money and bond markets. Other European countries, too, feel unable to make money still cheaper.

[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 14. No classification marking. Attached to the July 27 memorandum of conversation cited in footnote 8, Document 94. According to the July 27 memorandum, "Later in Helsinki, Chancellor Schmidt gave us a memorandum which is attached on 'International Concentration of Economic Action.' "

The Federal Reserve Board should not gear its money supply and interest-rate policies solely to American domestic considerations, but should also take more account of the international repercussions of its policy.

I suggest that the Directors of our central banks should, if possible by the end of August, agree on a co-ordinated policy to lower interest-rates. Concerted action in the field of interest-rate policy would not prejudice the strengthening of the dollar rate, which we welcome.

3. In the present situation it is psychologically important, if the economic situation is to improve, for the Annual Assembly of the IMF to produce concrete results in a range of monetary policy questions. Only in this way can it be demonstrated that the present world monetary system is also viable in times of economic crisis.

I do not, however, believe that the United States and France will reach agreement quickly on a future exchange-rate system. We should therefore not attempt to find a solution to this problem at the IMF Annual Assembly. Nevertheless, the settlement of this question is of vital importance for the world economy and for world affairs in general, so that we should put this down as an item for discussion at the planned economic summit conference.

It should not be difficult, on the other hand, to reach agreement on the increase in IMF quotas and also, in this connection, on the fixing of new quotas. The United States could agree without risk to reducing its quota to under 20%, as its blocking minority is not to be affected.

As far as the question of gold transactions among the central banks is concerned, I see only minor differences of opinion. In Europe no one is thinking of a return to the gold standard or of the re-introduction of an official gold price. The United States could therefore be satisfied with a global limit on gold transactions.

As regards the utilization of IMF gold there are no longer any fundamental divergences of view. The Federal Republic believes in principle that the utilization of the IMF gold on the basis of a division into three equal parts would be the right course, but it would also agree to a different basis for allocating it.

4. Before the end of this year a summit conference should be convened to discuss questions of the world economy and the world monetary system. As I see it, the participants would be the United States, Great Britain, France, Japan, the Federal Republic, and possibly also Italy.

The Conference should be prepared by the personal representatives of the heads of State and Government.

I suggest that at the luncheon of the Four in Helsinki[2] the proposal of Giscard d'Estaing to convene a summit conference be adopted.

5. The Paris meeting to prepare the conference on oil and raw materials questions should be resumed at the beginning of October. The invitations to this meeting should be sent out by the end of August, that is, *before* the OPEC meeting.

The Federal Republic supports the proposal to set up, in addition to the three commissions suggested by Secretary of State Kissinger on energy, raw materials and development questions,[3] a fourth commission to deal with financial questions related to the subjects discussed in the other three commissions. I consider that this fourth commission could deal, for example, with the repercussions of the OPEC price policy on the monetary system, the money and capital markets and the balance-of-payments situation of the industrialized and developing countries. In recent months these problems have receded into the background as a result of the recession. When the world economy picks up, they will again become more acute.

The inclusion of these topics in the dialogue seems to me the right way to ensure that the OPEC countries assume a greater share of the responsibility for the stabilization of world economic relations.

6. In general we attach great importance to a co-operative approach to the oil-producing and the developing countries. Any aggravation of the conflict leads in the industrialized countries dependent on the world market to deepening pessimism and recession. At the end of August my Government will transmit to you a general concept based on both careful analysis and on systematic discussions with the most important oil-producing and developing countries.

[2] See footnote 2, Document 94.

[3] Kissinger made this suggestion in a statement to the IEA Governing Board, which met at the Ministerial level in Paris on May 27. For the text of Kissinger's statement, see Department of State *Bulletin,* June 23, 1975, pp. 838–844.

96. Editorial Note

In a meeting on August 4, 1975, President Gerald Ford informed his Assistant for National Security Affairs, Henry Kissinger, and his Deputy Assistant for National Security Affairs, Brent Scowcroft, that British Prime Minister Harold Wilson, French President Valéry Giscard d'Estaing, and West German Chancellor Helmut Schmidt were all "concerned about their economic problems and the impact. I get the impression my economic advisors are too carried away with our program. I would like an EPB meeting to describe the European situation. Would you prepare a briefing paper on my talks, so I can explain, indicate my sympathy and desire for closer cooperation. If we recover and Europe's economies don't, we could be in big trouble." (Memorandum of conversation, August 4; Ford Library, National Security Adviser, Memoranda of Conversation, Box 14)

The following day, President Ford told Japanese Prime Minister Takeo Miki, who was in Washington on an official visit, "If we are to combat some of the trends that will come if we have bad economic conditions, we must try to work together. My impression of what Giscard, Wilson and Schmidt said is that if we don't improve the economic climate, the political climate could have an adverse effect on the developed industrial nations of the world. Japan has a big stake in this. Therefore we talked in general about the problem without any commitment, but we all felt that it could be disastrous for democratic government if we were to have adverse economic conditions develop in the future. Our economic picture is improving, but we can't do it alone—we have to coordinate how we can work together to achieve a coordinated plan. We wish to work with you because your re-election is vital to Japan and the industrial nations we represent." Later in the conversation, Prime Minister Miki said, "I agree with your remarks, Mr. President, on Giscard's proposal for a five-power economic conference, and did so publicly in the press, that is that a preliminary conference would be required to establish an agenda. I would hope that this would come as a U.S. initiative. I believe Giscard's proposal to discuss only monetary problems is too 'narrow,' and the five advanced industrial powers should discuss the full spectrum of economic matters." President Ford replied, "I think we should proceed on an informal basis, rather than formal. I don't know your situation, but I think an informal arrangement—for discussions by a person you would name, and persons named by Giscard, Wilson and Schmidt—would be a better way to lay the groundwork. We have a great mutual interest in doing something, but the minute this becomes formal, it complicates my problems at home. What we want is results, not public acclaim. We want success, and economic success would be of the greatest importance economically and politically from the standpoint of the developed industrial nations. Our situation looks good, but we can't go it alone. All the nations should improve their economic circumstances if we are to be successful as nations in the free world." Prime Minister Miki then asked whether President Ford "would agree to convene a five-power conference as long as preparations are made in informal talks," to which the President replied, "Generally, yes, but that depends on how well the representatives of the five powers lay the foundation.

It would be disastrous if we entered negotiations at the Summit with disagreements among us. We should agree in advance to coordinate our views." Prime Minister Miki agreed. The President finished this portion of the conversation by noting: "We would agree to hold the conference if there are adequate preparations, but if there are disagreements, we could not hold it." (Memorandum of conversation, August 5; ibid.)

On August 6, President Ford indicated to Prime Minister Miki that he wanted former Secretary of the Treasury George Shultz to represent the United States in any preliminary talks to establish a basis for the economic summit. (Memorandum of conversation, August 6; ibid.) Two days later, Kissinger reported to the President: "I talked to Shultz about the economic summit. I think it best for George to see Schmidt, Wilson, Giscard next week to get their concrete ideas. It would show you giving it quick attention and allow George to assess whether we should pursue it. If it looks good, we could have the private meeting and then the summit. From a non-economic view, I think it has merit in showing action. I know Treasury fears they will try to euchre you into something unfavorable. But I doubt that, and why would you agree? I think you are getting the image as the leader of the Western industrial world." (Memorandum of conversation, August 8; ibid.)

In an August 12 message to President Giscard, President Ford wrote: "Secretary Kissinger and I have given a great deal of thought to the question of an economic summit since you and I reviewed the proposal when we met recently in Helsinki. As a next step, I would now like to suggest that I send former Secretary of the Treasury George Shultz to Paris for further discussions with you on the matter. He could, if you are willing to meet with him, explore what you have in mind with regard to the summit and report back to me on his conversations with you. If my suggestion meets with your approval I would be grateful if you could let me know when a visit by Mr. Shultz would be convenient." (Ibid., Kissinger–Scowcroft West Wing Office Files, Box 12, France—General (2) (4/4/75–10/1/75)) President Ford apparently sent a similar message to Chancellor Schmidt. An August 28 message from the Chancellor to the President refers to an August 12 message from President Ford. (Ibid., Box 35, West Germany (4) (6/7/75–12/10/75))

97. Memorandum From the Chairman of the Federal Reserve System Board of Governors (Burns) to President Ford[1]

Washington, August 28, 1975.

In preparing for the international monetary meetings that will start on Saturday, August 30, the Treasury and the Federal Reserve have agreed on practically all aspects of a U.S. position. Unfortunately, disagreement remains on one fundamental aspect of the U.S. position on gold.

The question at issue is to what extent central banks and governments should be free to buy gold from one another at market-related prices. (Market prices have recently been in the range of $160 to $170 per ounce; the official price is $42.22 per ounce.) The Treasury is willing to accept complete freedom for such transactions. The Federal Reserve believes that some restraint on inter-governmental transactions in gold would be wiser policy at present.

There are five basic elements in the Federal Reserve's stand on gold:

First, a large measure of freedom for governments to trade in gold at a market-related price may frustrate efforts to control world liquidity. Such freedom would provide an incentive for governments to revalue their official gold holdings at a market-related price. (France has already done so.) This in turn could result in the addition of up to $150 billion in international official reserves. Liquidity creation of such extraordinary magnitude would endanger, perhaps even frustrate, our efforts and those of other nations to get inflation under reasonable control.

Second, governments may be tempted to spend the paper profits from revaluing their gold holdings, thus increasing overall spending in a politically easy way—but also intensifying inflationary pressures.

Third, removal of all restraints on inter-governmental gold transactions may release forces that would increase the importance of gold in the monetary system. In my judgment there is a significant risk that the Treasury's recommended position would inadvertently foster, or at least permit, an increase in the relative importance of gold in the monetary system. Indeed, it could well stimulate the formation of a gold

[1] Source: Ford Library, President's Handwriting File, Subject File, Box 19, Finance—Gold. No classification marking. Attached is a covering note indicating that this memorandum and several other attached memoranda were for a meeting on economic and energy issues held on August 29 at 11 a.m. A stamped notation on the covering note indicates the President saw it. Regarding the meeting, see footnote 2, Document 99.

bloc in Europe, thereby certainly weakening our international political position and, perhaps, worsening our economic position as well.

Fourth, until we and other countries have forged a consensus on the desired shape of the future world monetary system, we should not isolate the gold question and deal with it apart from other critical issues of monetary reform. Moving ahead on gold in the absence of such a consensus may inadvertently and dangerously prejudge the shape of the future monetary system.

Fifth, there is no compelling practical problem that requires early action on gold issues. Sizable borrowing facilities exist to help countries tide over emergency needs for balance-of-payments financing. Countries needing to use their gold holdings can either sell some gold in the market or arrange to use their gold as collateral for loans. In short, there is no clear economic reason at present for being concerned about deferring a resolution of outstanding gold issues.

In our discussions with the Treasury, the Federal Reserve has diligently sought agreement on the gold issue. I have gone a considerable distance in an effort to narrow our differences:

(1) I have dropped my earlier insistence that an individual country's holdings of gold be subject to a ceiling.

(2) I have agreed that the limit on the world stock of monetary gold could be defined so as to include the holdings of the International Monetary Fund in addition to the holdings of member governments. (This implies that sales by the IMF would enable individual central banks and governments to increase their gold holdings.)

(3) I have proposed the important concession that a government may buy gold from another government if the purchase will accommodate an emergency need by the selling government to mobilize its gold holdings; also that a government which had made a sale under emergency conditions could repurchase that amount from another government without involving the emergency provision.

(4) I have suggested that all the understandings governing gold transactions be reviewed after one year, not after two years as was proposed in June.

I cannot go further and still protect the U.S. interest, as the Federal Reserve sees it. In my judgment, a failure to resolve the gold issue at the international monetary meetings next week would not produce adverse economic or political consequences. I believe that there is a good chance of a successful negotiation next week on the increase in IMF quotas and on the legalization of floating exchange rates. We should push ahead on these questions.

The Federal Reserve's recommendation to restrict intergovernmental transactions in gold commands strong support in the United States among those of the financial and academic communities that are sensitive to these issues. In fact, the Treasury's Advisory Committee on Reform of the International Monetary System, which includes among others several former Secretaries of the Treasury, is inclined to go further than the Federal Reserve in restricting inter-governmental transactions in gold.

Let me say, finally, that if we ever do decide to accept the French position on gold (and this in essence is what the Treasury's position amounts to), we ought at least to extract from them a weighty political quid pro quo. And if there is to be a Summit meeting, and if the Federal Reserve's advice is rejected, would it not be wise to postpone our concession to the French on the gold issue until that time, so that we could get something substantial in return?

98. Memorandum From Secretary of the Treasury Simon to President Ford[1]

Washington, August 28, 1975.

Need for Your Advice on Next Week's Monetary Negotiations

I would like very much to meet with you this week to discuss our negotiating positions for the important negotiations next week in which I will be participating. In particular I need your advice on a matter on which Arthur and I are still unable to agree: the gold question which we reviewed with you on June 3[2] and on which, despite subsequent efforts, we have not been able to reach agreement.[3]

Because of the gold issue we're in a difficult tactical position. We, along with the French, have held out for a package agreement on the three principal points. The French position has changed. They now indicate a willingness to "unbundle" the issue of gold and quota increases leaving the exchange rate issue for later. There is some question

[1] Source: Ford Library, President's Handwriting File, Subject File, Box 19, Finance—Gold. No classification marking. Sent under cover of an August 28 summary memorandum from Simon to Ford. A stamped notation on the summary memorandum indicates the President saw it. Attached is a covering note indicating that this memorandum and several other attached memoranda were for a meeting on economic and energy issues scheduled for August 29 at 11 a.m. A stamped notation on the covering note indicates the President also saw it. See footnote 3, Document 99.

[2] See Documents 86 and 87.

[3] In his August 28 covering memorandum to the President, Simon summarized his and Burns's disagreement thus: "Arthur's position is that we want very precise guarantees that gold will not move back into a pivotal role in the financial system. Our view is that this is asking our friends to do the impossible, because the guarantees necessary also insure that the gold they hold is largely immobilized."

whether this represents a serious position—they are probably aware of our disagreement with the Fed on gold and thus our inability to negotiate. They also probably realize the difficulty in gaining Congressional approval of quota increases in the absence of agreement on the exchange rate issue.

In any case their initiative appears to the world to be positive and forthcoming. They appear to have dropped the trappings of intransigence and have assumed a position of flexibility. Unless Arthur and I can determine a mutually acceptable position on gold, we cannot negotiate on this issue. If they refuse to deal on the matter of exchange rates, we in turn cannot afford to agree on the highly popular issue of quota increases without losing one of our best cards and incurring the enmity of some of our key Congressional supporters on the exchange rate issue.[4]

Failure next week as a result of our internal difficulties would increase the political pressures for an Economic Summit with a monetary agenda. A Summit with this agenda, originating seemingly as a result of the failure of the "technicians" of the Interim Committee, could be from an economic and political standpoint a high risk, low reward scenario for the U.S.

The solution, it seems to me, is to agree with Arthur on a gold position that provides us with a negotiating basis, one from which we can deal on gold and offer to deal on quotas *if* after some U.S. concessions the exchange rate issue can also be settled. If the exchange rate issue cannot be settled, we can still indicate a willingness to settle on gold leaving quotas and exchange rates for later. I am sorry to bother you again on this matter but I urgently need your advice.

Background

As background the three principal issues on the IMF Interim Committee's agenda are, an increase in IMF quotas, the exchange rate issue and the gold issue. Those three issues are the final distillation of the Committee's overall charge to develop steps to update the international financial system and to develop some practical measures of financial assistance for LDCs.

1. *IMF quota increase*—Agreement on an increase of one-third in IMF quotas is close. The quota increase will result in a substantial expansion in the amount which governments can borrow from the IMF in cases of

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[4] In his August 28 covering memorandum to the President, Simon wrote: "The increase in the quotas is appealing to a wide range of countries—it is a timely expansion in view of the prospective difficulties of the LDC's resulting from the increase in oil prices and recession. We face difficulty in obtaining Congressional approval of a quota increase absent an agreement on the exchange rate question. Henry Reuss, who is influential in these matters, has made it plain that our system of floating ought not to be relegated in any agreement to a second class arrangement."

need and entails an increase in the obligations of governments to lend to the IMF when other governments are deserving of assistance. Our present offer is to recommend to Congress that our share in the quota increase be limited to less than one-third. This would drop our overall quota share from 22.9% to 21.9%, and would permit the OPEC countries' quotas to double from 5% to 10%. Under certain circumstances we are prepared to reduce our overall quotas even further so long as this is accompanied by a change in IMF rules defining the size of the majority required for key actions—from the present 80%–85%—to sustain our veto.

2. *Exchange rates*—This is perhaps the most implacable issue on which we are negotiating. It is directly related to bread and butter concerns, principally the relative competitiveness of nations' goods in international markets and their respective home markets and to the international role of the dollar and the advantages that the French are convinced go with its present role. The French position is that the floats that in varying degrees characterize the world's principal currencies are aberrations and that phased return to the par values called for under the IMF articles is essential. Presently all major countries are in violation of the basic undertakings in the IMF articles with respect to exchange practices. The French have been insistent that their ultimate objective—all must be part of a fixed exchange rate system—must be spelled out implicitly in any language adopted as a substitute for the obsolete article presently in place. I am considering offering to end the interminable debate surrounding the wording of a new article by simply eliminating the obsolete provisions and not replacing them at this time.

Whether this will provide a satisfactory resolution to this issue is problematical. For tactical reasons, discussed later, and for longer run reasons, agreement will be difficult. The fundamental problem involves the desire of the French to improve their relative competitive position by obtaining from their standpoint, a more attractive exchange rate for the franc—a move that requires a fixed exchange rate system within which to operate. The French sorely miss the advantage that the structurally undervalued franc provided in the period starting in 1958 and ending with the float of major currencies including the dollar.

They intellectualize their position by arguing—sometimes with effect, if not with accuracy, that a system of fixed exchange rates exerts discipline and is therefore not inflationary. Recently they have skillfully tapped the world's craving for stability in a dangerous and swiftly changing environment by making a political argument for the "stability" of a fixed exchange rate system. This argument is spurious. Such a system is fixed in name only and lacks the elasticity to adapt without a series of foreign exchange crises to the changes in fundamental economic relationships that are at the source of the disturbing changes that we have all observed. In effect what tends to be fixed is the dollar, i.e., others have much more say about the value of the dollar under the fixed than under floating rates. The French in particular adjusted their exchange rate frequently in the post-war period against a fixed dollar to maintain a highly competitive trading position.

3. *Gold*—The Interim Committee has agreed that the official international price for gold should be abolished and that the monetary role of gold should be phased down. It is also agreed that the substantial amount of gold held by the IMF should not be immobilized forever. On this point there is agreement that some IMF gold should be put to use and that some constraints or conditions should be applied to official gold sales and purchases in the near future.

The French have either agreed to or appear ready to agree to the following:

a. The German proposal that a part of the IMF's $7 billion in gold (at the official price of $42 per ounce; the market price is $161) be restituted to members according to their quotas with part being sold in the private market and the proceeds used to establish a trust fund to help selected LDCs. Disposition of the rest of the IMF's gold would await a later decision which would require an 85% majority.

b. A global limit on official gold holdings under which no government would buy gold when the effect would be to increase total governmental holdings. The reserves held in the form of gold by some countries could increase without a change in the overall amount held by governments (including the IMF).

c. In addition the French are willing to agree that no government should trade in gold with the objective of trying to peg the price.

d. The French agreed to re-enter the snake under amended rules which specifically prohibit the settlement of balances in gold. This involved some domestic political risk for the French government and is at variance with long established French theology on the subject.

While the French have agreed to the above, points a–d, they and others are more or less united in their opposition to a situation in which gold could under no circumstances be used (other than in exceptional circumstances), a limit that in response to Arthur's strong urgings we have sought to negotiate. Countries like Italy which have large gold holdings and which have recently encountered exceptional circumstances agree with the French. They and others feel that we have been unduly doctrinaire on this point.

Arthur feels that this is not the case. He fears that the known longing on the part of some European central bankers to reimpose a gold based system—a system in which the price of gold would be pegged to a currency or to a collection or basket of currencies—will be translated at some point into action. If this occurred, he feels that we would be at a relative disadvantage because this would involve a less elastic and responsive exchange rate system, a diminution in the role of the dollar, and an increase in the relative importance of powers such as France that have large reserves held largely in the form of gold. He also ascribes an inflationary effect if gold were pegged at the present level, roughly four times the official level, and central banks with large gold holdings were able to "write up their reserves." This in turn would lead to a large increase in stated reserves and Arthur and others believe a dangerous and inflationary rise in world liquidity.

I concede part of the last point that international liquidity as distinct from domestic liquidity has increased with the rise in the market price of gold. If the price of gold were pegged and reserves were written up accordingly, it would in large part be a recognition of the fact that gold currently is well above the official price of $42 per ounce. In substance, the increase in international liquidity which Arthur fears has happened. I'm not entirely convinced that this is bad since there has been a need for additional international liquidity. Our inflation problem has its origins in our inability to curb the growth of domestic liquidity and further lapses in this area will set the stage for more inflation—international liquidity control will play a small role.

I doubt the ability of central banks to peg the price of gold if fundamental forces are in the direction of lower prices. I fail to see why efforts to hold up the price of gold would be any more effective today than our efforts to hold down the price of gold at $35 per ounce was in the 1960s.

If market forces are tending to push up the price of gold, central banks could on a frequent basis reset their pegs at excessively higher levels, but they can de facto restate their reserves at market prices right now, as France has done, ignoring the official price of $42 or any new official price.

I believe there are two fundamental forces at work that have a bearing on gold. In our inflationary time governments will part with gold reluctantly. Until prices are stabilized, gold stocks will come down grudgingly in small increments because governments and central bankers are not immune to the store of value aspect of gold, they too like to "hold a little gold."

By the same token a gold based system, a system in which payment deficits are settled by sales of gold from one central bank to another central bank, is improbable because central banks will not wish to part with their gold preferring to settle in some other form—such as dollars or a basket of currencies.

If prices stabilize, the price of gold is likely to fall sharply—an event which I think governments and central banks would be unable to stop. This does not preclude a situation in which certain governments and central banks would not seek under the global limit and in the context of IMF sales to increase their holdings of gold. Such countries would have to accept the risk that gold purchased could depreciate sharply if gold in response to general price stabilization dropped in price. Moreover, the idea that an extraordinary hoard of gold will automatically result in an extraordinary amount of international power regardless of the relative size and efficiency of the hoarding country's economy seems far fetched.

Moreover, we are still holding the world's largest gold stock and this can be a decisive factor in the market for a long time if we wish it to be.[5]

William E. Simon

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[5] In an August 29 memorandum to the President, Scowcroft wrote: "Henry wanted you to know that he supports Bill Simon's position on gold. He believes, however, that this is a sufficiently important issue for our allies that you should take personal credit for it with your colleagues. He would therefore recommend that, if you adopt the Simon position, you send letters to your 'Big Four' colleagues taking credit for your decision." President Ford wrote at the bottom of the note: "Go ahead." (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 11, 8/27–30/75)

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99. Memorandum From the Executive Secretary of the Economic Policy Board (Porter) to President Ford[1]

Washington, August 29, 1975.

SUBJECT

Economic Policy Board Executive Committee Vote on U.S. Negotiating Position on Gold

As Executive Secretary of the Economic Policy Board, I was designated by Secretary Simon and Mr. Seidman to conduct the secret ballot you requested at this morning's Economic and Energy Meeting[2] on the issue of the U.S. negotiating position on gold.

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[1] Source: Ford Library, President's Handwriting File, Subject File, Box 19, Finance—Gold. No classification marking. Attached to an August 29 covering memorandum from Connor to President Ford that reads: "Roger Porter sent this in per your request."

[2] The meeting took place in the Cabinet Room from 11:15 a.m. to 12:15 p.m. In attendance were President Ford, Simon, Seidman, Dunlop, Lynn, Butz, Ingersoll, Domestic Council Executive Director and President's Assistant for Domestic Affairs James Cannon III, Morton, Enders, Yeo, Domestic Council Deputy Director Richard Dunham, Greenspan, Counselor John Marsh, Jr., Federal Energy Administration Administrator Frank Zarb, Counselor Robert Hartmann, Cheney, Rumsfeld, President's Assistant for Legislative Affairs Max Friedersdorf, Press Secretary Ronald Nessen, Assistant Press Secretary John Carlson, and Porter. (Ibid., President's Daily Diary) No other record of the meeting has been found.

The closest refinement of the issue is as follows:

Treasury Position:	Central banks should not be free to sell gold to one another for the settlement of regular or normal transactions.
Federal Reserve Board Position:	Central banks should not be free to sell gold to one another for the settlement of regular or normal transactions *and* central bank transactions in gold must be restricted to emergency circumstances.

The votes of the Executive Committee members are as follows:

Treasury Position
Supported by Simon, Dunlop, Morton, Kissinger, Seidman[3]

Federal Reserve Board Position
Supported by Burns

Abstentions: Lynn, Greenspan

The Department of State vote was cast by Deputy Secretary Ingersoll who spoke with Secretary Kissinger following the meeting.

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[3] President Ford initialed his approval of this position. Seidman, Simon, Porter, and Rumsfeld were apprised of the President's decision that day, according to an August 29 memorandum from Connor to Seidman. (Ibid., President's Handwriting File, Subject File, Box 19, Finance—Gold)

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100. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to President Ford[1]

Washington, August 30, 1975.

In conjunction with the decision on the gold issue and my memorandum to you yesterday,[2] attached for your consideration are letters to your "Big Five" colleagues designed to give you credit with them for your forthcoming attitude.

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[1] Source: Ford Library, National Security Adviser, Presidential Subject File, Box 8, Gold. No classification marking. Brackets are in the original.

[2] See footnote 5, Document 98.

You should know that Bill Simon objects to these letters. Bill's preference is to wait a couple of days and then to send the letters after we have accommodated on the gold issue, asking for like consideration from them on other points of contention.[3]

The basic difference is one of timing. To us, it appears very worthwhile, on an issue as important (especially to the French and Germans) as gold, for *you* to get credit *ahead* of the negotiations, not to try to claim that you were forthcoming only *after* your negotiators have already completed the deal.

Bill has asked for the opportunity to speak with you before your decision in the event you are disposed to approve the attached letters.

[Should you decide to go ahead with these letters, we will cable the texts to the recipients immediately following your approval.]

Recommendation

That you sign the letters at Tab A.

Tab A

Letter From President Ford to French President Giscard[4]

Washington, August 31, 1975.

Dear Mr. President:

Our representatives are meeting this weekend in Washington, along with those of other countries, to discuss some crucial issues in the international monetary area. Resolution of these questions will help assure the continued viability of the liberal trade and payments system which is so essential to world prosperity in the coming years. Sound agreements on gold and exchange rates are clearly important to every country. In addition, less developed nations will particularly benefit from the planned IMF quota increase and measures to mobilize IMF gold.

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[3] In telegram Tosec 100351/207433, August 30, to Kissinger, who was engaged in shuttle diplomacy in the Middle East, Enders commented: "Simon and Yeo are nervous about giving away all the leverage as negotiators by playing up our flexibility. They are thus hesitating on a telegram at this time to chiefs of state. It may be also that they want to be able to dominate this one themselves." (National Archives, RG 59, Central Foreign Policy Files)

[4] President Ford signed similar letters, all dated August 31, to Wilson, Moro, Miki, and Schmidt, which are also attached.

For these reasons, I place great importance on progress at the upcoming meetings of the Bank and the Fund. I am, therefore, authorizing Secretary Simon to exercise further flexibility on the gold issue.[5]

I hope this flexibility from the United States on gold will pave the way for agreement on a full package of amendments to the IMF Articles as well as the quota increase. Obviously,[6] your approach to the exchange regime issue will be critical to working out a package. I hope you can help in finding some common ground on which we can agree.[7]

Sincerely,

Gerald R. Ford

[5] In the version of the letter sent to Moro, a paragraph was added here that reads: "In taking this step I have kept in mind the particular interest of Italy in mobilizing its official reserves of gold."

[6] The last two sentences of this paragraph in the letter to Moro read: "Obviously, the approach of the European Community to the exchange regime issue will be critical to working out a package. I would appreciate your help here, as President of the Council of Ministers, in finding some common ground on which we can all agree." The last two sentences in this paragraph in the letter to Miki read: "Obviously, the French approach to the exchange regime issue will be critical to working out a package. I have therefore written to President Giscard d'Estaing to ask his help here in finding some common ground on which we can agree." The last two sentences of this paragraph in the letters to Wilson and Schmidt read: "Obviously, the French approach to the exchange regime issue will be critical to working out a package. I have, therefore, written to President Giscard d'Estaing to urge reconsideration of the French position."

[7] The letter to Miki contains this final paragraph: "I know I can count on your support in arriving at a comprehensive agreement acceptable to all of us." The letter to Wilson contains this final paragraph: "In the past, you have played a decisive role in the formulation of European views on monetary questions. I know we can count now on your continued efforts to reach a common ground on which we can all agree." The letter to Schmidt contains this final paragraph: "Your influence will be critical in finding a common ground on which we can all agree, I would appreciate any efforts you feel you can appropriately make to this end."

101. Editorial Note

On August 31, 1975, resolution of the gold and IMF quota issues was achieved in the Interim Committee, which held its fourth meeting in Washington that day. President's Deputy Assistant for National Security Affairs Brent Scowcroft wrote President Gerald Ford in an October 13 memorandum: "In the Interim Committee, agreement was reached on new IMF quotas, on reducing the vote required for a veto from 20% to 15%, abolition of an official price for gold, elimination of the obligation to use gold in transactions with the IMF, sale of one-sixth of the Fund's gold (25 million ounces) for benefit of the developing countries, and restitution of the same amount to its original owners." (Ford Library, National Security Adviser, Presidential Subject File, Box 8, Gold)

The impasse over exchange rates, however, remained. On August 30, the Group of Five Finance Ministers agreed to try to resolve it by the time of the January 1976 Interim Committee meeting. According to the official history of the International Monetary Fund, the Ministers "regarded the solution as a matter of language. The reality was that floating rates were likely to continue indefinitely and that a new system of par values would not be introduced for some years to come. Any language that expressed this reality would be satisfactory." As a result, "the authorities of the other three assured the monetary authorities of France and the United States that they would accept any solution to the exchange rate issue that was mutually acceptable to the United States and France." (de Vries, *The International Monetary Fund, 1972–1978,* Volume II, page 743)

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102. Memorandum of Conversation[1]

Washington, September 17, 1975, 3:21–3:42 p.m.

PARTICIPANTS

President Gerald R. Ford
George Shultz
Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

SUBJECTS

Shultz's visit to Europe: Economic Summit

Shultz: I met with Schmidt for about 10 hours, and Giscard. Wilson thinks the burden should be on those who say there shouldn't be a meeting, not vice versa. They are interested in a personal and deep discussion rather than a very broad one.

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[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 15. Secret; Nodis. The meeting took place in the Oval Office.

President: What participants will there be? What about Italy and Canada?

Shultz: They are thinking just of the five. They asked about Canada and I said it is our biggest trading partner. I would leave Italy to the Europeans. If they want it out, I would support that. Italy would just clutter the landscape. With three people per country, that is about the maximum for the useful meeting. I said we needed the Secretary of State and the Secretary of Treasury. They agreed on three, but just who, they want to think about. On timing, I said it had to be this year. It looks like mid-November is about the latest possible.

Kissinger: It almost would have to be before Thanksgiving.

Shultz: On the location . . .

President: From a political point of view, it would be better to have it here. I am getting criticism from being out of Washington, but it is not serious.

Kissinger: I doubt if Giscard would be willing to come here.

Shultz: If it happens, it would mark the reentry of France into the councils.

Kissinger: I don't say it has to be in France, but with Giscard coming here next year, it would be tough.

Shultz: I tried the U.S. on them. Wilson will come of course; Schmidt is a bit reluctant and Giscard is negative.

President: We could have a joint announcement so there isn't one invitor. Let's get the schedule cleared.

Shultz: I need someone within the government to work with. Henry suggested Sonnenfeldt.

Kissinger: It is interesting how much time they spent with George. It shows how seriously they take it.

103. Editorial Note

The issue of Italian and Canadian participation in the economic summit continued to cause debate. In a September 23, 1975, conversation with President Gerald Ford, President's Deputy Assistant for National Security Affairs Brent Scowcroft, Italian Ambassador to the United States Roberto Gaja, and Italian Foreign Minister Mariano Rumor again urged Italian participation, relaying Italian Prime Minister Aldo Moro's message requesting "that you see that we are included in any economic summit." (Ford Library, National Security Adviser, Memoranda of Conversation, Box 15)

A September 27 National Security Council briefing memorandum that President Ford saw in preparation for a meeting that day with French Foreign Minister Jean Sauvagnargues reads: "Following through on your understanding with Giscard and Schmidt, George Shultz and Hal Sonnenfeldt will meet on October 5 in New York with 'experts' nominated by Schmidt, Wilson and Giscard, to discuss plans for an economic summit in mid-November. The French wish to see such a summit concentrate on monetary affairs, particularly on the issue of fixed versus floating exchange rates, while the Germans wish it to focus on coordinated action for economic expansion. *Our own interest is in a broad effort to face up to the political implications of the economic problems of the industrial democracies.* A procedural but highly important issue is that of attendance at the summit, particularly whether the Italians are to be invited. At the four-power meeting on September 24 in New York, the four Foreign Ministers found themselves generally agreed that, while the Italians might make no particularly useful contribution, the political consequences of not including the Italians—specifically its effect on the continued viability of a non-Communist government in Italy—were a strong argument for their inclusion. Exclusion would seriously weaken Italy's Christian Democratic leadership with the consequent adverse impact on NATO. It remains to be seen, however, whether Wilson, Giscard, and particularly Schmidt can be brought to agree to Italian attendance. In the meantime the Italians, who have a good idea what is going on, have designated their own 'expert' to participate in preliminary discussions on the summit. *Prime Minister Moro, in a recent letter to you, has emphasized the strong importance he attaches to Italian participation, and Foreign Minister Rumor underlined this in his meeting with you on September 23.*" (Ibid., Presidential Country Files for Europe and Canada, Box 3, France (6))

The President met with Sauvagnargues, along with Secretary of State Henry Kissinger, Scowcroft, and French Ambassador Jacques Koscuisko-Morizet, on September 27 from 10:03 to 10:40 a.m. in the Oval Office. Scowcroft's record of the conversation reads: "Talk turned to the upcoming economic summit and centered around the participation of Italy in Western strategy sessions. The President raised the subject and Secretary Kissinger mentioned that the UK had conveyed to the Italians that their participation in Western strategy sessions was awaiting a decision by France and West Germany. President Ford remarked that he thought they should be included and that Rumor had raised the issue with him. Sauvagnargues indicated that neither France nor the Federal Republic of Germany was enthusiastic at Italy's inclusion but said that he appreciated the political problems involved in excluding them. He then added that in his view it was important not to compromise the solidarity of the EC now—as exemplified by their cohesive policy towards Portugal—by meeting in groups of four or five.

The President replied that Rumor had made his request based on his being the current President of the EC. Sauvagnargues retorted that if they (Italians) were to be represented at all, it should be as Italy and not as a representative of the EC." (Ibid., Kissinger–Scowcroft West Wing Office Files, Box 12, France—General (2) (4/4/75–10/1/75)) The time of the meeting is drawn from another copy of the memorandum of conversation. (Ibid., Memoranda of Conversation, Box 15)

On October 1, after the French and West Germans had given their consent, the Italian Government was invited to send a representative to the October 5–6 preliminary talks in New York. (Telegram 233518 to Rome, October 1; National Archives, RG 59, Central Foreign Policy Files)

The issue of Canadian participation was less easily resolved. In telegram 235072 to Ottawa, October 2, Sonnenfeldt reported that Canadian Ambassador Jack Warren had met with him "to make a strong pitch for Canadian participation in any economic summit." Sonnenfeldt replied "that the US was in favor, but that we were not in a position to make a unilateral decision," recommending that the Canadian Government lobby the other summit participants. In the same telegram, Sonnenfeldt also reported that Chancellor Schmidt had recently told Shultz and himself "that while he wished the original group had not been expanded, he had no objection to Canadian participation." Chancellor Schmidt had also "recalled that he, Shultz and Giscard had discussed [Canadian participation] when they met in Paris last month and had agreed in principle to include Canada if Italy were included." Sonnenfeldt subsequently noted the Chancellor's remarks to Koscuisko-Morizet. (Ibid.)

On October 3, President Ford and Chancellor Schmidt met, along with Kissinger, Scowcroft, West German Ambassador Berndt von Staden, and West German Federal Chancellery Assistant Secretary Dieter Hiss, in the Oval Office from noon to 1:15 p.m. The Chancellor opined that "we should invite Canada since Italy has practically been invited. The President "agree[d] that Canada should be invited." (Ford Library, National Security Adviser, Memoranda of Conversation, Box 15)

In telegram 241540 to Ottawa, October 9, Sonnenfeldt reported on an October 8 meeting between Kissinger and Warren, during which the Secretary assured the Ambassador "that the U.S. is strongly supporting Canada's inclusion in the conference and said the President might be writing personally to Giscard to recommend Canadian participation. As we understand that Britain, Japan and West Germany also support Ottawa's candidacy, the Secretary said he thought it would be very difficult for the French to turn down this request." Kissinger also stressed "the importance of keeping this issue from evolving into a confrontation with the French. He said we were trying to devise a face-saving formula which would facilitate a change of position by the French." (National Archives, RG 59, Central Foreign Policy Files)

104. Memorandum From the Counselor of the Department of State (Sonnenfeldt) to Secretary of State Kissinger[1]

Washington, October 8, 1975.

SUBJECT

Economic Summit: Substance and Procedures

The preparatory group met in New York October 5–6 and, in the course of a quite solid and positive discussion, agreed to recommend (1) a basic approach for the summit, (2) the principal topics for discussion, and (3) certain procedural arrangements to ensure informality and flexibility of format.

At Tab A is the understanding reached on substantive approach and topics. You will note that the emphasis is *not* on reaching specific agreements but on a broad and far-ranging series of discussions on major politico-economic issues which will, hopefully, result in a sense, both among the participants and the public, that these leaders are transcending technicalities and are determined to come to grips with our common problems. This approach is also reflected in the proposed public announcement and additional background guidance that emerged from the New York meeting (Tab B).

Given the nature of the proposed summit, the New York meeting concluded that there probably should *not* be extensive multilateral efforts to produce papers and to negotiate out particular formulas; rather, the effort should be internal in each government to ensure that each head is fully informed about the issues, knows approximately where the important ones stand in ongoing international negotiations and fora, and can actively participate in the summit discussion. A possible exception would be if as the time for the summit approaches it were found desirable to try to issue some kind of a statement at the close, particularly on the points mentioned in paragraph 4 of Tab A, but possibly also on somewhat broader expressions of attitude. All agreed that there should not be a drafting session by heads of government since this will defeat the whole purpose of the meeting. *This issue of a final statement can be left open for now.*

Meanwhile, of course, normal intergovernmental contacts and negotiations on most of the issues in the proposed list continue actively. Indeed, Ed Yeo is about to leave on a previously scheduled trip to

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 419, Subject File, Economic Summit Meetings, 1975, Nov. (Rambouillet, France), Chronological File, 8 Oct.–1 Nov. 1975. Secret; Sensitive. Tabs A–C are attached but not printed.

France and other European countries in an attempt to narrow positions on monetary questions (see below).[2] The key point is that while these ongoing contacts and negotiations should *not* be turned into direct preparations for the summit—no one, including specifically Giscard, wants the summit to be merely another ministerial meeting chaired by government heads—these negotiations will clearly be carried on with an eye cocked to the forthcoming summit. We must avoid letting officials drive issues to deliberate deadlock because they somehow expect that the chiefs will haggle them out. This would totally defeat the purpose of the summit and would almost certainly ensure a five or six to one lineup against the President on some issues, like trade and domestic economic policies.

Substantive Issues for Discussion

1. *Economic* Outlook in Each Country, Policy Outlook, *Interrelationships* Between Domestic Economies.

All agreed to the broad proposition that there are no more "national economies" but only an "international economy." (Not applicable to the same degree to USSR and China.) With Schmidt leading off, there would then be a discussion of what is happening in each country and what each government is planning to do over the coming period. There would be a frank discussion of how one country's economy is affected by what others do and what can be done to "coordinate" these policies. The Europeans are more eager for active forms of "coordination" because they are acutely conscious of the fact that what we do has greater impact on them than what they do has on us. The Germans, in this regard, always refer to interest rates but there is virtually no way in which Fed decisions in that area could be "coordinated in practice." However, there certainly can be more explicit conversations about the money supply and what overall policy is in that regard. The British in the preparatory meeting talked of the need to discuss "how to avoid excessive inflation"—as a result of various expansionary actions—and then face a new cycle of restrictive actions in 1976. This is not unreasonable as a general topic and as the sort of issue on which to remain in continuing contact. The Frenchman provided the most sensible formula: "The discussion should not just be descriptive but it should concentrate on what we might do if either recovery is inadequate or if inflation runs too high in 1976. We cannot act in isolation and the summit must stress that we are all working together." (It was agreed that Schmidt would make the first set of comments on this topic.)

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[2] Yeo and Cross were scheduled to visit Paris, Cologne, London, and Rome from October 10 to 16. (Telegram 242483 to Bonn, London, Paris, and Rome, October 10; National Archives, RG 59, Central Foreign Policy Files)

2. *International Economic Problems*

a. Trade

This discussion was not too specific but the Europeans were emphatic in wanting to discuss US policies and the "acute problems" that confront the Europeans as a result. Specifically, they refer to US anti-dumping policies and actions in the area of countervailing duties. As you are aware, there is growing sentiment that the Trade Act has led to greater protectionism in the US than before. But there was also reference to possible UK import controls and need for assurances from Wilson on this score. Basically, Poehl summed up the European concern: "To maintain free trade." The Japanese asked for a reasoned explanation of the US trade surplus. Shultz pointed out the reasons for this and the relationship to the oil price rise and to the problem of North-South relations. He said the purpose of the summit should be to give impetus to the MTN and to deal broadly with the problem of "access to supplies." (It was agreed that Miki might lead off the discussion in this topic.)

b. Monetary Issues

This was the longest discussion, mostly between Shultz and Barre. Without recounting it in detail, the key point was an effort to get away from theology and from efforts to fight out the fundamental disagreement over fixed versus flexible exchange rates via the dispute on the IMF articles. Shultz stated flatly that he doubted we would accept even the "ultimate aim" language now under discussion. The discussion eventually led to the conclusion that theology should be set aside and that the emphasis should be on what can be done rather than on what ought to be said. Shultz pointed out that the talk of instability was misleading since the principal fluctuations occur as between the dollar and the snake. Shultz suggested that where fluctuations reflected realities in the economies involved they were in fact useful and massive intervention to remove them would merely revive the old problems. But where fluctuations were the result of more artificial factors—such as speculation and manipulation—a more coordinated form of intervention could indeed serve to smooth the turbulence. There was much talk of "managed floating" and "greater stability." The Japanese said they would have to stay outside whatever arrangements are made but had a keen interest in them. In the end, Poehl suggested that a proper approach for the summit was to talk about the most stable feasible arrangement, some understanding on intervention practices and a solution of the dispute over the IMF articles.

Ed Yeo is on his way to France, Germany, Italy and Britain to explore the possibilities and we will know better after his trip whether the signs of greater pragmatism are real. This will require reciprocity from us. (It was agreed that Giscard would lead off on this topic.)

3. *Relations with Developing Countries*

There was little fresh discussion of this topic, but it was agreed that it was politically essential to have it known that this topic was discussed. It was agreed that there ought to be some positive outcome with respect to financial institutions designed to stabilize export earnings of developing countries. No one thought the summit could do very much on such issues as buffer stocks and commodity agreements. (It was agreed that Wilson would lead off.)

4. *Energy*

The discussion here was desultory. Shultz called for a "realistic discussion" and "for politicians to jack each other up." But there was considerable sentiment that the group would want to hear from the President about US developments since they are central to what the industrialized consumers are going to be able to do. (It was agreed that President Ford would lead off.)

5. *East-West Economic Relations*

It was recognized that this subject will lend itself to a broader review of Soviet developments and East-West relations. In the economic area, there is interest in renewing the "gentleman's agreement" on credits—a matter on which we are handicapped as long as the EXIM Bank is paralyzed by the Trade Act. Poehl also expressed concern about the mounting Soviet hard currency debt and how it is to be serviced. All were interested in better information exchange about Soviet economic developments and East-West economic relations. There will be much interest in our long-term grain agreement and in any arrangement on oil.[3] (It was agreed that Moro, who is headed for Moscow on November 22, should lead off on this topic.)

Summit Procedures

At Tab C, you will find the recommendations of the New York group on procedures. Their central purpose is to provide for informality and flexibility and to keep the size of meetings to the absolute minimum—never more than three a side and occasional meetings just of heads, possibly with one aide. There was also agreement that there might be a single notetaker, provided by the host but it was recognized

[3] U.S. negotiators were close to concluding a long-term grain sales agreement with the Soviet Union and were engaged in talks concerning purchases of oil from the Soviet Union. The conclusion of the grain deal was announced on October 20. Beginning October 1, 1976, the United States would sell to the Soviet Union between 6 and 8 million tons of grain per year over the following 5 years. That same day, the United States and the Soviet Union also signed a letter of intent to reach an agreement on petroleum purchases. (*The New York Times*, October 21, 1975, p. 1)

that he might not be used on all occasions. It is also assumed that there will be meetings in which only some of the heads will participate. Indeed, Schmidt will not arrive until several hours after the others on November 15, and Miki will have to leave well before the others on November 17. It was also agreed that there can be side meetings among any officials who accompany the heads but are not in the meetings with them.

US Preparations

Our main problem now is to work up briefing papers for the President on all the topics cited together with substantial talking points. In each case, there must be a comprehensive status report on where ongoing negotiations in normal fora stand and where we think the summit might give a useful push—*but not get propelled into haggling or drafting.* The items cited by the New York group in this respect are in paragraph 4 of Tab A. There may be others.

All our preparations should be geared to the central purpose of the summit: to open a frank dialogue that emphasizes actual and potential areas of agreement in a manner that signals determination to cope with common problems.

I suggest that preparation of the briefing papers be carried on through Bill Seidman's EPB operation, with principal responsibility assigned as follows for the various topics:

1. Domestic Economies—CEA
2. Trade Problems—State
3. Monetary Problems—Treasury
4. Relations with Developing Countries—State/STR
5. Energy—State/FEA
6. East-West Economic Relations—State/Treasury

A separate strategy/scope paper should be done in the first instance by State but with ample input from Treasury, and the other EPB agencies.

Recommendation

That you, or Scowcroft, discuss this memorandum with Seidman and agree to get started on briefing materials as outlined above.[4]

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[4] There is no indication on the original that Kissinger either approved or disapproved the recommendation.

105. Message From President Ford to French President Giscard[1]

Washington, October 9, 1975, 2244Z.

WH51941. Deliver at opening of business. Via Blue.

Dear Mr. President:

I am very pleased by the recent progress in preparations for the economic summit. I understand that the meetings in New York were most constructive and that Professor Barre made a valuable contribution.

Therefore it is particularly unfortunate that a difference has arisen over the number of participants. You know that it was my preference as well to limit the number to five, in order to ensure the fullest and frankest exchanges, in the spirit of your original conception. It has turned out, however, that political realities in Italy clearly require that Prime Minister Moro be included.

This, I believe, gives Canada a valid claim. Canada is the United States' largest trading partner. I am seriously concerned that exclusion of Canada would produce a harmful controversy and thereby jeopardize the very promising political impact of the summit itself. I would therefore ask you on a personal basis to give France's agreement to Canada's participation.

I understand that the preparatory group has already agreed on procedures which will permit the greatest flexibility and informality. I understand also that the excellent arrangements that you have made as the host will enhance this. Therefore I expect that there will be opportunity for discussions in smaller groups.

Please let me compliment you once more, Mr. President, for having taken this initiative. I have shared with you fully, despite some misgivings by some in my administration and in the Congress, the conviction that this summit is an important enterprise for the Western world. The political cohesion of the industrial democracies must be shown, to enable us all to confront our common problems with confidence and vision. Therefore I hope that the issue of participation can

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[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 12, France—General (3) (10/5/75–11/3/75). Secret; Immediate. On October 9, Kissinger reported to President Ford: "On the economic summit, the French are still trying to exclude Canada. All the others agree." The President asked whether he could send President Giscard a message, to which Kissinger responded: "That's a good thing to do. I think he'll concede, but even if he doesn't, we will be in good shape with the Canadians. We could tell Schmidt you are doing so and ask his support." President Ford replied: "Fine. Let's do it. We definitely should have Canada." (Ibid., Memoranda of Conversation, Box 15)

be quickly solved. It would be beneficial if, when the formal announcement is made on Friday,[2] there is no complication detracting from its importance.

Sincerely,

Gerald R. Ford

[2] The White House Press Secretary made the announcement on Friday, October 10. (*Weekly Compilation of Presidential Documents*, volume 11, pp. 1150–1151)

106. Message From President Ford to West German Chancellor Schmidt[1]

Washington, October 10, 1975, 2225Z.

WH51944. Deliver at opening of business.

Dear Mr. Chancellor:

I should first like to tell you what a pleasure it was to have you here with us again and how much I valued our excellent and intensive conversations.[2] I hope we shall have frequent opportunities to keep up this contact.

Since your visit, our representatives and their colleagues from the other countries involved made very good progress in preparing for a summit meeting in November and I am pleased that the announcement of that meeting has now been made.

I would, however, like to address you personally with respect to the argument that has arisen with President Giscard in regard to Canadian participation. I find this a puzzling and dismaying development. I had thought that it had always been clear that if Italy was going to be included Canada would be a natural and inevitable further, and final, addition. Indeed, in economic terms and, certainly, as our largest trading partner, Canada has greater claim to be present than Italy but I fully recognize the political realities that required the Italian presence.

[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 12, France—General (3) (10/5/75–11/3/75). Secret; Immediate.

[2] President Ford and Chancellor Schmidt met in Washington on October 3. A memorandum of their conversation is ibid., Memoranda of Conversation, Box 15.

As you have been informed, following a number of approaches to the French at the official level, I personally wrote to Giscard last night to urge him to reconsider the French objection.[3] I pointed out to him that the political repercussions of Canadian exclusion could well place a cloud over what has become such a promising endeavor. To my regret, Giscard responded, moments before the public issuance of our agreed announcement of the summit, that his position was unchanged.[4] My government has since then stated publicly that we favor Canadian participation and that we expect the summit to take place with Canada present.[5] This will also be the position which Secretary Kissinger will take when he makes his official visit to Ottawa early next week.[6]

I would like very much to know your own judgment of why this unfortunate difficulty has arisen and how we could best resolve it. Certainly, there should be no question about the informality of the summit and about the agreed character of the meeting if Canada is there and I find Giscard's concerns in this respect unconvincing even though I too would have preferred the original smaller group.

Could you give me your frank views on how we should proceed so that Canada will be included, as I am determined it should be, and how we can remove this quite unnecessary obstacle to a fruitful meeting.

Yours sincerely,

Gerald Ford

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[3] See Document 105.

[4] President Giscard's October 10 message to President Ford, in which he rejected Canadian participation on the grounds that any further enlargement of the summit might jeopardize its success, is in the Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 12, France—General (3) (10/5/75–11/3/75).

[5] On October 11, *The New York Times* reported: "Joining President Ford will be the leaders of France, West Germany, Japan, Britain and Italy. American officials said that Canada was also expected to attend. However, that country was not mentioned in today's announcement."

[6] Kissinger visited Ottawa from October 14 to 15.

107. Telegram From the Embassy in France to the Department of State[1]

Paris, October 12, 1975, 1735Z.

26522. For Secretaries Kissinger and Simon from Ambassador. Subject: Yeo's Report on His Talks with French.

1. Our meetings with de Larosiere (two hours in the a.m.) and Clappier[2] (2 hours in the p.m.) were very cordial. In general we made the following points: exchange rate instability had been somewhat exaggerated, in the sense that cases of extreme instability were confined to the U.S. dollar and several of the key snake countries plus the Swiss franc.

2. The basic impetus for "instability" came from the inflationary environment. We described the impact on real economies e.g. a boom characterized by speculation in commodities, inventories, and real estate and then subsequent recession and, not surprisingly, the sharpest in post World War II history. Not only were these real factors working to produce rate instability but as inflation and recession affected different countries with various degrees of intensity and timing the variability of rates was increased.

3. In our explanation of the sources of exchange rate instability we cited a second major factor, capital flows. We explained that one legacy of ten years of inflation was build-up in short term assets. This resulted from the necessity to finance inflation expansion with short term financing, the longer term markets being quite limited. This tendency has been reinforced by the process of financing oil deficits. The resultant enormous build-up in short term assets has produced the raw materials for large and swift "capital flows."

4. During the last six years the balance of power has shifted against officials. The build-up in the volume of funds handled in the private market, the incredibly large amounts that private sources can muster in moving from one currency to another, mean that officials' ability to influence rates is extremely limited.

5. In our view this will only change when expectations of price stability have revived sufficiently to permit the funding out of the short term finance associated with the last ten years. In effect, one prerequisite to exchange rate stability will have to be a refunding of the financing of the late 60's and the 70's to date.

6. I explained that we were very interested in increased stability in exchange rates and financial markets in general. Our analysis of the

[1] Source: National Archives, RG 59, Central Foreign Policy Files. Secret; Cherokee; Nodis.

[2] Bernard Clappier was the Governor of the Bank of France.

sources of instability leads us to conclude that the key to reduced variability is effective country-by-country stabilization policies and that we felt that there could be more effective consultations in this area.

7. De Larosiere seemed somewhat surprised and quite interested in our opening statement. He agreed with the analysis and described their own views as to the effects of rate variability on the allocation of resources in the French economy and the cost of hedging and thus the flow of trade.

8. He went on to say that they felt something should be done about the extreme rate fluctuations. After some probing, "extreme rate fluctuations" appeared to be viewed as the last excesses of a "trend end." We agreed that because of the change in balance of power nothing could or should be done in terms of effecting changes in basic market moves, or trends. Nor should anything be done in resetting rate relationships, e.g. the lowering of the snake relative to the dollar.

9. From what was actually said, the French view of intervention for stabilization would be only two to three shades different from our own criteria of intervention for the purpose of assuring the orderly functioning of markets. We sense that there could be a difference between what is said and what is meant. The market has administered a lesson in foreign exchange to the French. During most of August and well into September the dollar's firming was facilitated and added to by large French operations in which dollars were purchased. This aggressive intervention added to the euphoria that enveloped traders and the dollar and helped set the stage for the very sharp downward adjustment that has characterized the last two weeks as the bear trap closed, aided by a slight relaxation in U.S. monetary policy.

10. We believe that they feel that efforts to intervene would be more successful and by a material margin, if we were intervening on a cooperative basis.

11. That is what they want, a willingness on our part to coordinate and cooperate on intervention policy and moves. They either feel that this will be successful or that its failure will set the stage for enlarged intervention efforts. In addition, they want a general commitment that the direction of our efforts ought to lead toward stability, that one of our principal objectives ought to be stability. Their third objective seems to be to implant within the IMF a mechanism for monitoring, or IMF surveillance, over the efforts of countries to move in the direction of stability in rates.

12. In return we sense that we can obtain a rather narrow description of the circumstances and objectives of intervention (much narrower than their own objectives). In addition, we ought to be able to settle the theology of the exchange rate question in a manner acceptable to us. We ought to be able to attach to any statement regarding fi-

nancial stability language reflecting our own interpretation of the sources of instability. Finally, it is possible, though we have not had a thorough exploration of the subject, that we can avoid a narrow monitoring of intervention practices by the IMF and instead broaden the monitoring to include moves taken to deal with underlying causes of instability and place this within the context of the Interim Committee.

13. Our sense is that they would very much like to move toward agreement before the summit. At the end of our conversation de Larosiere asked if we could return for a second visit within the context of the current trip. Without reshuffling scheduled visits, our trip could be extended by one day, Friday,[3] which time could be spent with de Larosiere.

14. Other matters mentioned to the French: 1) we planned to make no mention of any "progress" made in our discussions to other interested parties. 2) We intended to continue our direct approach, dealing directly with the French and not using third parties, e.g. the Germans.

15. We recommend that we extend for one day. The risk is that the general good feeling could be disrupted by attempts to move in the direction of concrete agreement. The advantage is that the desire to avoid the risk will facilitate substantive progress in the direction of agreement.

16. If we extend for one day, we would try to achieve something tangible in the following areas: 1) Statement of objectives of intervention and conditions under which cooperative efforts might occur. Our view is that anything other than very moderate efforts to facilitate the orderly functioning of markets is futile. The French say that they agree. 2) Outline of language that would settle the exchange rate question in terms of IMF Articles. 3) Agreement on linking present rate variability with underlying factors and describing the objective as not limited to the achievement of stability per se but also including a system in which the exchange of goods and service and the flow of capital are facilitated. 4) Discussions on some improvement in the existing mechanisms for dealing with the underlying causes of instability. 5) Related to point 4, a coupling of the broader causes of instability with the narrower specific efforts to deal with it, including efforts to facilitate orderly markets.[4]

17. While our initial conversation appeared to go well, it is important to move from generalization to specifics.

Rush

[3] October 7.

[4] Yeo appears to have returned to Paris for further talks with French officials. Telegram 26900 from Paris, October 16, transmitted a proposed memorandum of understanding on exchange rates that was to be proffered at a meeting with de Larosière the next day. (National Archives, RG 59, Central Foreign Policy Files)

108. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to President Ford[1]

Washington, October 13, 1975.

SUBJECT

Responses from Wilson, Schmidt, and Moro to your Letters on Gold

Prime Minister Wilson, Chancellor Schmidt, and Prime Minister Moro have responded to your messages of September 1 conveying a more flexible US position on gold.[2] In the Interim Committee, agreement was reached on new IMF quotas, on reducing the vote required for a veto from 20% to 15%, abolition of an official price for gold, elimination of the obligation to use gold in transactions with the IMF, sale of one-sixth of the Fund's gold (25 million ounces) for benefit of the developing countries, and restitution of the same amount to its original owners.[3]

Wilson (Tab A) believes that your additional flexibility was an important element in the overall results of the meeting of the Interim Committee. He hopes and believes that it will now be possible to complete in coming months a comprehensive agreement covering, in particular, outstanding issues relating to exchange rates.[4]

Schmidt (Tab B) also believes that US flexibility was a significant factor in paving the way for progress in the Interim Committee. He states that future progress toward broader agreement should not be impaired by differences of opinion over the future exchange rate system (viz. France vs. the US).[5] He expects that the gap between the different views will be narrowed, and warns that an unnecessarily tough

[1] Source: Ford Library, National Security Adviser, Presidential Subject File, Box 8, Gold. Secret. Sent for information. A stamped notation indicates the President saw the memorandum, which he initialed.

[2] Document 100, Tab A.

[3] See Document 101.

[4] In his September 11 letter to Ford, attached but not printed, Wilson commented on the subject of exchange rates: "As you know, our own position on this question—and indeed that of a majority of EEC countries—is very close to that of the United States. You can be assured of our continued efforts to reach a solution. Meanwhile I am sure that it was right for you to have written to the French President asking him to reconsider the French position."

[5] Attached but not printed at Tab B is von Staden's September 4 letter to President Ford, transmitting Chancellor Schmidt's undated letter to President Ford. In his letter, Schmidt wrote of these differences of opinion: "I feel that in a sense this conflict of views if rather too theoretical, one might almost say dogmatic."

discussion could damage present efforts to stimulate economic activity, reduce inflation and fight inflation and payments imbalances. He indicates that he will do all in his power "in an undogmatic spirit" to play a mediating role.

Moro (Tab C)[6] states that the positive results obtained in gold and IMF quotas were testimony of the goodwill of the US and the European Community in dealing with world monetary problems. He affirms that Italy intends to pursue discussion concerning exchange rates in the same constructive spirit, with the goal of reaching a formula that will reconcile existing differences. He underlines the point, made to you in Helsinki, that Italy's ability to play a constructive role on these matters will be made more difficult if major financial issues are discussed in meetings limited to five countries, i.e., excluding Italy.[7] Constructive action by Italy "presupposes Italy's participation in all of the forums in which international policies in the economic and monetary areas are elaborated and agreed upon."

I do not believe that replies to the three heads of government are required.

[6] Attached but not printed at Tab C is Prime Minister Moro's September 14 letter to President Ford.

[7] On August 1 in Helsinki, Rumor told President Ford that Italian participation in an economic summit would have beneficial effects on Italian public opinion and strengthen the forces in favor of democracy. (Memorandum of conversation, August 1; Ford Library, National Security Adviser, Memoranda of Conversation, Box 14)

109. Telegram From the Embassy in the United Kingdom to the Department of State[1]

London, October 14, 1975, 1534Z.

15749. For Secretary Kissinger and Treasury Secretary Simon. Subject: Under Secretary Yeo's Report on Conversations with Germans.

Our discussions with Poehl were quite pleasant and frank. They centered on the following points:

[1] Source: National Archives, RG 59, Central Foreign Policy Files. Confidential; Cherokee; Nodis.

1. Poehl indicated that he expected Giscard to make a presentation on exchange rates. They anticipate that it will cover familiar territory, describing recent exchange rate fluctuations, attributing the current economic stagnation to exchange rate variability and calling for establishment of bands or zones within which rates should be kept.

2. This view of the French position as insisting on zones was in no way congruent with the tone or specifics of our conversations in Paris with de Larosiere or Clappier.[2]

3. Interestingly, Poehl indicated that they thought an appropriate zone with the DM would be 2.50 to 2.70. This compares with the figures of 2.40 to 2.60 mentioned by Emminger in a speech several weeks ago.[3]

4. Either the Germans are not aware of the current French position as described by de Larosiere or they themselves are pushing for zones by using the French.

5. Poehl apologized for their performance in re the SDR/aid link at the U.N. He explained that the Chancellor, confronted late at night by the urgings of Genscher and Bahr, had made the decision to withdraw their reservation on the link. Following the U.N. affair, the Chancellor had been criticized in the press for acquiescing to the link. As a result he issued an interpretation of their position which in substance stated that they are still opposed to the link.

6. We agreed that the link would destroy the SDR as originally conceived. Furthermore, the link lacked any semblance of conditionality, any consultation with a view to improving individual countries' economic performance and any political quid pro quo. We suggested that the private banking system's ability to continue to finance that part of the LDCs deficits which could be described as structural is limited. The heavy debt burdens of many LDCs plus the banking system's own limitations suggest that the flow of private credit might stagnate or decline somewhat. Improved world economic conditions might mitigate the LDCs earning problems but to the degree individual LDCs have structural concerns the positive effect would be only partial.

7. It is clear that Poehl and perhaps others in the German Government are concerned about the liquidity issue. We indicated that the

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[2] See Document 107.

[3] On September 15, the Embassy in Bonn reported on an August 26 article written by Bundesbank Vice President Otmar Emminger in which he discussed the dollar's strength vis-à-vis the mark and the implications of an exchange rate that hovered between DM 2.40 and DM 2.60 per dollar (a rate below DM 2.40 would mean trouble for West German exporters, while a rate above DM 2.60 would raise import prices and exacerbate inflation). (Telegram 15123 from Bonn, September 15; National Archives, RG 59, Central Foreign Policy Files)

very sizeable amount of short-term economic expansion in recent years should not be confused with international liquidity. Existence of huge capital flows is not a symptom of too much liquidity or too little. We indicated that our own concern centered on the distribution of official liquidity and the related fundamental issue of individual countries' comparative earning power.

8. Poehl indicated he personally feared an attempt by the British and Italians in conjunction with the LDCs to try for a new issue of SDRs.

9. We agreed this would be undesirable in the sense that it would represent an attempt to float everyone off the rocks without addressing underlying problems. We indicated at some point individual countries' standards of living must be related to their earning capacities. Expansion of SDRs would in effect transfer income from healthy developed countries to others. The mechanism would be through the process of inflation engendered by the broad issuance of SDRs and this in turn would cripple our individual efforts to bring about price stability.

10. We indicated that Germany's ability to operate as an island of price stability in the future would be limited by other countries' adoption of individual price stabilization programs and in any case meant that Germany would have to accept such low real rates of growth that they would have in effect embraced a policy of engineered stagnation.

11. We discussed the New York City problem and gave them a full review of the situation.[4] It was apparent that they were not familiar with many of the pivotal factors in re the overall issue.

12. We discussed the chairmanship of the Interim Committee. Poehl said he favored Duisenberg. Impartiality and a steady and even hand were the most important criteria to us and we indicated some reservations re Duisenberg. Poehl then mentioned Healey and Declerq and we indicated both were on our list but we were not prepared as of that moment to put forward a name.

Richardson

[4] The finances of New York City were in such disarray that the city was in danger of defaulting on its loans. On October 3, Chancellor Schmidt told President Ford: "I am also worried about Simon's attitude toward New York. If New York shouldn't pay on the bonds, it could be looked on outside the United States as kind of a Black Friday. There are other cities, not like New York, but that are under some suspicion, and if New York collapsed they perhaps couldn't sell bonds. I am sympathetic to the problem of New York's mismanagement but there is a psychological problem involved." (Memorandum of conversation, October 3; Ford Library, National Security Adviser, Memoranda of Conversation, Box 15)

110. Message From President Ford to French President Giscard[1]

Washington, October 20, 1975, 2157Z.

WH51990. Deliver at opening of business.

Dear Mr. President:

I have reflected further on our recent exchange of messages concerning the economic summit and, particularly, the question of Canadian participation. From the contacts that I or my associates have had with the other participants it appears that there is considerable sentiment among them favoring Canadian participation in the kind of summit that has now emerged from the preparatory work and the decisions of the original group. I continue to feel strongly that Canadian participation is justified given Canada's role in the world. As I have already pointed out to you, Canada is our largest trading partner; our economies are intimately connected. Its absence from our deliberations would not be understood in this country. The Canadians, to their credit, have not so far made a public issue of this problem; it is clear from our contacts with them that they would wish the summit to be productive, in precisely the spirit you and I have agreed in the past. Prime Minister Trudeau will be visiting Washington on October 23 in connection with our Bicentennial celebrations and we will be meeting on that occasion. I am convinced that the purposes you and I would like to see served by the summit would be advanced if the Canadian issue were solved in a positive sense so that it will not become a matter of public debate and cloud the very promising prospects of the summit enterprise.

I have followed the reports of your Soviet visit with great attention and would be most interested in your personal assessment of the Soviet scene.[2]

Sincerely,

Gerald R. Ford

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[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 12, France—General (3) (10/5/75–11/3/75). Secret; Immediate.

[2] President Giscard visited Moscow in mid-October.

111. Message From President Ford to British Prime Minister Wilson[1]

Washington, October 20, 1975, 2201Z.

WH51991. Deliver at opening of business.

Dear Mr. Prime Minister:

I wanted to convey to you my satisfaction with the prospect of the summit meeting next month. I greatly look forward to a full and candid review of the great problems we all face together. The spirit of the preparatory work since Helsinki suggests that we will have a real opportunity to give impulse to cooperative approaches among the industrial democracies and thus to demonstrate our political resolve to deal with the issues before us.

I am concerned, however, with one aspect of the summit: the continued resistance of our French colleague to the inclusion of Canada. I am sure all of us would have preferred the more limited meeting of five leaders. At the same time, we recognized the political imperatives that required the inclusion of Italy. But it was always clear that once this occurred the Canadians had a most legitimate claim to come as well. Indeed, for us in the United States there could be no question that a country which is our largest trading partner, whose economy is so intimately intertwined with ours and which clearly ranks as a leading economic power in the world would have to be present at the summit once it was enlarged beyond the original five.

As a matter of procedure, I find it quite dismaying that one member of a group should claim a veto in a matter of such obvious concern to the others. I considered holding up the summit announcement until the Canadian issue was settled but decided against such tactics because I felt they were unworthy among friends and allies and I could not believe that our French colleague would persist in a position that could only detract from the promise of the enterprise on which we are embarked and which he himself had so strongly advocated.

I am not certain what steps you might be in a position to take to help bring this issue to a conclusion. I have had a so far fruitless exchange of messages with Giscard[2] and I have also been in touch with Chancellor Schmidt[3] who has exchanged messages with Giscard and also spoken to him on the phone but so far without result. The Japa-

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[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 24, United Kingdom (20) (3/3/75–11/18/75). Secret; Immediate.

[2] See Document 105 and footnote 4, Document 106.

[3] See Document 106.

nese have strongly indicated their support of Canadian participation to Secretary Kissinger when he passed through Tokyo.[4] I propose to be in touch with Giscard again shortly.[5]

Meanwhile, however, I did want you to know my own views on this matter and to be aware of my concern that this unfortunate and, in my view, unnecessary episode could cloud the outcome of the summit.[6]

Sincerely,

Gerald R. Ford

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[4] Kissinger visited Tokyo on October 18 and 19 en route to China.

[5] See Document 110.

[6] Replying to President Ford in a message sent on November 1, Prime Minister Wilson agreed on the merits of the Canadian case for participation and said that he shared the President's "reluctance to accept that the French President should be allowed to decide who should or should not participate." Wilson asserted that while it would be unwise to cancel the summit, "we should do all we can to ensure Canada's attendance" and suggested that he might approach President Giscard on the issue. (Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 24, United Kingdom (20) (3/3/75–11/18/1975)) In a November 4 message to Prime Minister Wilson, the President encouraged him to share his views with President Giscard "and to point out that an unfortunate and wholly unnecessary cloud has been placed over a project that seemed so promising for all of us." (Ibid.)

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112. Memorandum From Robert Hormats of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, October 24, 1975.

SUBJECT

Scenario for Economic Summit

The essential *dilemma of the summit* is that it will try to project publicly that Western leaders are able to manage current problems at a time when they do not fully understand the nature of the new types of problems they confront. The trick will be for the leaders to avoid both deluding themselves by boldly confident statements (which could tend to divert them from serious inquiry into their common problems)

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[1] Source: Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 4, Presidential Subject File, Economic Summits—Rambouillet (3). Secret. Sent for information. A longer summit strategy paper, prepared by Hartman, Hormats, and the Policy Planning Staff, was sent in telegram Tosec 160270/251836 to Kissinger, October 23. (National Archives, RG 59, Central Foreign Policy Files)

and lapsing into a categorization of their frustrations (which if made public would further erode confidence in democratic leadership).

The summit's objective should be a serious inquiry into common problems to achieve better understanding of them and how to resolve them. The *result* can be an improvement in public confidence, a realization by public opinion that all nations face similar difficulties which cannot be overcome by painless panaceas, and a recognition by the assembled leaders that if they act together they can strengthen their hands internally, take stronger action than they might otherwise be able to do, and buy time and domestic support to work their way through their difficulties.

Structure of Discussion

The summit, as apparently agreed in New York,[2] will open with a discussion of domestic economic problems and policies and then move to "functional" areas including international monetary policy, trade, and energy. This approach, however, risks both a quick digression from essential underlying problems (inflation, unemployment, energy prices) into an artificial separation of the issues before they are sufficiently related to the main problems. This could:

—Reduce the time allotted to a serious discussion of the underlying problems, particularly the structural changes which have taken place in the international economy in recent years.

—Weaken our ability to explain exchange rate stability primarily as an outgrowth of domestic instability rather than vice-versa.

—Dilute focus on the enormous increase in oil prices as a major cause of present economic problems for all oil importers and a serious impediment to our efforts to reduce inflation and achieve sustained growth (with a consequent tendency for others to blame either exchange rate volatility or insufficient US domestic reflation for their problems).

—Obscure links between trade and monetary problems.

—Reduce chances for agreement on fundamental objectives and a manifestation of solidarity.

We should therefore avoid moving prematurely from Schmidt's presentation (economic outlook, present policies and interrelationships) to the "functional" categories. And, at the same time, we must avoid being put on the defensive at the outset by implications (frequently contained in Schmidt's remarks) that the US is somehow responsible for Europe's slow recovery by not stimulating sufficient domestic growth.

[2] See Document 104.

Schmidt's Presentation

A thorough discussion of fundamental problems and interrelationships following the Schmidt presentation should set the stage for the entire meeting by identifying the most essential problems (high rates of inflation and unemployment, related internal problems of insufficient investment, underutilized capacity, and lack of consumer confidence, and related international problems such as protectionism, balance of trade weakness, exchange rate instability, and high oil prices, etc.) and seeking understandings as to how they should be approached. We could, in this context, make the following general points:

—On the specific issue of US "responsibility," the US is growing at a high rate, well beyond our expectations; however, US growth actually has only a minimal impact on European or Japanese recovery (e.g., a 1% GNP increase in the US will contribute only .17% to GNP growth in Germany and the UK, and less for most others).

—It is up to each country to determine the policies most appropriate to achieve recovery. Good international economic policy begins with good domestic economic policy. The most important contribution which the US can make to recovery in other nations is to resume stable growth; but others must bear the primary responsibility for their own recoveries.

—We welcome a discussion of what we and other participating countries are doing right and suggestions to correct what we are doing wrong; we will seriously take these into consideration in developing our policies. But no country should be counted on to stimulate growth in others and none should be asked to deviate from sound long-term domestic policy to achieve short-term international objectives (e.g., lower US interest rates, which Schmidt has from time to time suggested). The discussion might meaningfully concentrate on how countries can stimulate more investment and greater consumer confidence, as well as on broader policies aimed at returning to stable growth.

—Exchange rate instability is one result of domestic economic instability. It does not significantly contribute to it (as Giscard might charge). We should be under no illusion that exchange rate management, to the extent we can agree on how to do it, will eliminate exchange rate instability while domestic economies are still unstable.

—High oil prices are a primary cause of our difficulties and a major reason for the breadth, length and depth of the current recession. We should understand this as we try to achieve recovery and recognize that one key objective we share in common is a reduction of our collective dependence on oil imports.

—Our common objective is to restore economic prosperity without resurgence of inflation and to pursue this goal with mutually supportive policy actions. Do we need new methods of coordination or consultation to ensure that we avoid harming one another's efforts and that we more effectively support one another in achieving this goal?

Subsequent to this discussion, the presenters on the "functional" subjects would make their initial comments.

Trade

Miki will probably seek support for increased momentum in the multilateral trade negotiations (MTN) to keep before the world the objective of a more open trading order and to help stave off domestic protectionist pressures. He is also likely to express concern over growing protectionist pressures in the US and Europe and seek a reaffirmation of the OECD trade pledge to avoid new protectionist measures.[3] We can support all of these desiderata.

We might also seek agreement to undertake consultations if a government is under particularly heavy domestic pressure to take unilateral actions, has a complaint against another government, or wishes to raise a sectoral problem, e.g., autos or steel. We could even suggest negotiation of an international agreement on trade in steel if we can get interagency support. Further we could seek agreement to resist protectionist pressures, avoid unfair export practices and exercise maximum restraint, consistent with domestic laws.

Wilson, under enormous protectionist pressure from domestic labor and facing a deteriorating trade balance, would likely resist a strong commitment to avoid new protectionist measures. Giscard, under pressure from a bureaucracy traditionally unenthusiastic about the MTN, might reflect this view initially, but his personal efforts in launching the MTN at the Tokyo meeting[4] indicate that his internationalism can be appealed to successfully. The Japanese have the most to gain by a successful MTN, and should be our strongest supporter.

Monetary Issues

Giscard will likely make a strong pitch for moving toward greater "fixity" of exchange rates on the grounds that instability adversely affects trade and investment and disrupts domestic economies. (Behind this is a desire for an overvalued dollar.) We should try to avoid a prolonged discussion of monetary issues, staying away from both techni-

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[3] Rising oil prices after the October 1973 Middle East war resulted in rising trade deficits for oil importing countries. Concerned that these nations would undertake unilateral actions—such as imposing import restrictions—to protect their balance of payments, OECD members pledged on May 30, 1974, to adopt a cooperative approach to the troubles besetting the international economy and avoid unilateral actions to protect their balance of payments for one year. See Document 209.

[4] The GATT Ministerial Conference, held in Tokyo September 12–14, 1973, initiated the Tokyo Round of multilateral trade negotiations.

calities and doctrine. The others will probably wish to do so as well. We should, nonetheless, try to narrow differences and perhaps agree to broad objectives for exchange rate intervention and cooperation to achieve more orderly functioning of exchange rate markets.

Drawing mainly from Yeo's preliminary work with the French and other Europeans, we could conceivably reach agreement on the objective of greater stability of exchange rates so long as the option to float is not denied, accept the idea that greater coordination of intervention policy could be useful in reducing short-term volatility, and express willingness to examine without prejudice whether there were additional suitable actions which could be taken to achieve greater exchange rate stability. If agreement cannot be reached, or debate becomes either ideological or technical, the leaders should remand the problem to Yeo et al. giving them as much guidance as can be agreed to.

We would wish to link the discussion of exchange rate stability to underlying destabilizing factors, describing our broad objectives of stability of domestic economies as well as, and in order to help achieve, stability of exchange rates, and as ensuring that the monetary system facilitates the flow of goods, services and capital.

Energy

In leading off, the President might portray high oil prices as a key domestic and international problem and the essential difference between the present recession/inflation and those of the past 30 years. Logically, therefore, consumers should attempt to reduce their collective vulnerability to OPEC manipulation of price and supply. Stressing his own commitment to tough domestic action on decontrol, and the greater urgency for action as the result of repeated OPEC displays of price manipulation, the President could explain the importance of the MSP and other elements of the IEA long-term program.[5] Recognizing Japanese Diet resistance to the MSP, French resistance to any IEA action (which appears to relegate the EC to a secondary role in energy), and British and Canadian sensitivity about access to their energy resources, the President should appeal for greater solidarity of commitment. He should also avoid giving the impression that the solution to the energy problem lies in our dialogue with the producers, which we support for political and other economic reasons.

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[5] The MSP was a "minimum safeguard price," or floor price, for oil imported by any of the 18 member states of the International Energy Agency. It was one element of the Long Term Program considered by the IEA Governing Board at an October 10 meeting. (Telegram 26516 from the Mission to the OECD, October 11; National Archives, RG 59, Central Foreign Policy Files)

Developing Countries

Wilson will likely focus on commodities; approaching the issue sympathetically, but with little new to add. Our approach should be to underline, and secure maximum support for, your key proposals at the UN,[6] stressing especially the importance of avoiding a deterioration of LDC purchasing power which would harm their development and reduce further demand for industrialized country exports. Here we would assume a leadership role based on our highly constructive UN proposals, continue to demonstrate that we are the country most effective in mediating between North and South (which will derive from our leadership role and the fact that nothing in this area can work without our support), keep before the other developed countries the notion of our common interest in avoiding a bloc of developing countries ganging up against us under OPEC leadership, and explain the importance of consultation in the OPEC and IEA in preparing positions for the developed/developing country (consumer/producer) dialogue.

East-West

Moro's presentation is unlikely to be dramatic.[7] While it is likely that little time will be devoted to this subject, we might wish to push for agreement to move ahead on guidelines for government financing of exports to communist countries.

Policy Coordination

We should try to avoid a prolonged discussion of policy coordination or bureaucratics when coordination issues arise. We can underline the need for cooperating to achieve a better understanding of one another's objectives and prospects, to better assess the impact of changes, and to broaden the discussion of how our national policies interact and affect one another. Coordination can range from avoidance of disruptive actions, to taking account of one another's actions in order to avoid aggregate overkill (such as too much stimulus or tightening up), to joint planning, to development of a single set of policies. We would attempt to gain a realistic assessment of just how much coordination is possible or desirable. The focus might usefully be on what parts of our interrelationships lend themselves most logically to greater transnational orchestration—interest rate policy, money creation, bal-

[6] Kissinger's proposals were read by Ambassador to the UN Daniel Patrick Moynihan at the Seventh Special Session of the UN General Assembly on September 1. For the text of Kissinger's speech, which he was unable to deliver because he was traveling in the Middle East, see Department of State *Bulletin*, September 22, 1975, pp. 425–441. Excerpts were printed in *The New York Times*, September 2, 1975, p. 20.

[7] This sentence was written in by hand, replacing one that reads: "Moro will report on his recent Moscow visit."

ance of payments policy, investment incentive policies, efforts to overcome lack of consumer confidence? The best institutional ways to facilitate improved coordination might be left to ministers to develop as a followup to the summit, in cooperation with others in the industrialized and developing world.

Press Play

The message we want to convey to the public is a sense of confidence and forward motion—stressing both technical cooperation and a common political will to avoid divisive actions or indecisive policies and instead ensure action based on "common purpose and conviction." The United States, as the geographical and, to a great extent, intellectual link between North and South, and the Atlantic and Pacific—in addition to being the only superpower in the meeting—would be seen at home to be playing its traditional role of leader of a further evolution in international economic cooperation, working closely with its key allies.

The summit would be portrayed as having focused on essential problems and responsible solutions, stressing the importance of a stable world economy and its link to a stable international political environment. Without appearing to confront the OPEC countries, particular note would be made of problems caused by high oil prices; a special effort will be needed to deal with such problems. The underlying strength, all would publicly agree, will come from within our societies, and leaders would be seen as determined to call upon their people to accept medicine which may temporarily prove bitter; but panaceas are no longer available and solutions are no longer painless.

113. Message From President Ford to French President Giscard[1]

Washington, November 3, 1975, 0225Z.

WH52077. I should like to acknowledge your message of today concerning the forthcoming summit meeting.[2] I regret that you continue to oppose Canadian participation, the more so because it is supported by all our other colleagues. I remain convinced that the summit as it has evolved through the joint efforts and as a common enterprise of all the parties involved should as a matter of political and economic logic and fairness include Canada. No other country or international body could possibly have a similar claim. I must tell you in all candor that while I have agreed to come to this meeting and genuinely look forward to our forthcoming deliberations, it is difficult for me, in the circumstances that have arisen, to contemplate future gatherings of this kind.

Yours sincerely,

GF

[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 12, France—General (3) (10/5/75–11/3/75). Top Secret; Priority. Although sent on November 3, the response is dated November 1.

[2] In an October 31 message to President Ford, President Giscard objected to Canadian participation on several grounds: the importance of keeping the summit "as informal and restricted as possible"; the possibility that allowing Canadian participation would lead other countries and international organizations to lobby for inclusion; and the fact that Canada, as an exporter of energy and raw materials, had not been as "profoundly affected by the recent economic crisis" as had the summit participants, all importers of energy and raw materials. (Ibid., NSC International Economic Affairs Staff Files, Box 4, Presidential Subject File, Economic Summits—Rambouillet (4))

114. Memorandum of Conversation[1]

Washington, November 6, 1975.

SUBJECT

International Economic Summit

PARTICIPANTS

The Secretary
Secretary Simon, Treas.
Edwin Yeo III, Treas.
L. William Seidman, CIEP
Alan Greenspan, CEA
Frederick Dent, STR
Frank Zarb, FEA
Gerald Parsky, Treas.
Charles Cooper, Treas.
John M. Dunn, CIEP
Robert Hormats, NSC

The Deputy Secretary
Under Secretary Robinson
Helmut Sonnenfeldt, C
Thomas O. Enders, EB
Winston Lord, S/P
Arthur Hartman, EUR
Paul H. Boeker, EB/IFD (Notetaker)

Simon: These meetings are getting bigger all the time.

Secretary: The first decision concerns the preparatory meeting. Brosolette called; he is upset that the preparatory meeting is not taking place. You have talked to the British. Everyone seems to want one. I don't see that it has any purpose, but it can't do much damage.

Dent: What would the meeting do?

Secretary: It can't work on a communiqué. But we need to have one ourselves.

Sonnenfeldt: We have a suggested one in the package.

Secretary: My impression is that the French have a draft communiqué; George (Shultz) should stonewall it; he could also table ours.

Brosolette said he was not trying to dictate who should come to meals, etc. Maybe we could bring Canada too.

Sonnenfeldt: Is that settled?

Secretary: Yes. Apparently they are not going. It is an outrage. Please do a letter to Trudeau, for the President.

[1] Source: Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 4, Presidential Subject File, Economic Summits—Rambouillet (4). Confidential; Nodis. Drafted on November 18 by Deputy Assistant Secretary of State for International Finance and Development Paul Boeker and approved in S on December 11. The meeting took place in the Secretary of State's conference room. This planning meeting for the economic summit, as well as a subsequent one that took place on November 11 (see Document 116), were initiated by Kissinger and Simon at an October 13 meeting; see Document 235.

The British have organized the preparatory meeting, and if we don't go the British and French will work out a communiqué without us.

(to Hartman) you get it on the letter?

Hartman: Yes, but I need some background first.

Secretary: Okay. We've agreed to have a preparatory meeting, and George will table our communiqué but not negotiate.

Enders: It needs some fine tuning, particularly on monetary issues.

Parsky: Have we abandoned the defensive strategy on a communiqué?

Secretary: No. George will counter the French one with ours. The result may be none, but we are in a stronger position to resist. He could table ours and say we would be just as happy not to have one, but if there is one, we should work from ours.

Dent: It's got a code word in there on agriculture which will put the French on guard.

Secretary: On paper work, Mike Dunn?

Dunn: Here.

Secretary: You are heading a group that will put together the papers over the weekend. We will meet again on Monday[2] and then go over it with the President.

Let's take up the topics—money first.

Yeo: The French are now saying we are isolated. Schmidt will agree with Giscard. I had lunch with Fourcade. He cannot provide much compromise. I talked to DeLarosiere afterward; George thinks he is more significant than Fourcade.

Simon: Up to now Fourcade has prevailed.

Sonnenfeldt: On the other side, Barre came from Giscard and said he was not to talk to Fourcade.

Yeo: I am going back Monday to table a third paper on the theology of exchange rates.

Secretary: Why do we care about theology?

Yeo: It's not theology, really. It's a mask for the competitive position of the dollar.

Secretary: How does theology reduce the dollar's competitiveness?

Yeo: By involving us in an intervention system to back the dollar vis-à-vis their currencies at an acceptable set of rates. Then you put bands around it, to get a fix on the dollar. It is thus as close as they can get to a fixed rate system.

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[2] November 10. The meeting was held the next day; see Document 116.

Simon: In effect it is one.

Secretary: The Germans will support this?

Yeo: Yes. The Italians may not. The Japanese and U.K. will not.

Secretary: Then we're not isolated.

Yeo: We are not. It is true that in a recession a number of countries are feeling the competitiveness of the dollar. Our objective is not to get a system that over time overvalues the dollar.

Simon: Congress is virtually unanimously on record as opposing this. The French made a mistake going back into the snake and are going to be blown out.

Secretary: What is the compulsion on us to settle?

Yeo: None. I think this is the French last effort to get their way.

Simon: They are going to make one more full-court press. Our people are going to put the exchange rate issue on the basis of exports and jobs.

Secretary: Are we all agreed, Tom?

Enders: I agree with Bill.

Secretary: See, he's given up on getting your job. We're all agreed, okay.

Sonnenfeldt: I don't believe Schmidt is going to side that clearly with Giscard if it is put boldly by Giscard.

Simon: Giscard is so eloquent that he can be quite convincing on instability, but he's not right.

Yeo: Even the French admit it is not about instability but the level of rates.

Enders: There is an asymmetry here. In the continental economies there is less scope for devaluation under the present system. We have more manoeuvre. The system is asymmetrical, but favorable to us.

Yeo: We are willing to meet their nominal concern—random fluctuations.

Hartman: More convincing is the argument that even if bands were set, they can't be maintained: no amount of intervention can achieve that.

Yeo: They accept that. We will give them cooperative—not coordinated—intervention.

Hormats: That means more than we are doing now.

Yeo: Not necessarily, but it gives them something to hang their hat on.

The Germans have an i.o.u. to the French on the snake: the French are doing all the intervening. Schmidt is attempting to honor that i.o.u.

Simon: If we hang on, we can split them off again.

Hartman: Is Giscard going to give you a domestic political case?

Simon: Giscard will open with the future of democracy hanging on monetary stability.

Secretary: Okay, economic recovery.

Simon: I think we should definitely plan on it.

Secretary: I understand there are two issues: goals and a follow-on mechanism.

Simon: Let's work out destinations that do not imply we get there by planning.

Enders: Ed, you and I can get together afterward and do that.

Secretary: The follow-on mechanism should definitely be finance ministers.

Simon: I don't object to finance ministers meeting every two months or so. But the OECD mechanism is burdensome.

Secretary: Should we insist on Canada being in the follow-on mechanism? I think yes.

Several: Yes.

Secretary: What does the OECD link mean in practice?

Enders: There is an Economic Policy Committee which meets about four times per year and has a Bureau of seven which meets beforehand. We don't want this OECD mechanism to atrophy. Is there some way the operations can be related to one another? It's a question of warehousing.

Hormats: Can we use both?

Yeo: There is no question of atrophy. On a link, WP–3[3] is a link of sorts. We are one government; we can coordinate with CEA.

Simon: The Finance Ministers of Europe don't want Van Lennep in a meeting. He is kept out of the Interim Committee by the Europeans.

Secretary: Can heads of government decide to have the seven ministers meet? They can then decide where to warehouse themselves.

Dent: You might perpetuate EC wounds of having some in and some out.

Yeo: They could use the G–10 for that purpose. The relationship would go G–7, G–10, then Interim Committee.

Secretary: Do we really care? Art?

[3] "WP–3" refers to Working Party Number 3 of the OECD Economic Policy Committee.

Hartman: In all we are trying to do, we are attempting to bring the industrial countries together. That is the OECD. I would like to link in the OECD.

Simon: I don't disagree, but I don't think the Europeans will buy it. If you use the OECD, Van Lennep will take charge.

Robinson: I feel strongly in favor of an OECD link.

Simon: I don't object to an OECD link.

Parsky: Leave it to the Finance Ministers.

Enders: Bill is right: Giscard and Schmidt will resist an OECD link; others may want it.

Secretary: Is it acceptable to leave it to Finance Ministers to house themselves?

Sonnenfeldt: I want to warn you that neither Schmidt nor Wilson will be enthusiastic since they have their own problems with their Finance Ministers. We should not nail our flag to the finance minister mast.

Secretary: I'm for nailing the Finance Ministers to the mast. I think it should be the Secretary of Commerce since I have a strong incentive to keep him occupied.

(On security assistance, a decision has to be made by the President. Congress is looking for a $1 billion cut in security assistance or something else. Lee Hamilton[4] sees it this way and he normally does not shoot from the hip.)

On energy, we have two issues: access and MSP. On access we are down to "considering" or "giving" access. With the economic agencies, consider means consider negatively, as happened in commodities. By the way I see that you two (Enders and Parsky) are co-chairmen on commodities. When you two go at each other the angels weep.

I'm in favor of dropping "consider."

Zarb: I'm a "consider" man. I would go stronger elsewhere. If we tell them: whenever we build a plant here, we will help them build one there, that's better.

Secretary: From a foreign policy point of view, I don't favor autonomy for them, I'd prefer to link more closely.

Zarb: It's economically more meaningful my way. What examples are there of exotic energy plants the Japanese want to participate in?

Enders: It's not necessarily exotic energy that matters. The Japanese want to have a coal mine participation and a guarantee to export coal. If we say "consider", the Japanese will soon be in with a request and we will have to respond.

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[4] Representative Lee H. Hamilton (D–Indiana).

Zarb: But we just can't do it for shale in Colorado. Then we'd have to say no.

Secretary: I don't care that much. I prefer to be more affirmative, but it depends on what the President says.

Enders: "Incremental" would have to mean a new source of trade and energy, not that it can't be financed here—because virtually everything can.

Zarb: I have no problem with considering projects for additional exports.

Ingersoll: They want more coal for steam power.

Parsky: A firm commitment opens up investment policy questions too.

Secretary: The key issue is what are we ourselves agreed to do.

Zarb: Coal is what we can do.

Secretary: I understand Frank's point that we can't give them everything. Maybe we could use words like "wherever feasible," or outline our constraints.

Zarb: That's perfect.

Secretary: MSP.

Parsky: You don't need it for the long-term program.

Sonnenfeldt: The EC is in a shambles on this; 5–3 against an MSP for the EC. They are probably not going to have a mandate on this for the December meeting.[5]

Enders: That's not a bad result.

Secretary: Let's see Monday where this stands and whether it's worth taking to the President.

[5] Telegram 11248 from USEC, December 16, reports on the December 15 meeting of EC Finance Ministers and central bank governors in Brussels. (National Archives, RG 59, Central Foreign Policy Files)

115. Telegram From the Department of State to the Embassy in Canada[1]

Washington, November 8, 1975, 2149Z.

265536. Subject: Presidential Letter to Prime Minister Trudeau.

1. Please deliver following letter from President Ford to Prime Minister urgently or if latter unavailable to Ivan Head.[2]

2. *Begin text:* Dear Mr. Prime Minister:

I have delayed communicating with you directly on the forthcoming economic summit meeting in hopes that the issue of your participation might yet be resolved positively. I regret to say, however, that although President Giscard d'Estaing has not yet responded to my most recent message to him on this matter,[3] I now seriously doubt that he will change his opposition before the summit convenes.

As I believe you know from your Ambassador, I have had several direct exchanges with Giscard over the past three weeks. I had originally hoped that our approaches at lower levels would settle this issue promptly. But these proved to be unavailing. In my own contacts with the French President I told him firmly that I deemed it essential that Canada participate, both because of our own direct interest and because of Canada's great weight internationally. Giscard's explicit responses referred to his concern that a further expansion of the original group would reduce the informality and flexibility of the occasion and to the difficulties we would encounter in declining the claims to participation from still additional countries, especially in Europe, and from international organizations like the OECD.[4] I have told him categorically that I found these reasons unconvincing and completely outweighed by the political and economic logic of your participation.

I have also communicated either directly or through my representatives with the other summit participants and I know that all of them have strongly supported your participation.[5] It is in fact clear that only France objects.

[1] Source: National Archives, RG 59, Central Foreign Policy Files. Secret; Immediate; Exdis. Drafted by Sonnenfeldt; cleared by Hartman and Scowcroft and in S/S–O; and approved by Kissinger.

[2] Ivan Head was a senior policy adviser to Prime Minister Trudeau specializing in foreign policy.

[3] See Document 113.

[4] See footnote 4, Document 106, and footnote 2, Document 113.

[5] See Document 111.

I have nevertheless concluded that the original purposes set for this summit meeting remain important and that the project should therefore go forward. I believe that the peoples of the industrialized world, and indeed of the world at large, require a demonstration of political will from their leaders to show that we are determined to cope with the domestic and international economic problems which all of us confront. And it is precisely for that reason that I was so anxious to have the benefit of your own contribution. I have told the French that I will have great difficulty contemplating another gathering of this kind without your participation and that I will insist that Canada must be given full opportunity to be involved in whatever follow-up efforts may flow from the summit. I will strongly reiterate these views next weekend.[6]

I have admired the restraint with which you and your government have dealt with this problem. I can assure you as your friend and neighbor that we will continue to keep you fully informed about developments connected with the summit and expect to collaborate with you on the vital issues that are to be discussed there.

Yours sincerely, Gerald R. Ford. *End text.*[7]

Kissinger

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[6] The summit was scheduled to begin Saturday, November 15, and end Monday, November 17.

[7] In a November 19 letter to President Ford, Prime Minister Trudeau expressed his "warm appreciation for the generous support you gave to Canada's desire to participate." Trudeau also wrote that he "was encouraged by your statement to me that the usefulness of future meetings of this sort will be impaired should Canada be absent, and by your insistence that we be involved in any follow-up to the Rambouillet session. I dare to believe that those points have now been accepted by all the governments involved." (Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 1, Presidential Subject File, Country File—Canada) Scowcroft sent Trudeau's letter to the President under cover of a January 12, 1976, memorandum that notes: "We have provided the Canadians a detailed readout of the Rambouillet discussions. We have also taken the initiative to include Canada in restricted meetings in other forums dealing with issues discussed at Rambouillet." A stamped notation on Scowcroft's memorandum indicates Ford saw it and Ford initialed Scowcroft's memorandum. (Ibid.)

116. Memorandum of Conversation[1]

Washington, November 11, 1975, 8 a.m.

SUBJECT

International Economic Summit

PARTICIPANTS

The Secretary	The Deputy Secretary
Secretary Simon, Treas.	John M. Dunn, CIEP
L. William Seidman, CIEP	Robert Hormats, NSC
Alan Greenspan, CEA	Under Secretary Robinson
Frederick Dent, STR	Helmut Sonnenfeldt, C
Frank Zarb, FEA	Thomas Enders, EB
Gerald Parsky, Treas.	Arthur Hartman, EUR
Charles Cooper, Treas.	Paul H. Boeker, EB/IFD (Notetaker)

Simon: I guess I'll take over, since Henry isn't here.

Dent: I suggest we add to the communiqué after the trade objectives: "and direct our trade officials to work toward this and our other trade objectives."

Enders: If we do this, then we should do it in the monetary section also.

Seidman: I find the economic paper too defensive.

Simon: Right, let's not over-react to one month's statistics.

Seidman: I also meant that we should emphasize what we are trying to do structurally to revitalize the private sector, through deregulation, etc. Stimulation is not the whole answer.

Simon: Alan?

Greenspan: An excellent idea. I'll work on it.

(The Secretary arrives)

Secretary: Bill! Get out of my chair.

As far as I can see we have only MSP and once or two other issues.

Simon: We've already agreed to make the economic paper more positive.

Secretary: This (briefing book) is too much for the President and too much on the finance-minister level. He ought to say something on

[1] Source: Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 4, Presidential Subject File, Economic Summits—Rambouillet (4). Confidential; Nodis. Drafted on November 20 by Boeker and approved in S on December 11. The meeting took place in the Secretary of State's conference room.

democratic institutions. (I'm giving a speech tonight on this.)[2] It could set the tone and save him from sniping at his heels on technical issues. Do we have any idea what others will say?

Sonnenfeldt: The Japanese will have some North/South ideas.

Secretary: I see two problems. Something, an overview paper, that can tie these papers together.

Enders: Hormats is doing this.

Hormats: Yes.

Secretary: The President needs to do some preemptive setting of the framework, so it doesn't look like others are just asking for things the U.S. turned down. How about briefing?

Sonnenfeldt: Only a stenographer will be there for notes, to disguise her among the interpreters since others won't have one.

Secretary: I think you and Bill should do the press briefing. We have told the French one minister should be at every meal, save one, of the Heads of Government.

Simon: How about Saturday night?[3]

Secretary: Too early.

Seidman: If they sit there for 3 days with no briefing . . .

Secretary: We should do something on Saturday or Sunday. Sunday would be a good night for the Heads of Government to eat alone. Where is the press?

Sonnenfeldt: The George V.

Secretary: The other two issues are how intensively we push a declaration and . . .

Simon: We agreed to add Fred's suggestion about asking trade officials to follow up on trade objectives.

Secretary: Good idea.

Greenspan: Where we say "seek to restore sustained growth etc." we should go right on to "at the same time we are determined to reduce the rate of inflation."

Secretary: Is this declaration purely defensive or should we push it?

Dent: If the purpose is to restore confidence, leaders can't meet and leave no tracks in the sands of time.

Secretary: Tracks in the sand of time . . . I'm glad you're Trade Representative instead of one of my speechwriters.

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[2] On November 11, Kissinger gave a speech in Pittsburgh, Pennsylvania, entitled "The Industrial Democracies and the Future." For the text, see Department of State *Bulletin*, December 1, 1975, pp. 757–764.

[3] November 15.

Shouldn't we have George [Shultz] push our statement? It's not a bad statement.

Enders: It will be difficult to negotiate because of the trade goals and to a lesser extent the monetary part and the economic goals.

Secretary: What is controversial about the trade goals?

Enders: France in particular and the U.K. and Italy will resist ambitious trade goals.

Dent: We have to put it forward, however.

Secretary: I agree completely. We should table a strong statement and let others water it down. Shultz is not authorized to negotiate. I think also Heads of Government should stay away from it. We should form a working group. Have we seen a French text?

Sonnenfeldt: No.

Dent: We should get the French text today.

Enders: We have to send George new instructions.

Secretary: Right. First, George should table our text. Second, we insist we work from our text, not the French. Third, he can give us his views on what of the French text we can take. I think the British will be helpful; we should show this to them.

On MSP, I see the Treasury proposal as a way to kill the scheme.

Simon: The question is whether to set a price now.

Enders: Davignon estimates this is now doable, without pre-positioning.

Secretary: What is pre-positioning?

Enders: The degree to which countries would have to pass laws now to make establishment possible. Davignon says if we don't demand pre-positioning, MSP is doable now.

Simon: I foresee an explosion in the Congress on both sides of the aisle. If so, do we lose credibility with the Europeans if this happens?

Zarb: Seems to me if we agree to set a price, we still don't have to have that confrontation.

Secretary: If the President waffles and doesn't set a price, the Europeans will construe that we are walking away. I don't care about putting it to the Congress; I'd prefer not to.

Enders: We won't have to put it to Congress at all.

Simon: Still, you will have hearings immediately.

Secretary: What is the objection to guaranteeing a price when it is one-third below the market level?

Seidman: That we are guaranteeing a price to the Arabs.

Enders: No, that's not right.

Secretary: What you are preventing is piratical pricing and preventing others from getting the cost benefit of our energy effort.

Zarb: We have said we would protect if the price falls. Why shouldn't we say so in MSP?

Secretary: If we don't have MSP, we don't have a Long-Term Program.

Parsky: No. It's a small part of the Program. We could even agree protection has to be provided, on a basis not determined.

Secretary: That doesn't do it. It may make the U.S. a high-cost energy country and Europe and Japan lower.

Parsky: There is no analytical basis to set a price.

Secretary: First, you objected to a "floor price", now we get a more flexible concept and you are still killing it.

Simon: Why do we argue about it any more?

Secretary: Should we take it to the President? i.e., setting a price now?

Zarb: I favor setting a price when we have decontrol set. That might not be December 1, but as soon as this condition is met.

Secretary: December 1 can be pushed off a little.

Seidman: That's important. If we don't have to set a price on December 1, that helps.

Zarb: Can it be slipped if we don't have decontrol?

Enders: It can be slipped a little if we set a new date and make it clear we are set to go.

Parsky: The public expects us to go by December 1.

Secretary: You mean if we stop someone in a shopping center, they're going to say the Administration has to move on MSP by December 1? That's ridiculous.

Zarb: We should be ready to go on December 1, but if we are not, we will have to postpone.

Enders: Right. We will bargain hard and make it come out that way.

Secretary: But tell them the truth, at least a few of them . . .

Simon: There's another new policy!

Secretary: I feel we should set a price; we don't have to put it in the Congress.

Seidman: We can raise this with the President in his general review of the briefing. That has to be tomorrow. Let's say 4:00 o'clock.

Zarb: I can't make it.

Secretary: Can we do it Thursday morning?[4]

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[4] Ford met with Kissinger, Simon, and other officials to discuss the economic summit on November 13 from 11:48 a.m. until 12:20 p.m. in the Cabinet Room. (Ford Library, President's Daily Diary) No memorandum of conversation from this meeting was found.

Zarb: I'd appreciate it.

Secretary: I think we need a good theoretical paper for the President. You have done a good job, Mike. We just need a paper that goes beyond purely economic matters.

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117. Telegram From the Department of State to the Embassies in Japan, Italy, the United Kingdom, and the Federal Republic of Germany[1]

Washington, November 11, 1975, 2147Z.

267049. Subject: Economic Summit. For the Ambassador.

1. Please deliver the following letter from the President with appropriate salutation to Chancellor Schmidt, and Prime Ministers Miki, Moro and Wilson.

2. I am writing to share my thoughts with you as we prepare for the meeting at Rambouillet. Although we have been careful not to lead public opinion to expect dramatic results, I am convinced that we must see this unprecedented opportunity to begin to lay the foundations for a prolonged period of shared prosperity. On reflection, it seems to me that our publics and our parliaments will expect nothing less and that we can, in fact, achieve substantial progress.

3. Our first task at Rambouillet will be to build confidence in the economic recovery underway in the United States and Japan and which is beginning in Europe. Here, I believe, a careful presentation of the most recent trends will be convincing.

4. Next, we need to demonstrate to our publics our intention to direct the course of the recovery so as to maintain stable economic growth in the future. In this connection, we might consider whether closer cooperation among our officials responsible for economic policy, coupled with the articulation of joint goals for the major industrialized economies, would not be desirable. These goals might be:

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[1] Source: National Archives, RG 59, Central Foreign Policy Files. Confidential; Flash; Exdis. Drafted by Enders; cleared by Sonnenfeldt, Parsky, Deputy Executive Secretary Frank Ortiz, the Secretary of State's Special Assistant Paul Barbian, and Scowcroft; and approved by Kissinger. Telegram 267048 to Paris, November 11, forwarded a similar letter for transmission to French President Giscard. (Ibid.) Substantive differences between the two texts are noted below.

—To generalize the recovery during 1976 among the major industrial countries.

—To seek to restore sustained vigorous economic expansion and high levels of employment by 1977.

—To reduce inflation and disparities among national inflation rates.

—To restore vigorous growth in trade.

5. Third, our meeting must come to grips with the specific problems of trade, money and energy.

6. Trade is clearly critical. We should, I believe, provide needed impetus to the multilateral trade negotiations underway in Geneva, setting 1977 as the deadline for their completion and identifying as our goals:

—A major cut in tariffs (no less than that achieved in the Kennedy Round);

—Reduction of non-tariff measures by negotiation of codes;

—Significant improvement in agricultural trade; and

—Elimination of tariffs in given commodity areas.

7. We should also reaffirm our OECD pledge not to take restrictive action.

8. On monetary issues, the divergent positions of a year ago have narrowed considerably. These past weeks our representative, Treasury Under Secretary Yeo,[2] has seen making an intensive effort to resolve remaining differences. If these discussions should succeed, chances will be good of getting the whole new monetary structure in place by the January meeting of the IMF.[3] In this area as in others, I do not think that we should ourselves attempt to negotiate outstanding issues at the summit. The time is too short; the issues are often technical; and it would be wrong to divert our efforts from what only we can do—set fundamental policy directions—to what Ministers can do.

9. On energy, a frank discussion of the position of our countries as we emerge from the recession and enter the economic dialogue with the developing countries and key OPEC members is clearly in order.[4] Our view will be that the IEA countries must hold to their December 1 deadline in the Long-Term Program, including the minimum safeguard price. We also ought to allow for some way for France to asso-

[2] In the letter to Giscard, this paragraph includes the phrase at this point: "and representatives of your government."

[3] The IMF Interim Committee met in Jamaica January 7–8, 1976.

[4] In the letter to Giscard, the rest of the paragraph reads: "My presentation on energy will include discussion of the energy situation in the United States, the status of consumer country cooperation, and our views on what can and cannot be done in energy in the dialogue."

ciate into that program once it is completed. We will want to address the question of access to energy supply and investment within the IEA. And we should talk about what we can and cannot do in energy in the dialogue.

10. Finally, with the dialogue imminent and in the wake of the Seventh Special Session of the United Nations,[5] it would be both appropriate and politic publicly to acknowledge the relationship of our deliberations to the aspirations of the developing world and to restate our commitment to a transformation of the relations between the industrialized and developing world.

11. As I now see it, in order for our meeting to have the desired results, we should prepare and issue a joint statement embodying our conclusions. We are all firmly in agreement that our meeting should not concern itself unduly with the preparation of a text. That task can be largely confided to the officials that will accompany us.

12. To provide you and your associates with a further indication—and some specifics—of what we believe we might say in such a joint statement, George Shultz, our representative at the November 11 meeting in London is proposing a text which embodies our thinking on the issues to be addressed and our suggestions on what should be said publicly about them.[6]

13. I am sending similar letters to each of the leaders who will join us at Rambouillet. I look forward to seeing you there.

Gerald R. Ford

Ingersoll

[5] The Seventh Special Session of the UN General Assembly convened September 1–16 to consider development and international economic cooperation.

[6] In telegram 266579 to London, November 11, Shultz and Dobbins received new instructions on the joint communiqué for the London preparatory meeting: "Meeting this morning decided that we should go beyond defensive brief you now have for handling joint statement, and take affirmative position in seeking a text as close as possible to ours. Feeling here is that some document issued at the end of the summit is inevitable; our interest is to make sure it reflects U.S. leadership efforts, notably in the economic recovery and trade field." (National Archives, RG 59, Central Foreign Policy Files)

118. Memorandum From the Counselor of the Department of State (Sonnenfeldt) to Secretary of State Kissinger[1]

Washington, November 12, 1975.

SUBJECT

Economic Summit

Last night's discussion in London was a bit inconclusive on the final communiqué. Hunt, who had earlier spoken to me and others about the inevitability of some kind of final statement, doubted the wisdom of it and instead advocated a summation by a single spokesman. Barre, the Frenchman, tabled nothing last night but also advocated a final summation for the public, presumably by Giscard. Poehl was noncommittal. The Japanese argued in favor of an agreed statement and tabled two possible versions. Poehl also told Shultz he had a text which he would table this morning.[2] Hunt tabled some broad "talking points," not as controversial as our proposed statement. (For all of this, see the attached messages from London.)[3]

My guess is that after today's discussion we will end up with numerous texts on the table, no conclusion as to whether one will be issued as such or whether there will be a summation by a single spokesman. We will have to see from the various texts whether a composite can readily be pieced together; it is questionable whether we can get our language on trade, energy and money.

There is as yet no reaction to your Pittsburgh speech or to the Presidential letters you approved yesterday.[4]

I do feel, however, that we have been placed into an unnecessarily combative posture by our initiatives of the last 24 hours. I did not want to start an intramural argument at yesterday morning's meeting[5] in front of all the other agencies but I do think you went too far too fast on the basis of Tom's (uncleared) briefing paper.

I don't need to tell you that the knives are out on this whole operation. When all the kidding and genial wisecracks at your strategy

[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 419, Subject File, Economic Summit Meetings, 1975, Nov. (Rambouillet, France), Chronological File, 12–13 Nov. 1975. Confidential; Eyes Only.

[2] The FRG draft communiqué was transmitted in telegram 17460 from London, November 12. (National Archives, RG 59, Central Foreign Policy Files)

[3] Attached but not printed are telegrams 17370 and 17371 from London, both November 12. Copies are also ibid.

[4] See footnote 2, Document 116, and Document 117.

[5] See Document 116.

meetings are put aside, there is no doubt that all the other senior people remain opposed to the summit operation altogether. (Indeed, at the EPB, and before you came in yesterday, there was all kind of light-hearted talk about the group's "vote" against the summit, with only one vote in favor.) Since the press is going to pronounce the summit as either a failure or a waste of time, it is easy to see where the "blame" will be put. I don't think we should lead with our chin in putting the President into an unnecessarily controversial position. Especially since we have a solid basis of strength in terms of our progress toward economic recovery and the psychological leadership this can confer upon us. (*That,* rather than special pleading, should be the basis on which we stand.)

I note that Tom's memo to you this morning[6] on the President's meeting this afternoon,[7] which was to have been with principals only, has him, Enders, filling in for Zarb. The last thing I want to do right now is to embroil you in bureaucratic infighting. But I must ask that if Enders is to participate that I do also.

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[6] Not found.

[7] On November 12, Ford met with Kissinger, Simon, Seidman, Burns, Dunn, Porter, Scowcroft, Dent, Hartman, Enders, and Sonnenfeldt in the Cabinet Room from 4:42 to 5:30 p.m. to discuss the economic summit. (Ford Library, President's Daily Diary) No memorandum of conversation from this meeting was found.

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119. Telegram From the Embassy in the United Kingdom to the Department of State[1]

London, November 12, 1975, 2100Z.

17458. For Sonnenfeldt only from Dobbins. Subject: Economic Summit: Report on November 12 Carleton Group[2] Meeting. Ref: London 17418.[3]

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[1] Source: National Archives, RG 59, Central Foreign Policy Files. Secret; Flash; Nodis.

[2] Telegram 27001 from Paris, October 17, defines the Carlton Group as those "unofficial representatives who met in the Carlton Hotel in New York earlier this month, including George Shultz, Prof. Barre, etc." (National Archives, RG 59, Central Foreign Policy Files) For a report on the New York meeting, see Document 104.

[3] In telegram 17418 from London, November 12, Dobbins sent Sonnenfeldt the "Basis for Joint Statement or Agreed Press Briefing," drafted by the Carlton Group during the November 12 meeting. (Ibid.)

1. Prior to opening of meeting Barre told Shultz privately that he had reviewed U.S. draft joint statement, thought such a statement would be useful, and believed that U.S. draft provided a good basis for discussion. Shultz suggested Barre propose this to the group.

2. Shultz opened the meeting by calling attention to Secretary Kissinger's Pittsburgh speech and briefing the group on the contents of President Ford's message to his summit colleagues.[4]

3. Barre then suggested that group concentrate on language for a possible communiqué or statement. He suggested the U.S. draft be used for the basis for discussion. Poehl, who had just distributed copies of his own draft communiqué, suggested instead a general discussion of agenda items. He expressed doubt about the desirability of any sort of agreed statement, and stated that in any case he did not believe that the U.S. draft offered best basis for discussion. After some discussion Poehl relented in face of other participants' desire to proceed on basis of U.S. draft.

4. The first four paragraphs of U.S. text were accepted without comment. As the discussion proceeded on subsequent paragraphs it became clear that a substantial coincidence on views existed. Hunt suggested that group attempt to draft agreed text, based on U.S. draft, which would be used to show heads of state what such a statement might look like. Others agreed and text transmitted reftel is the result. Next several paragraphs summarize discussion leading to agreement on that text.

5. Economic expansion: Barre and others objected to specifically setting 1977 as goal, noting that in making such a statement governments were admitting inability to reach goal earlier, and were also opening themselves to further criticism if goals were not reached by 1977. Hunt and Mitchell opposed, here and throughout the discussion, the slightest hint of any follow-on mechanisms, whether among the Six or Seven, inside or outside existing institutions. Poehl resisted mention of reduction in disparities of inflation rates, noting that this could be interpreted to mean low inflators (such as the FRG) would also have an obligation to inflate faster to close the gap.

6. Trade: Hunt said that while the UK was prepared to join in strong statement against protectionism, Wilson would be politically unable to explicitly reaffirm OECD trade pledge. He assured group that HMG is committed to resisting protectionism measures in all but exceptional cases, that it intended to renew OECD pledge[5] in May when it expires but insisted that the pledge not be mentioned in this text.

[4] See footnote 2, Document 116, and Document 117.

[5] See Document 209.

Poehl found U.S. statement on trade expansion goals too specific in some areas and too general in others. He mentioned in particular EC sensitivity on agricultural issue. Barre suggested alternative language found in text.

7. Monetary: Shultz opened monetary discussion by noting that group should avoid getting bogged down on this issue, since status of discussions underway elsewhere would largely determine what sort of language could finally be adopted. Ossola said that aside from the exchange rate issue, renewed disagreements on the subject of gold now threatened success of January IMF meeting, and could thus undermine any understandings reached on IMF quotas and exchange rates. Barre proposed alternative language for this paragraph, which was accepted with some amendments, on the condition that it be bracketed to indicate its very preliminary and tentative nature.

8. Energy: Poehl maintained that industrialized countries had already largely adapted to energy price increase. He said that there were no problems of access to supplies, or of dependency on imports. Oil was in surplus and one could have all one wished to buy. Hunt sought language which would avoid implication of confrontation, thus resisting suggestion that industrialized countries had "power to remove" massive increases in oil prices. He proposed a favorable mention of upcoming CIEC.[6] Barre did [not?] wish to have any mention of IEA.

9. North/South relations: There was a generally felt desire to specify some of the steps which the industrialized nations intended to take to assist third world, specifically the trust fund and an export earnings stabilization scheme. There was on the other hand equally general opposition to the notion that the industrialized nations should promise to be "generous" or "copationate" on their negotiations with the developing world.

10. East/West trade: No changes were proposed. Ossola said that Moro would raise problem of Soviet and Eastern European indebtedness (he cited a figure of $25 billion), their consequent creditworthiness, and the problem of competitive Western credits. He hoped the summit would stimulate greater Western consultation and cooperation on these issues.

11. In closing meeting Shultz summed up agreement. Group would transmit their draft text not as proposed joint statement but as a broad example of what such a statement might look like. They would suggest that designated officials, meeting during the summit, use it as

[6] The CIEC met at the Ministerial level in Paris December 16–19. See Document 300.

a basis for drafting either a joint statement, or if that was found undesirable, agreed talking points. It was agreed that distribution of draft text would be most severely limited within governments (the debate centered on whether there could be one copy or two per government) and the participants agreed to no comment any and all press inquiries about their meeting.

Richardson

120. Telegram From the Embassy in the United Kingdom to the Department of State[1]

London, November 12, 1975, 2135Z.

17459. For Sonnenfeldt only from Dobbins. Subject: Economic Summit: Comments on November 11–12 Carleton Group Meeting.

1. Most notable feature in meeting was overnight reversal of Barre's position and attitude. Last night he was proposing to have Giscard handle the briefing and interpretation of the summit. Today he strongly supported American suggestion in favor of a draft joint statement, sought agreement to use the U.S. draft as the basis for such statement, and when proposing alternative language, was generally constructive. Without Barre's support, group would never have adopted agreed text, nor in fact would it have even focused on communiqué language for any length of time. Barre said he had spent an hour with Giscard before coming to London. Whether or not Barre received new instructions overnight, Shultz feels that his performance reflects Giscard's determination to make summit a success and his willingness to make certain concessions to ensure that it is.

2. Poehl was consistently unhelpful, which Shultz notes is unlike him. He opposed concept of a joint statement. He opposed using U.S. statement as its basis. While some of his interventions were constructive, others were carping and diversionary.[2] Shultz notes, however, that Poehl had been out of touch with Schmidt for a couple of weeks, and

[1] Source: National Archives, RG 59, Central Foreign Policy Files. Secret; Flash; Nodis.

[2] In a November 10 meeting with Ambassador Hillenbrand, Pöhl "was in a fairly pessimistic mood" about the upcoming economic summit. (Telegram 18410 from Bonn, November 11; ibid.)

suggests that someone take Schmidt's current temperature on the summit in the next day or two.

3. Hunt and Derek Mitchell were both adamant in opposition to any mention of followup in the communiqué reflecting perhaps HMG's reluctance to undertake still further obligations which might inhibit any unilateral actions it may at some time feel compelled to take. They both strongly opposed not only the concept of new meetings among the Six or Seven in any forum, but even resisted language stating simply that the summit participants would cooperate or consult in the future. While no one else felt as strongly on the issue as they, neither did anyone evince much enthusiasm for follow-on mechanisms.

4. Japanese feel they absolutely must have a communiqué or joint statement resulting from this summit. They clearly have little confidence in their Prime Minister and wish to pin him down with communiqué negotiated by lower officials. They will strongly support us in any efforts to get a joint statement.[3]

5. Shultz believes that Carleton Group's draft statement is pretty good first effort, in some respects even an improvement over our own draft. He recognizes that energy section is grossly inadequate, but notes that effort to improve it will largely depend on our ability to convince summit participants that strong U.S. energy conservation and development measures are in train or on the way. He does not believe that too much attention need be given the current wording of the monetary paragraph, feeling that its eventual wording will depend almost entirely on the state of Yeo's current discussions.[4]

6. It was generally felt that the officials designated to draft statement at summit should get together Sunday night[5] at which time summit discussion should be far enough along to determine whether such an exercise is desirable. Shultz feels that it may be useful, however, to convene the drafting group earlier during the summit, at least in order to identify participants, and go over arrangements.

Richardson

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[3] Japanese language for the communiqué was transmitted in telegram 17371 from London, November 12. (Ibid.)

[4] Yeo was scheduled to meet with French officials on exchange rates from November 10 (see Document 114); no memorandum of conversation of these talks was found.

[5] November 16.

121. Memorandum From Secretary of State Kissinger, Secretary of the Treasury Simon, the President's Assistant for National Security Affairs (Scowcroft), and the President's Assistant for Economic Affairs (Seidman) to President Ford[1]

Washington, November 12, 1975.

SUBJECT

International Economic Summit Overview

The summit is intended to permit an intimate and serious discussion by the leaders of industrialized democracies of common problems; it should convey to the peoples of the industrialized democracies that their leaders are working together with good will and common purpose.

The summit provides you with an opportunity to demonstrate sensitivity to the problems of others and to exercise constructive American leadership, both to resolve current difficulties and to set positive directions for the future evolution of the international economy. Your leadership can help:

—to focus the meeting on priority problems, ensure that the discussions are oriented toward a long term view of major issues, and identify areas in which increased momentum in ongoing negotiations and more intensive joint efforts can contribute to the benefit of the industrialized countries.

—to put the meeting in an appropriate political context by stressing that the destinies of the industrial democracies are intertwined on economic issues in much the same way as they are in the sphere of defense and mutual security, and that differences must be subordinated to their paramount interest in their common well being.

Your description of the U.S. recovery and the philosophy underlying your economic program will set an optimistic note at the outset of the conference. In followup remarks you can move the conference toward consensus on objectives in the various subject areas.

How Foreign Leaders View the Summit

The summit will provide the other leaders an opportunity to more fully explain to you, and to each other, their problems and proposals, and to be seen participating in a serious effort to improve the international economy. It will thus help them to build prestige at home, to un-

[1] Source: Ford Library, President's Handwriting File, Subject File, Box 49, Trips—Foreign—Economic Summit—1975 (1). No classification marking. A stamped notation on the memorandum indicates the President saw it.

derline the fact that their domestic economic problems are shared by others and result in part from problems in the international economy, and to strengthen their electoral prospects.

Your foreign counterparts will use the summit to strengthen confidence in their leadership and in the ability of the democracies to master their problems. These leaders will also likely seek an indication that the U.S. is contributing to the solution of their problems. As a consequence, they may tend to focus less on the problems of the international economic system than we would desire and more on the U.S. contribution to their recovery.

The two concerns which, to a large extent, originally motivated Giscard and Schmidt to seek the summit—a weak dollar and inadequate U.S. recovery—are no longer compelling. However, the Europeans remain skeptical about the continued strength of the dollar (fearing a decline would again strengthen the competitiveness of U.S. exports vis-à-vis those of Europe) and about the durability of the U.S. recovery (fearing in particular that our restrictive monetary growth may cause it to abort).[2]

The other leaders will approach the summit from a number of perspectives: *Giscard* is extremely concerned that continued economic problems in France could lead to a Socialist/Communist victory in National Assembly elections likely to be held early in 1977 ultimately weakening the power of the French Presidency to levels of the Fourth Republic. Giscard will articulate his concerns about the impact of present economic problems on the future of France and the democratic world, and focus on developing international remedies to France's economic ills (underlining the fact that these ills are international in origin; i.e., not completely his fault), and to affirm France's political and intellectual leadership of Europe's effort to assure adequate American support for its recovery. His desire to reduce exchange rate volatility, avoid a dollar depreciation weakening European competitiveness, and ensure a strong and sustained U.S. recovery which will continue through the 1978 French elections, will reflect these views.

Schmidt shares Giscard's concern about the corrosive effect of current economic problems on the industrial democracies as well as his eagerness to demonstrate that his nation's slow recovery is not his fault. He too is seriously concerned about the political impact of the current recession, fearing a strong CDU threat in next year's national elections. He is already under strong attack for unprecedented German unemployment and budget deficits. Schmidt can be counted on to point out to the U.S. its responsibilities to help Europe recover, to describe vividly

[2] President Ford highlighted this paragraph.

the adverse effect on NATO of weak European recovery, and to underline the need to build confidence in the industrial democracies.

Miki, compromise leader of the LDP and politically weak within his party, will use this meeting to demonstrate his credentials as a world leader. Moreover, as the only Asian country at the meeting, the Japanese will likely consider themselves spokesmen for Asia. Miki hopes to strengthen his position for the likely general elections next year.

Attendance at this meeting symbolically confirms international acceptance of Japan as a major economic power. Miki is unlikely to put forward any major new initiatives, but will seek a reconciliation of differences on trade and monetary issues and a conciliatory approach toward the developing world, which Japan depends heavily upon for energy and other raw materials.

Wilson will use the summit to help build domestic confidence in Britain's future economic recovery, to strengthen his ability to resist union pressures which threaten his recent "voluntary" restraints on wage increases, and to enable him better to fight off strong protectionist pressures from the Labor left. A clear indication that the other major economies are beginning to enjoy solid recovery may buy Wilson more time at home to allow his policies to work. A demonstration that the assembled leaders are determined to fight off protectionism in their countries will strengthen Wilson's ability to hold off such pressures in the U.K. Outside of these issues, Wilson's main concern will be the plight of the LDC's—which Britain feels a moral obligation to help and which are important suppliers and markets for U.K. exports.

Moro's attendance is, in itself, a victory for Italy, which was not originally on the list of invitees. The Christian Democrats are strengthened by international attention and acceptance. They may, as the result, gain support for domestic policies to hold down inflation and resist protectionism. Moro is unlikely to play a major role at the conference.

Your Participation

You will have the opportunity to comment at least once on each topic. The agenda will be decided upon at the first session. We assume that the topics will be those recommended by the "Informal Group" which included George Shultz—economic recovery and coordination, trade, monetary issues, developing countries, energy, and East-West relations.[3] It would be preferable from our viewpoint that the agenda follow the above order. Specifically, we want trade (in which we have pro-

[3] President Ford highlighted the remainder of this paragraph from this point. Reference is to the Carlton Group.

posals) to precede monetary issues (where we may face French pressure).

Following Schmidt's initial presentation on economic recovery and coordination, you will have the opportunity to place the summit in a political framework stressing:

—the central economic, political, and security importance of the industrial democracies to one another;
—the enormous interdependence among our societies and that the summit should convey to our peoples that we are politically committed to their common well-being;
—that individual efforts to solve our problems can only have lasting success if supported by the contributions of all;
—that our problems must be resolved through political will and a spirit of compromise, and that differences should be considered in light of our broader common interests.

Recovery from the recession is stronger and more advanced in the United States than the other nations participating in the conference. This may occasion efforts by the other countries to seek further stimulus to the U.S. economy on the assumption that this will provide the basis for export-led recoveries of their own economies. Rather than defensively arguing that their overall economic prosperity is less dependent on additional U.S. stimulus than they believe, the summit provides an opportunity to explain the philosophy underlying your policies for a sustained recovery and economic growth without inflation. The central elements of your economic program focus attention on a dynamic growth in the private sector as the basis for a sound economy. Specifically, your discussion of our economic policy should stress:[4]

• Increased job formation through incentives for capital investment, e.g. your tax proposals for reductions in corporate taxation are designed to stimulate capital formation. (Significantly, the U.K. has recently announced a series of measures, philosophically at variance with its traditional reliance on the public sector, which are similar to our emphasis on tax incentives for private investment.)

• Fiscal restraint by government to control excessive deficits and the growth of government expenditures. (Your $28 billion tax reduction and spending restraint program recognizes the need to reverse the pattern of the explosive growth of government expenditures and the need for greater reliance on the private sector.

• Emphasis on steady policies, long-term objectives, and avoiding short-term "stop-go" economic policies which have occurred in

[4] President Ford highlighted this paragraph.

virtually all of the Western democracies. (Moderating expectations and reducing policy fluctuations provides greater certainty for individuals and businesses in their planning and can contribute significantly to a restoration of confidence.)

• Reforming government regulation to remove obsolete and unnecessary restrictions on private enterprise and to enhance productivity, essential to sustained economic growth.

You will also have the opportunity to discuss the strength of the U.S. recovery and an optimistic projection for future growth. Taking such an initiative at the outset would prevent our being placed on the defensive by repeated questions about our prospects and the adequacy of your policies.

Beyond this, you can briefly describe the necessity of progress in areas of longer-term significance—energy, trade, monetary policy and improved relations with the developing world. In effect, this presentation can lay out an entire framework for the meeting, elevating the focus to broad issues of cooperation aimed at recovery, sustained growth and improvement of the international economic system.

Individual Issues

Trade

Miki will lead off probably by (a) emphasizing the need for strong support for the multilateral trade negotiations (MTN) and (b) expressing concern over growing protectionism in the U.S. and Europe, and seeking reaffirmation of the OECD trade pledge to avoid new protectionist measures.

The Europeans are likely to be even stronger in expressing concerns about a possible resurgence of U.S. protectionism. Although somewhat mollified by Treasury's recent rejection of a countervailing duty complaint on steel and our planned use of the waiver on canned hams, the Europeans may cite as evidence a barrage of petitions on dumping and countervailing duties. They may question whether serious progress in the multilateral trade negotiations will be possible before our Presidential elections. Most will also cite high levels of unemployment in their countries as a reason for avoiding new commitments to trade barrier reductions in the near future.

Trade is an area in which U.S. leadership can be extremely effective in giving direction and impetus. Your suggestions for ambitious tariff cuts, priority objectives and a tight completion deadline for the MTN (contained in your draft statement) could stimulate agreements among the participants to reinvigorate the negotiations and give them better focus. (The Europeans might, however, be reluctant to make specific commitments on the grounds that trade policy in Europe is made in an EC rather than a national context. France may also cite lack of progress toward a more stable monetary system as a reason why trade matters should not be seriously discussed at this time.)

A strong U.S. reaffirmation of the OECD trade pledge to avoid new protectionism, along with an equally strong reaffirmation of our continued commitment to a more open trading order and to flexible use of our discretionary authority under the Trade Act (also in your statement), could lead to agreement by participants to continue to adhere to the trade pledge and avoid new protectionist measures. This would strengthen the hand of the other leaders (particularly Wilson) in resisting protectionist forces, and would make it easier for you to justify flexible use of discretionary authority on the grounds of a common effort by all the industrialized countries to resist protectionism. It would also strengthen our position in protesting unfair trade practices of others.

Monetary Issues

Giscard will likely press for more stable exchange rates on the grounds that instability adversely affects trade and investment, and disrupts domestic economies. He will argue that volatility undermines confidence and disrupts European economies, for whom trade accounts for a higher percentage of GNP than for the U.S. (Behind this desire for "stability" is a desire for an overvalued dollar, and an undervalued franc, to strengthen the international competitiveness of French (and European) goods vis-à-vis American goods.) Schmidt (whose country would also benefit from improved export competitiveness) may support Giscard's proposals: the U.S. [*U.K.*?], Italy and Japan desire flexibility and will not support Giscard, although their leaders are unlikely to express strong feelings.

We should try to avoid a prolonged discussion of monetary issues, staying away from both technicalities and theology. The other participants except for France and, perhaps, Germany probably share this interest. The discussion will give you an opportunity to clarify our opposition to returning to a par value system, to maintenance of "zones" or "bands" around exchange rates, or to agreed restraints on exchange rate movements. We should assert our desire to ensure that resolution of exchange rate issues is consistent with successful management of domestic economies and permits each country to choose the exchange rate regime which permits it best to achieve its domestic economic goals while meeting its international responsibilities. The best we can hope for is a narrowing of differences and agreement to cooperate on exchange rate intervention to maintain orderly currency markets and to explore whether there are actions which can be taken to achieve greater exchange stability under current conditions. If the discussion becomes either ideological or technical, you can seek agreement to remand the problem to the Finance Ministers and their Deputies.

Energy

In leading off the discussion on energy, you might portray higher oil prices as a key domestic and international problem and the essential difference between the present recession and those of the past 30 years. To avoid disruption resulting from future arbitrary price increases or supply cutoffs, consumers must reduce their dependence on OPEC oil. The other participants will be especially interested in the status of our domestic energy legislation, and the strength of your commitment with respect to decontrol of oil prices. There is some skepticism abroad regarding whether the U.S. will implement the tough energy measures that you have been advocating. You will want to assure the others that you are committed to, and that the U.S. is developing an effective energy program that will significantly reduce our oil imports.

You will want to state the degree of your commitment to the minimum safeguard price (MSP) and other elements in the IEA long-term program; you will want to state what type of access to U.S. energy supplies we will provide. The Japanese, especially, resist the MSP (for which they do not believe they can get Diet approval) but would like more secure access to U.S. energy. The French are not members of the IEA and resist any action therein because they believe that it relegates the EC to a secondary role in the energy area. Britain will be particularly sensitive about access to its energy resources.[5] You may want to stress our conviction that cooperation among the consuming countries will reinforce our individual energy programs and ensure that our combined effort will achieve our objective of reduced vulnerability to foreign supply disruptions and arbitrary price increases.

You might also stress that all summit participants, including France, have an interest in cooperating to develop a common strategy and set of objectives for energy in the forthcoming dialogue.

Developing Countries

Wilson will likely focus on commodities (perhaps proposing a new international organization to deal with them) and the LDC payments problems (perhaps suggesting a new creation of special drawing rights in the IMF or a large debt moratorium). Our approach should underline the secure maximum support for our key proposals at the UN, stressing especially the Development Security Facility in the IMF (to provide LDC's loans to offset declines in exports) and our case-by-case approach to commodities. You could indicate our continued commit-

[5] President Ford highlighted the remainder of this paragraph from this point.

ment to development cooperation, underline our major efforts to improve the dialogue with LDC's, and stress the importance of close cooperation among the developed countries in formulating positions for the dialogue.

In this context, you might also stress the need for a firm stand by the industrialized nations against expropriations not compensated or prescribed by international law, pointing out that interference with investment harms the climate for the private investment so vital to future development in the poorer nations.

In response to the above initiatives from others, you might indicate that a new SDR issue for developing countries and a major debt rescheduling would spread the assistance too thinly when the need is really for better capital market access for a few large or middle-income countries and more grant aid for the poorest. A new commodity institution is unnecessary and would merely duplicate UNCTAD.

East-West

Moro's presentation is unlikely to be dramatic. While it is likely that little time will be devoted to this subject, you might stress our continued commitment to consult with our allies in formulating East-West economic policies, that economic relations are part of our efforts to strengthen political relations with the East, and emphasize our desire for agreement on guidelines for government financing of exports to communist countries.

Follow-on to the Summit

Establishing a follow-on consultative mechanism would emphasize the seriousness of the Summit's conclusions and its contribution to economic cooperation among the industrial countries.[6] We should support periodic consultations among our representatives over the next year to review progress toward agreed objectives, and assess the economic performance and policies of individual nations in this light. Liaison among ministers representing the Summit participants (plus Canada), utilizing existing mechanisms to the maximum extent possible, would maintain the highest flexibility while ensuring proper follow up.

[6] President Ford highlighted the remainder of this paragraph from this point.

122. Memorandum of Conversation[1]

Rambouillet, France, November 15, 1975.

PARTICIPANTS

Federal Republic of Germany
Helmut Schmidt, Federal Chancellor
Hans-Dietrich Genscher, Minister of Foreign Affairs; Vice Chancellor
Hans Apel, Minister of Finance

France
Valery Giscard d'Estaing, President of the Republic
Jean Sauvagnargues, Minister of Foreign Affairs
Jean Fourcade, Minister of Economy & Finance

Italy
Aldo Moro, Prime Minister
Mariano Rumor, Minister of Foreign Affairs
Emilio Colombo, Minister of the Treasury

Japan
Takeo Miki, Prime Minister
Kiichi Miyazawa, Minister of Foreign Affairs
Masayoshi Ohira, Minister of Finance

United Kingdom
Harold Wilson, Prime Minister
James Callaghan, Secretary of State for Foreign and Commonwealth Affairs
Denis Healey, Chancellor of the Exchequer

United States
Gerald R. Ford, President
Henry A. Kissinger, Secretary of State
William E. Simon, Secretary of the Treasury

SUBJECT

Economic Summit

Chancellor Schmidt: Although all countries have been affected by the recession, they have been damaged in different ways. It is important to bear in mind these differences when discussing common problems. The world has so far been spared the spectacular collapse of stock exchanges and banks. This is due to a greater understanding of economic relationships than that which had existed between the two wars.

[1] Source: Ford Library, L. William Seidman Papers, Box 312, Foreign Trips File, International Economic Summit, Nov. 15–17, 1975—Memoranda of Conversations and Notes on Discussions. Secret; Nodis. The meeting took place in the Chateau de Rambouillet, approximately 30 miles southwest of Paris. (Ibid., President's Daily Diary). This memorandum of conversation covers the summit's first session. The second session is Document 123; the third session is Document 124; and the fourth session is Document 125.

Rising inflation however has led to a breakdown of the Bretton Woods fixed parity system, thus adding to the lack of confidence caused by inflation itself.

On top of this has come the dramatic rise in the price of oil. This has affected everyone, particularly the developing countries, who have had to cut back on other essentials to pay for their oil.

The sequence of inflation, disturbance of the fixed parity system, and quintupling in the price of oil has in turn led to a damaging of world trade, and thus to unemployment in countries that depended on their exports. Entrepreneurs are now very cautious. Germany will suffer a real decrease of GNP of 2% in 1975. The main objective of all of us must be to bring down the rate of unemployment or there will be social unrest. Despite the optimistic noises being made in some quarters, I am not convinced that we have yet seen the worst of the recession. This is not so much a matter of economic analysis as it is because the recession itself has been due partly to political errors. Politicians are capable of making further mistakes.

It is necessary to stimulate consumption, promote expansion and keep interest rates from rising. And since the depth of the recession has been partly due to psychological uncertainty, it is important to send a message of confidence from Rambouillet. The German Government is running the biggest budgetary deficit in its history and has so far been able to keep unemployment down to 5%. But if there were another 10% increase in the price of oil, the upturn could be called off.

The Rambouillet Conference should set four objectives:

—The participants should ward off any protectionist trend. They should maintain the OECD trade approach. And they should speed up the GATT negotiations.

—They should intensify their cooperation on their international economic policies both between governments and between their central banks, and they should do everything possible to promote an agreement at the IMF meeting in January 1976.

—They should realize that financing of the balance of payments gap was vital to the recovery of the developing countries. There are many schemes which had been put forward, but at least agreement ought to be reached on a scheme to stabilize export earnings.

—The consumer/producer dialogue would probably take a long time to produce significant results, but we should persevere with it in order to avoid unilateral action on either side.

President Ford: I agree that it is necessary to work together in the economic field. This is also important to stabilize the political background. The American people have reacted very well to the recession. There has been concern elsewhere about the trade investigations which the United States Administration had undertaken. However, the US Government has to undertake these investigations by law. This does not imply that there will be a protectionist outcome. In any case, I agree that an impulse should be given to the GATT negotiations in Geneva. The US Administration now has a good trade law which would enable us to engage in cooperation in the trade area.

Rambouillet can send a message of interdependence and cooperation which would contribute to a feeling of international confidence. Our nations have for three decades been the foundation for human progress and the cornerstone for global peace. We are of central importance to one another—economically, politically, and militarily. The cohesion and vitality of our societies is of central importance to the rest of the world.

This summit is designed to deal with economic questions but in a more fundamental sense it springs from the enormous interdependence of our societies and the common values which we share. It can enable us to consolidate our unity in an important moment in our history—to convey to our people that we are working together with goodwill and common purpose, and that our countries are politically committed to our mutual well-being.

We cannot resolve all our problems, but we can achieve a better understanding of them. And we can resolve to approach them in a manner which reflects our desire to meet our challenges together. By working together in the past we have contributed to an unprecedented period of common prosperity. We have learned that on a broad range of problems—defense, energy, trade, and development aid—our individual efforts can only have lasting success if supported by the contributions of all.

In this meeting we have the opportunity to help shape the future of the world economy. The issues between us cannot be treated purely as technical matters. They must be resolved through political will and in a spirit of compromise; for all of them are subordinate to the paramount interest we share in our solidarity and common well-being. And this solidarity, in the final analysis, will be vital to helping us meet our individual challenges.

Our understanding of the need for close cooperation has been manifest in the consultations each of us have had with one another as we have worked to solve our current economic difficulties. We have, in these discussions, frankly examined our problems, our policies and our prospects. In this same spirit, I should like now to briefly discuss my approach to the American economy.

The health of the American economy is significantly better than it was at the time of some of my earlier conversations with you. The policies now in place are appropriate in our judgment to maintain maximum growth in the short term without setting off at the same time inflationary instabilities which would threaten growth over the longer term. We must focus our longer term policies on gradually defusing the inflationary pressures which afflict our economy, as well as yours, and set in place policies which will encourage savings and investment, job creation and productivity. My recent proposals to slow the accelerating rate of governmental outlays and to cut taxes were developed to implement such longer term goals.

The precipitous fall in economic activity in the US that started late in 1974 came to an end early in the second quarter of this year. Our recovery, now seven months old, has shown even greater strength than expected earlier in the year. Since early spring, industrial production has been rising at a seasonally adjusted annual rate of over 13%. Over the same period, total civilian employment has increased over 1-1/2 million jobs and productivity has advanced strongly. Although we consider the rate of unemployment unacceptably high, the unemployment level will decline as recovery continues. The third quarter figures indicate that real GNP increased at an annual rate of over 11%. A decline in the rate of inventory liquidation accounted for more than half of the gain in GNP, but the growth in final sales of goods and services was very satisfactory. Another large advance is in the making for the current quarter, although somewhat less than in the third quarter.

The outlook is for a continuation of the strong recovery in the US. Inventories are still being liquidated and production remains below the level of final sales of goods and services. As inventory liquidation ends and we move to normal levels of inventory accumulation, there will be a further impetus to real growth. Even more encouraging, the evidence we have indicates continued strength in final sales. With real personal incomes rising strongly and with consumer confidence and liquidity improved, there is a solid foundation for continued gains in consumption expenditures. Moreover, the decline in business fixed investment appears to have bottomed out earlier than we had anticipated. With consumer goods sales rising strongly and with much improved business profits, significant growth in business fixed investment is likely next year. Moreover, the monetary and fiscal policies put in place by the US Government are calculated to accommodate a strong business expansion. Chairman Burns has assured me that the rate of money creation over the next year will be adequate to ensure sustained recovery. We anticipate that GNP will grow at an average rate of 6–7% through the middle of next year, and at an average rate of approximately 5% from the middle of next year through the middle of 1977.

Although some of our recent reports on price increases were disappointing, I remain confident that inflation is essentially under control. The easing of farm product prices has served partially to allay the concern regarding an early renewal of strong upward pressures on prices. While the 6–7% inflation rate in the United States is unacceptably high, expectations of lower rates of inflation by the money and capital markets have contributed to a decline in interest rates from this summer's high.

The current world recession differs from previous post-war recessions not only in breadth and depth, but also in the length of time it is taking for recoveries to materialize. A major factor that has contributed to the simultaneity of the recessions across countries and that is making the recovery so hesitant is the quintupling in the price of oil over the past several years.

The oil price increase has contributed toward creating a climate of uncertainty, has substantially increased inflationary pressures, and has had a significant deflationary impact on our economies. All this has made recovery more difficult to achieve. Countries are only slowly assessing and effecting the structural changes required for their economies to adjust to higher cost energy, and recognizing the probably slower growth rate which will result.

I know that you have taken measures since the beginning of the year to stimulate your economies. I am told that in most cases the direct effect of the fiscal measures instituted in most of your countries amounts to between 2 and 3% of GNP and are additionally supported by considerable monetary stimulus.

I share the view that many of you have expressed—that private sector demand has mainly been inhibited by confidence factors. With a return of confidence recovery could become extremely strong, particularly because reflationary measures have been taken simultaneously by our several countries, and large amounts of accumulated savings could support strong gains in consumer expenditures.

The US recovery has proceeded ahead of the recoveries for most of your countries. The US economy is moving from a fall in real GNP of about 5% between the second quarter of 1974 and the second quarter of 1975, to a rise in real output of between 7 and 8% between the second quarter of 1975 and the second quarter of 1976. Such a shift might expand the volume of world trade by about 3–4% and this should be of considerable help to you. But somewhat faster growth of the US economy than now envisaged would make only a modest, if not negligible, contribution to world recovery. A percentage point of additional growth of the US economy (over and above what is expected now) would affect the growth of the European economies on the order of 1/10 of 1% each in 1976. Effects on the Japanese and the Canadian economies would be greater, but still small. However, our growth, and yours as well, can help build confidence with consumers and investors.

There are also steps that we can take at this meeting to aid in rebuilding confidence. We must ensure that the current world economic situation is not seen as a crisis in the democratic or capitalist system. While there are problems of a structural nature, these need not prevent strong recovery. A vigorous economic recovery in the United States, rising economic activity in Japan, the beginning of recovery in France and Germany, and a bottoming out of recession in a number of other economies should give us a greater sense of confidence than we had several months ago. Strong stimulative monetary and fiscal policies have simultaneously been put in place throughout the industrial world, and these will eventually take hold. The stability of current policy will do a great deal to enhance confidence. In light of our prospects, and the policy actions we have already taken, we are able to publicly reaffirm our confidence that, although the response to stimulative policy measures is slower than most in the post-war period, recovery from the present recession is well underway.

The vitality of our industrial democracies, the leadership we are able to provide the rest of the world, and the quality of life that characterizes our societies depend upon our ability to achieve sustained economic growth without inflation. I know there are those who believe that economic growth will be impossible to sustain in the future. I categorically reject that view and am convinced that a market economy is best able to make the adjustments and technological changes necessary to economize on scarce natural resources.

If we are to realize the levels of growth that we desire and that are possible, higher rates of capital formation are required than we have achieved in the recent past. As leaders, we must provide the kind of economic climate that encourages confidence and enhances the incentives for business to invest. I have introduced tax proposals that increase the profitability of investment. I am firmly committed to limit the growth of our governmental expenditures. This will release the savings necessary to finance this investment. I have also made a concerted effort to reduce unnecessary government interference so as to maximize private initiative and enhance confidence. Confidence also depends on consistency in national economic policies and resisting the pressures for stop-go measures that inevitably have resulted in greater economic instability and uncertainty. In short, we must pursue a steady course if we are to achieve larger investment and sustained growth.

We must not, however, fail to realize that we face serious problems in reaching our goals and we must not be so complacent that we fail to take full advantage of the opportunities that this meeting provides.

Our discussion here could productively focus on cooperative efforts to ensure that the policies we take are compatible with a sustained economic recovery in the international economy over the longer term.

We should make a clear commitment to restore economic prosperity without resurgence of inflation and to pursue this goal by mutually supportive policy actions. I propose that we set as our objective a generalization of recovery during 1976 among the major industrial countries, restoration of sustained vigorous economic expansion and high levels of employment by 1977, a reduction in the rate of inflation in our economies as a whole as well as in disparities among national inflation rates, and restoration of vigorous growth in the volume of world trade as domestic recovery and economic expansion proceed. We believe that achievement of mutually compatible domestic policies to achieve these goals can be enhanced by discussions here and by our Ministers to compare economic prospects and to achieve a better understanding on how national policies impact on one another with a view toward determining if serious incompatibilities in objectives and policies exist. We should each designate one of our Ministers to follow up this meeting in a fashion they consider appropriate. Bill Simon will represent me.

We might also reach agreement here on several areas of longer-term significance. Our dependence on energy is going to grow to levels even more dangerous than those of today unless we work vigorously to achieve reduced dependence. Arbitrarily set oil prices or cutoffs in supplies can cripple our economies. And the uncertainties over future producer policies will constantly undermine confidence in our consumer and business sectors. We must, as an urgent matter, ensure that we are doing all we can to reduce our dependence, and I shall speak on this later on.

We should also make clear our continuing commitment to work toward liberalization of international trade, in particularly by reaffirming strong commitment to the OECD trade pledge and by agreeing on priorities and a tight timetable for the Multilateral Trade Negotiations. We should ensure that the monetary system evolves to facilitate the freest possible flow of goods, services, and capital. And we should reaffirm the positive directions established in the dialogue with the developing world—to ensure that the industrialized and developing countries make the maximum contribution to one another's well-being.

Prime Minister Wilson: I agree with the diagnosis of Chancellor Schmidt and am heartened by what President Ford has said. I am struck by the latest figures of car production in Detroit. All of us know the impact of autos on the economies of industrialized nations.

Chancellor Schmidt identified many of the causes of the world's economic problems—oil prices, and a worsening of the terms of trade for developed and especially developing countries. He also usefully stressed the structural nature of the world's, and national, problems.

For thirty years the biggest restraint on United Kingdom policy was balance of payments. I am happy to report to you that, recently, we have made some improvements. There is not as much progress as

President Ford's. His surplusses, I should think, are embarrassingly large. When we took over in 1974, we inherited a deficit for the last quarter of '73 of £ 4,000 million; and that was before the full oil impact hit us. This year, even though we have felt the full impact of oil, our balance of payments deficit is one-half of this. Our non-oil account is in surplus by £ 1,000 million. We are, therefore, covering about one-third of our oil import deficit.

With respect to inflation, I cannot boast of the successes like Chancellor Schmidt, with Germany at 5.8%. And others of you also have had significant reductions. For the United Kingdom, our figures are horror figures. In part, this is because past strict statutory controls have led to anomalies, and many people are trying to catch up.

We have a government policy to deal with this problem through voluntary actions. Our program has received the agreement of the trade unions, has been endorsed by the Parliament, and received a large vote of support in the Trade Union's Congress. It was also supported by the mine workers, voting in secret. Union's have confined their wage demands to the government set figures. All recent settlements in large industries and small shops are within government set limits. Inflation is on a decline to 10% this autumn from some 27% earlier this year. And we hope to get it down to a single figure by the end of next year.

In addition, we have an income saving ratio of 12.4%, which is high.

For the first time in several years we have maintained and even increased our proportion of world trade, and this in a world of shrinking trade.

The world recovery seems to be getting underway. But what I want to ask of you at this table is that you have policies of flexible response. We do seriously fear the possibility of a hiccup in the recovery now underway. We fear the possibility of a relapse into long periods of stagnation and decline. OECD prospects are pessimistic. There are countries here whose economies have a major influence on world trade. I hope they will be ready to act quickly if there is any signal of a lack of adequate recovery.

Chancellor Schmidt said his public sector deficit was the largest since Jesus. This is true!

Chancellor Schmidt: Yes, ours is over 7% of GNP.

Chancellor Healey: Ours is 7.6% of GNP and our public sector deficit includes borrowing by all public sector bodies. This 7.6% is central and local authorities in the United Kingdom.

Prime Minister Wilson: We clearly understand how similar our problems are. We all suffer from similar employment situations and a fall in industrial production, which is about the same in our countries.

But I would like to warn you—the causal countries, i.e., the countries who play a key role in the world economy, about premature reduction in budget deficits. I say this especially with respect to those with balance of payments surplusses with the rest of the world. This would damage not only their recovery but also that of other countries.

In reference to what Chancellor Schmidt said on structural problems, I chair the National Development Council, which consists of management, the trade unions, and the financial community. We examined our structural deficiencies and reached agreement on a new industrial strategy that has been well received.

On oil production, the Queen recently commemorated the first flow of oil from the North Sea. Attached to the platforms there are 27 pipes going down to the individual wells. There are two flowing now. The car I drove to the airport might have been running on North Sea oil. Next year we expect a £ 700 million balance of payment improvement from this one North Sea oil field. Our proved reserves come to a total value of £ 200,000 million (£ 200 billion). Our present reserves offshore are double all the proved US offshore oil, including Alaska. Hopefully we will get no less a substantial benefit from our Western Sea, and I know France hopes so as well. I hope to be Chairman of OPEC five years before President Giscard. By 1980, 90% of all oil in the EC and 45% of all EC energy (oil, coal and nuclear, etc.) will come from the United Kingdom.

On reflation, we have a small program aimed at job creation, incentives for the unemployed school leavers, hard hit areas, industrial investment for production, and jobs in urban areas. These are not ongoing programs, but are temporary. It focuses on those jobs that need to be done, e.g., building latrines in schools. These are things that can be phased out when we no longer need them, but are necessary to deal with our unemployment.

We also are placing increasing emphasis on the restructuring of industry. More jobs could be created by specific help to restructure and remodernize industries falling behind. These are not lame ducks, and this is no protectionism. These industries are basically competitive both at home and abroad.

In our circumstances, this is much more effective than undertaking a major reflation prematurely. The Chancellor has allocated £ 75 million to this effort, which has produced as many jobs in three to four months as one billion pounds of reflationary stimulus could produce in a year. And this billion pounds would be inflationary. It is not as good as £75 million producing jobs in three months.

Still, our best signals are for only small progress next year. I ask my colleagues to be watching anxiously for any period when movement slows, and urge them not to cut their budget deficits.

With respect to what we say in the press, I think we should only mention the subjects covered and not summarize our presentations, or details.

Prime Minister Miki: When I took over, Japan was facing high rates of inflation—8.4% wholesale price index and 24% consumer price index. Japan's rate of inflation was rampant. My Cabinet focused on a reduction in inflation. We plan to bring down the rate of inflation to 10% by March 1976. It is now 13%. We are continuing policies to achieve single digit inflation next year and, thus, we will be able to get rid of rampant inflation next year.

Still anti-inflationary policy has led to a serious slowing of demand and unemployment. Unemployment in Japan is 1.9%. This is over one million people. For Japan, however, this figure is somewhat misleading. It means that there are a number of others that are not fully employed, because Japan has a life employment system. This is different from the rest of the world. Employers do not dismiss redundant workers. 1.9% is misleading because large numbers of people are idle and do not show up in employment figures. So, the rate of unemployment is three times this if we use the same measures as the rest of the world. We are working at about 75% of capacity. The large numbers of redundant workers on payrolls and large debt service problem work to the disadvantage of the companies.

The government has taken significant anti-inflationary measures over the last six months. The economic situation improved since last March, but we have not realized the sort of progress we anticipated. Therefore, in September we applied $7 billion for economic recovery. Foreign Minister Ohira will depart tomorrow to participate in debate in the Diet on economic affairs. Our fiscal deficit is $18 billion, which amounts to 25% of our total budget.

The situation in Japan is worse than the situation in Germany as Chancellor Schmidt described it. What we are doing in Japan is to reflate our economy. We have 2.2% growth this year and we hope for 5 to 6% next year.

Japan's recovery is moving rather smoothly, but unless we have recovery in other countries at a more or less similar rate we cannot expand trade in this way. Therefore we need recovery abroad as well.

As President Ford said, we should all strive for recovery in 1976. The President's remarks to that effect were well taken.

I would like the countries here to get together for solidarity on economic policies. There are important psychological factors, to which Chancellor Schmidt refers. If there is a great deal of uncertainty, it will jeopardize recovery.

Psychological factors will hurt confidence in economies. We need to promote greater confidence in individual economies. I am aware of the differences in different countries. I hope we will all have the capability to realize 5% rate of growth, as we did in the 60's. We can do it this year by measures contributing to recovery.

Chancellor Schmidt: With respect to the press, I think we should say only what we have dealt with here—the general economic picture; the pictures of our countries' economic developments, etc.

Prime Minister Moro: We have a serious recession and the threat of inflation, which would be very serious if we are not selective about how we deal with it. We should not be reflating so much as to create inflation.

While everyone is affected by the problem, the consequences vary in the participating countries. While all of us are taking some reflation, some have made more progress than others. I hope that the progress of the stronger countries in overcoming their recessions—the US, Japan, and Germany—will encourage and help the Italian recovery.

I should also like to refer to a few golden rules:

—We should resist protectionist trends, however tempting.
—Freedom of world trade is a prerequisite for overcoming our deficits and we must, therefore, agree to step up the MTN.
—We need cooperation between participating countries and, in particular, central banks.
—I am also concerned about relieving the deficits of the poorest countries.
—And steps should be taken to ensure adequate growth and stimulus to world trade and the world economy.

The Italian economic situation has been characterized until recently by strong payments imbalances. Last year the total deficit was $7 billion. This year the estimate is that it will be $1 billion, including oil.

In 1974 inflation rose at a rate of 25%—the consumer price index. This year it is less than 18%. And we are making further progress. Between July and September the rate was only about 7%. But still there are difficulties. We need to continue moving toward a more normal balance of payments situation.

As a result of the success of our operation, we have had a very big recession. In the midst of the world recession, the volume of international trade has receded by 5%. But Italian exports have been at levels of the past year with respect to earnings and market sharing.

Increased export demand is needed to compensate for decreased internal demand. If internal demand is decreased as a result of lower consumption, there is also a resulting drop in the employment level. In real terms, there will be a 3% drop in consumption this year. Investment dropped by 20%. The building sector declined by 8%. Therefore, in spite of the fact that export earnings have increased, there has been a drop in industrial production. There was a drop this year of 35% versus a drop of 24% last year. GNP dropped by 3.5% in much the same way.

Therefore, if we can bring prices under control and reduce our balance of payments deficit, we can undertake some measure of reflationary stimulus. The Italian government, in view of recession, has already undertaken some reflationary measures. Recently interest rates have declined, but we do not want them to decline too much or they will result in the outflow of capital.

We have also taken steps to stimulate investment. At the beginning of the summer we instituted a program of $6 billion in expenditures, or 4% of GNP, in the economy. French and German figures are slightly lower. We have greatly increased the Treasury gap, or deficit. Had we not done this industrial production would have dropped by more than 33%.

These programs should increase GNP by 2% in 1976. But even so, this is well below our long term goal. We must, however, undertake only gradual reflationary measures to avoid an adverse price impact. We must also rely very heavily on the world economy.

We are also engaged in the restructuring of our economy to change the industrial structure. Consumption should increase less than investment in order to channel savings into investment. We want to invest in transportation and building, in areas of low import demand, and to improve agriculture. Government is providing the necessary means. We should not discuss our plans in terms of short term policies, but look to long term action to eliminate economic distortion.

Our rate of growth declined by 3% as opposed to 2.9% in '74. An additional 180,000 people became unemployed.

Giscard: The French economy has an inflation record like Japan and a recovery record like Germany. It is sort of Nippo-Germanic. This being said, I do not need to discuss it in great depth. I would prefer to comment on the situation as a whole.

Nothing is worse to the internal situations of our countries than lack of certainty. President Ford was extremely optimistic. He took a positive posture in terms of US recovery. If he was right, this contrasts with the situation in Europe and Japan, where growth seems more doubtful. We still have negative growth even with our large deficit budgets. And, as the result, I believe economists have been proved wrong.

We are continuing to pursue expansionary policies, but there are two real threats to our growth.

First, as Chancellor Schmidt has said, our markets, the countries to whom we export, are facing a bad situation. The developing countries especially have had bad payments positions and they are getting worse. They cannot be counted on for an upswing in purchases. And the oil exporters' imports from us will be less in 1975 than we expected. The deficit faced by countries consuming our goods is thus a real threat.

Second, budgetary deficits are a problem. We cannot go on increasing our budgetary deficits. It is not so much the deficits, as it is the evolution of the problem. We have to do more to deal with it. If we do not, we will need more stimulus every year to get the same impacts and the amount of our deficits will continue to grow. Therefore, as soon as the situation gets better we will have to reduce our budget deficits. But this could put a further brake on growth. Strong non-inflationary growth thus appears to be unlikely, and we may be faced with a continuing unemployment problem.

I do not wish to be pessimistic, but in contrast to US optimism, it is my feeling that strong growth of the non-inflationary kind is unlikely. But if we do not have strong growth we will have high unemployment.

In 1976, if the US recovers strongly, as President Ford described, there will be some degree of optimism about an improvement in Europe. If, however, the US growth begins to slow down in 1976, then we will have the feeling that recession is starting all over again.

From this, I have drawn certain conclusions. First, I feel that contrary to what we stated earlier, we should aim for, and talk about, a moderate growth rate. We can do this. It is unlikely that strong growth can be realized in 1976. We should not create the illusion that we can achieve strong growth. We should attempt only to achieve moderate growth next year, with the possibility of strong growth only in 1977.

Second, we have the problem of oil prices. They have cut off growth. Oil has increased 3% in price and this is exactly the amount that GNP in our countries has dropped. If we have another price increase, it will also have a serious effect on our economies. We must, therefore, limit the amount of money we spend on oil imports and decide what steps could be taken to avoid further balance of payments problems resulting from new oil price increases.

Third, it is important to make it known that if moderate growth is not achieved we will face up to it together. If our forecasts are not right we should work together to determine how we will meet the situation.

The message that will be given at Rambouillet to the rest of the world will be very important. We should attempt to make clear that we favor a maximum expansion of trade. There are temptations to use restrictive practices, but our economic structure is based on the development of trade and broad world markets. We should also make clear that we want to have a more stable situation as far as exchange rates are concerned. If the US recovery were stronger than expected, and than that of Europe, the dollar will appreciate. And this is not anyone's interest. It would give us the edge over the US, but would make our oil more expensive. We should try to move toward a more stable system of exchange rates.

And, finally, we should make a bold statement about helping overcome the financial deficit of the LDC's. We cannot have recovery in the world economy if the LDC's go down.

There are a certain number of strategies we can develop together. I have a proposal. Time will move fast. I would like the Finance Ministers to meet tomorrow morning before 10:30 to see where there is a meeting of the minds as to what form could be given publicly to these aspirations.

Schmidt: I, like President Giscard, am skeptical about 5% growth in the LDC countries in the coming year. Japan has always had higher growth rates than Europe.

Chancellor Healey: One point of political interest. President Ford rightly said that the astonishing thing has been that the political impact of increased unemployment has been less than expected. But the critical problem is the large number of unemployed over a long period of time—especially regional pockets of high unemployment, school-leavers and colored. There could be some very serious political consequences. We should not yet feel a sense of relief about this problem.

In addition, an increase in output next year will not have much effect in employment. Both Prime Ministers Miki and Moro pointed out the large number of short-time workers they have who are not fully utilized now. And there are a number of people who are simply kept on payrolls. In addition, some companies will not soon rehire workers they have just dismissed. So, that an increase in growth will not necessarily lead to significant results in employment.

In summary, we should not be too complacent about the political impact of present unemployment. And GNP growth will not help much in dealing with unemployment.

Chancellor Schmidt: The Finance Ministers will meet at 9:30 to prepare a press release and thereby set a framework for what should be said on Monday.[2]

President Ford: Are we intending to issue a Communiqué? If so, the technicians should get together to do a draft.

Chancellor Schmidt: The Finance Ministers can direct their technicians to do this.

President Giscard: A real diplomatic Communiqué would absorb a lot of energy. We should aim for something like a declaration, which

[2] November 17.

includes broad intentions and lines of action. And it will be difficult for technicians, people not in the meeting, to do this. I suggest that the Finance Ministers meet before 9:30 to see what parts of our present discussion can be retained.

President Ford: The Carlton group has developed a draft that could be a good basis from which to proceed. Starting with the Carlton group draft would benefit everyone.

Prime Minister Wilson: I think that we should put emphasis on the human problem of unemployment. Chancellor Healey is right. We could get growth with little increase in employment.

Chancellor Schmidt: Then, the Finance Ministers will meet at 9:00 tomorrow morning.

Prime Minister Miki: We should not have a lengthy Communiqué. I propose a brief, succinct declaration to convey the spirit of the meeting.

Chancellor Schmidt: The Finance Ministers will make it as short as possible. They should meet at 9:30.

President Ford: We have a problem with the press. I would like our press to have what I said.

President Giscard: The French spokesman should use certain adjectives to describe this meeting. Finally, each government is free to give out its own remarks. What adjectives might be useful—deep and friendly, frank and fruitful. Is that agreed?

All: Agreed.

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123. Memorandum of Conversation[1]

Rambouillet, France, November 16, 1975, 10:45 a.m.

Trade and Monetary Issues

President Giscard: We agreed yesterday evening that today would be devoted to trade and if time was left over to monetary issues. Our

[1] Source: Ford Library, L. William Seidman Papers, Box 312, Foreign Trips File, International Economic Summit, Nov. 15–17, 1975—Memoranda of Conversations and Notes on Discussions. Secret; Nodis. The meeting took place in the Chateau de Rambouillet, approximately 30 miles southwest of Paris. (Ibid., President's Daily Diary). This memorandum of conversation covers the summit's second session. For a list of participants, see Document 122.

Finance Ministers have been working while our Foreign Ministers have, I might say, been resting.

If agreeable, let us start with the commercial problems. Prime Minister Miki will open this discussion.

Prime Minister Miki: Yesterday Chancellor Schmidt addressed himself to trade in general terms. As Prime Minister of Japan, I would like this morning to make a few personal comments on trade.

Two years ago, at the Ministerial Conference of the GATT in Tokyo, we began the present effort on trade.[2] President Giscard d'Estaing honored us with his presence. Mr. Ohira, then Japanese Foreign Minister,[3] chaired the meeting. We issued the Declaration of Tokyo,[4] which has proved to be very effective and appropriate. This was adopted, of course, prior to the oil crisis. And we did not properly deal with the subject of raw materials. We should address ourselves to this also in the Tokyo Round.

With respect to freer trade, our emphasis on free trade is consonant with our strong emphasis on human well-being. I would like to recommend that the Tokyo Round be completed in 1977. President Giscard, in Tokyo, said that the cherry blossoms will be in bloom three times before completion. That was two years ago, and would have meant completion in 1976. Now we will need to have them in bloom one more time, four times in all. But if they bloom five times, it will not be satisfactory. We should try to see that the cherry blossoms bloom only three or four times.

All of us have been beset by pressures for import restrictions. We in Japan have been as well. Our textile producing neighbors have made inroads into the Japanese market. As a result we have had requests for protectionist measures in our country. But in spite of domestic difficulties we in Japan have taken an adamant stand to avoid restrictive measures, and have tried hard to avert them. If one country imposes restrictionist barriers, a chain reaction is inevitable. Next spring there will probably be better business conditions. But now we should make a clear stand not to resort to protectionist measures. We must avoid the mistakes of the 1930's. This meeting should agree that there must be no restrictionist measures on imports in our countries. This statement would be a good result of this meeting.

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[2] The GATT Ministerial meeting held in Tokyo from September 12 to 14, 1973, initiated the Tokyo Round of multilateral trade negotiations.

[3] Masayoshi Ohira was the Foreign Minister of Japan from 1972 until 1974.

[4] The text of the Tokyo Declaration adopted on September 14, 1973, was transmitted in telegram 11943 from Tokyo, September 14. (National Archives, RG 59, Central Foreign Policy Files) It is also printed in Department of State *Bulletin,* October 8, 1973, pp. 450–452.

With respect to the developing countries we must recognize that trade is important not only among developed countries, but also should be expanded between developed and developing countries. In this spirit we must recognize that the developing countries have exhibited serious deficits—$30 to $50 billion this year. We cannot expand our exports and total world trade in light of this huge build-up of deficits. We should try to find ways to increase the purchasing power of the developing countries. I will refer to this further in the North-South discussions later. If we can overcome the financing difficulties of the developing countries we can also help expansion in the developed countries.

These are the basic problems to be addressed by the group here.

Thank you.

President Giscard: Prime Minister Miki should be the moderator of this discussion. Is that okay?

Prime Minister Miki: Okay. Would any of my colleagues like to respond, in a frank and candid way?

Prime Minister Wilson: All agree that it is important to have an early and sustained recovery in international trade. The decline in trade is having a disruptive effect on economies, and this on top of the disruptive effect of oil price increases on trade and payments. The problems we face are the most formidable challenge to trade since 1947.

As I stressed last night, countries with strong balance of payments and good inflationary records have a particular responsibility. Unemployment is one reason why countries resort to trade restrictions; protectionist pressures will worsen if these problems cannot be overcome.

We need a Marshall Plan type initiative, especially for the Third World. But unlike the Marshall Plan this should be international in origin, and should not be based solely on the generosity of one country, as the Marshall Plan was on the US. Now no one is suggesting that this should be one-way generosity across the Atlantic. We are dealing with the problems of trade on an international level. Unless we can solve our problems, there will be protectionist pressure by those desirous of increasing employment.

We will deteriorate into an everyone-for-himself situation.

All of us have recognized, in the Declaration we have signed (OECD Trade Pledge),[5] that as a general rule such protectionist measures would merely shift the problems from one to another. We recognize the need to resist generalized protectionist measures. But we also must insist on retaining our right to take actions to protect our interests in accordance with GATT rules. The UK has been a strong sup-

[5] See Document 209.

porter of the GATT, we have been quite gentlemanly in living up to its rules, and we adhere to it strongly. I myself headed the UK delegation to the meeting which drew up the GATT, which lasted six months. We spent more time on the Havana Charter, although that was not ratified, as we know. The GATT lasted longer than its progenitors thought it would. This is consistent with your French saying, President Giscard, that it is the temporary solutions which last the longest.

We recognize the US problems in the Trade Act. The US has no alternative but to let the Trade Act take its course. I recognize fully that the US has eschewed protectionism, and this is to be commended. But we are alarmed at the number of petitions submitted under the Act. We have been relieved to hear the statement of President Ford and other officials on their intentions to avoid irresponsible measures. And we have been gratified by your actions. We commend especially your decision to reject the petitions on the VAT steel case with respect to the EC.[6] We hope that the administration will proceed in the same manner in the future.

We know also that the US has not felt itself bound by the GATT on countervailing duty issues. The US has resorted to the grandfather clause under which laws previously enacted can continue in force even though inconsistent with the GATT. This applies to not accepting injury findings before beginning a countervailing duty investigation. And anti-dumping codes also are not respected because of prior legislation. I understand of course that you, President Ford, are aware of these problems.

There is no quick result in the trade area. The situation will benefit from the things we discussed last night to achieve economic recovery. And, as I said last night, we should watch the situation in case of hiccupping recovery anywhere. But I agree with Prime Minister Miki—progress in the multilateral trade negotiations can achieve psychological benefits as well as long term trade liberalization.

President Ford: The US is very firmly committed to the goal of an open world economy. This can best be served if we join in leadership of a new round of multilateral trade negotiations. I suggest we try to reach agreement on the following goals:

—Substantial tariff cuts no less ambitious than in the Kennedy Round.[7]

[6] On September 18, the U.S. Steel Corporation petitioned the Department of the Treasury for relief from EC steel imports, arguing that the reimbursement of the EC value added tax (VAT) on steel destined for the United States represented an export subsidy. On October 20, Treasury announced that it would not act on U.S. Steel's petition. (*The New York Times*, September 23, 1975, and October 21, 1975)

[7] See footnote 3, Document 37.

—A reduction on non-tariff measures through the negotiation of agreed codes on subsidies, standards and government purchasing practices.

—The elimination of all tariff and non-tariff barriers in some commodity areas.

—Completion of the tropical products negotiations in 1976.

—Additional arrangements for meaningful, special and deferential treatment for the developing countries.

—A significant improvement in the trade regime affecting agriculture.

In the past year, our US negotiators have had extensive consultations with Congress and private sector groups in order to establish a broad consensus in support of US aims. These deliberations have confirmed the goals which we set ourselves in the Tokyo Declaration two years ago, and which form the foundation of my proposals today.

We in the United States are, therefore, prepared to move forward with renewed vigor. I urge you to join me in directing the negotiators of our respective countries to expedite their efforts so that the Tokyo Round can reach its final stage in 1977. I suggest that our trade negotiators meet at the earliest opportunity to work out the details of a forward-looking program, which could be adopted at the next meeting of the Trade Negotiating Committee in December.

In looking for a way to expedite these negotiations, I must frankly raise an issue that has been a source of great difficulty in assuring progress. We in the United States recognize that domestic agriculture programs are a very delicate political problem in other countries, as they are in the United States. It is imperative, however, that we work out a mutually acceptable basis for limiting distortions to trade in agricultural products. In this connection, we should not allow procedural difficulties to prevent substantive negotiations on this issue of vital interest to all countries.

By joining together in support of a program that will infuse vitality into the multilateral trade negotiations, we can best assure a positive attitude in our countries toward our common goal of an open world economy. The tremendous expansion of trade in the last 25 years, from a level of $50 billion to $800 billion, has been of great economic benefit to our countries in terms of new investments, new jobs and a higher standard of living. These gains cannot be preserved without a serious and forward-looking political effort on our part.

As a result of our current economic difficulties, there are forces abroad in all our countries seeking to distort patterns of world trade. All of us need to make a special effort to resist these pressures on a cooperative basis. I urge you to join me in the following set of principles to guide us during this difficult period:

—We should resolve issues giving rise to the most difficult domestic pressures through negotiation in the multilateral trade negotiations;

—We should jointly resolve to avoid all policy measures which might prove disruptive to the trading interest of our countries;

—We should agree to resort to limited emergency trade measures only in particularly acute or unusual circumstances, and we should be prepared to fully utilize existing consultation arrangements;

—We should instruct our negotiators to successfully conclude the "Gentlemen's Agreement" regarding export credit;[8]

—We should reaffirm our adherence to the OECD Trade Pledge, and express our intention to renew it next spring.

Consistent with such a cooperative approach, I pledge to deal with problems in our bilateral trade relationships on a common sense basis. Where flexibility exists under our domestic law and procedures, I am prepared to exercise it.

As the leaders of our countries, with the task to look ahead, we must not allow short term difficulties to divert us from the ambitious goals we set for ourselves in Tokyo two years ago. I urge you to join me in exercising leadership in each of our countries, to restrain those who would resort to unlimited beggar-thy-neighbor policies, and to support those who are engaged in a common effort to negotiate a mutually satisfactory basis for expanding world trade.

Prime Minister Miki: Thank you, President Ford.

Prime Minister Moro: Our approach to international trade is based on the fact that economic development is encouraged by the liberalization of trade through gradual reduction in trade barriers, and tariff barriers in particular. The well-being of people also requires implementation of safeguards systems, improvement in economic integration and better distribution of work and resources.

We should respect these principles at this time of reduction of world trade. This decline is unprecedented in the post-World War II period. It is caused by inflation, recession in developed countries and then in developing countries. In this climate there is a great temptation to envisage restrictive measures. But we should bear in mind the disastrous consequences of a generalized resort to restrictive measures. Some have already occurred. These should be fought against through international cooperative efforts. This cooperation is an alternative to application of restrictions on imports which would harm all countries, and the developing countries first. External demand is essential to economic development in all countries.

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[8] The proposed "Gentleman's Agreement" on export credits was designed to regulate the terms under which governments would offer official financial assistance for exports in order to avoid excessive competition in the realm of export financing.

The behavior of the industrialized countries is particularly important at a time when we are already perceiving recovery. The responsibilities of the industrialized countries are very great. The strength of our economies is essential to recovery in most other developed countries, and in other countries as well. We should reaffirm in 1976 the OECD Trade Pledge, in which countries are committed to refrain from protectionist measures. It is also important to strengthen work on an agreement to coordinate industrialized country export credit policies. We have been attempting to coordinate credit policy, but have not achieved very satisfactory results. In the short term, we should also coordinate development aid. And we should make an effort to reduce the direct obstacles to trade as well as eliminate disruptions to trade—therefore we need an additional stimulus to the Tokyo Round of trade negotiations. Progress in the Geneva negotiations has regrettably already been hampered by differences with respect to goals, particularly issues relating to the liberalization of agricultural commodities, and differences with respect to certain non-tariff barriers and certain negotiation positions. We would all benefit from working out principles of agreement with respect to goals to be achieved. Opening of markets is essential to deal with the present world crisis.

President Giscard: My statement is similar to what others have said. The question of freedom of trade is closely related to the dangers of recession. In recession there is always a tendency toward restrictive measures, which could result in disastrous effects. We must demonstrate that we are truly resolved to oppose restrictive trade measures. This is an essential political question, with technical overtones. We should not merely talk more about freedom of trade. The question is what we decide. We must make major efforts to keep frontiers open. We need a commitment to this end here at Rambouillet.

I participated in the opening of the multilateral trade negotiations in Tokyo. Trade was still expanding rapidly then. The situation was that the US had a trade deficit, and Japan and Europe had big trade surpluses. We then hoped that we could complete the trade negotiations in two years, although I thought that might be a bit unrealistic. Now, if we can do it in 1977, it will be a remarkable achievement. We feel negotiations should be continued on the basis of the Tokyo Declaration and should achieve positive results. We should not today reopen the delicate checks and balances between the various considerations. Today we should resolve to promote the negotiations despite changed circumstances. I hope for significant results in the near future.

We should also express support for the GATT. This is the only organization at present in which our group of countries still exercise significant influence. We should express support for the GATT as an institution.

We should recognize that protectionism exists in our countries. In the US, legislation has become more protectionist—especially Section 301 of the Trade Bill. But the Administration has not given in to protectionist interpretations. However, the pursuit of a large number of investigations has a major psychological impact. One-quarter of French exports to the US are now covered by legal proceedings. Our producers wonder where they stand. This cannot help but give rise to protectionist sentiment in our countries. We have protectionist pressures as well. We have taken measures versus Asia to restrain textile imports.

Some middle level countries—Australia, New Zealand, Israel, South Africa, Sweden and Portugal—have also taken protectionist measures. We should recognize that it is not only the industrialized countries who should have open frontiers while the borders of others are closed. We should exert joint pressure to oppose protectionist actions by other countries as well.

I think that this meeting should conclude two things:

—That we are committed to renew the Trade Pledge of 1974 when it expires. We can express the view that we will propose that it should be renewed.

—That our fundamental policy is that we are resolved to pursue open trade, along the lines of the Tokyo Declaration.

Chancellor Schmidt: Mr. President, after the preceding statement it looks like we are all in complete agreement. There are no contradictions at all. However, the tone of the presentations differs slightly. I attach considerable significance to what we say to the world. We should demonstrate a maximum degree of determination. The US statement and that of the French President are very much in agreement. Whereas in the US industries and trade unions, and in France, and in the EC, one can perceive strong trends in favor of import restrictions—trade barriers.

The countries in this room should act together not just because of a deep-rooted liberalism but because the market system benefits us.

We should first of all explicitly pledge ourselves to act to avoid any form of protectionism which could reduce market opportunities and to fight all protectionist measures. This is in the interest of recovery for all of us.

Second, we should renew the Trade Pledge, and state this in no uncertain terms.

Third, we should pledge our governments to step up the GATT negotiations.

Fourth, it would be a good idea if we are able in this conference to agree on export credit conditions. Our Finance Ministers should do this. I am under the impression that agreement would be particularly desirable between the US and French Ministers. Others could offer their good services.

Fifth, it is desirable to explicitly state, for public opinion, that the present world recession is not a particularly favorable occasion to work out a new economic order along the lines of certain UN documents. It is important, however, to improve the structure of world economic relationships, recognizing the interests in the LDC's. We could elaborate on this and say the following things:

—It is fundamental to increase the possibilities of the LDC's—especially their share of world trade and world product.

—It is desirable to promote the transfer of technologies, implement Generalized Preferences, and support all measures to achieve liberalized trade as far as possible with the LDC's.

—It is also desirable to take a concerted approach with respect to the functioning of all raw material markets.

One additional point, there is an underlying danger of agricultural protectionism in the US and the EC. A bilateral move toward protectionism might lead to very undesirable results. My three other EC colleagues might not be in agreement. The US President is probably not in agreement either. In the US and the EC we should recognize the fact, on a mutual basis, that our agricultural sectors have certain characteristics which are undesirable. We should be mutually prepared to discuss agricultural matters in the trade negotiations in connection with economic and political matters in the industrialized sector. This matter cannot be settled today, and should not be referred to in public. But the US and the EC are important trading partners. It would endanger the credibility of our liberal approach to world trade, if, in the agricultural sector, agriculture ministers undermine the general atmosphere.

Prime Minister Miki: We should give credibility to our consensus on the importance of freedom of trade. It is to be hoped that as we make public the results of this meeting, this will constitute a very important item.

Prime Minister Wilson: I would like to add a few words on the Trade Pledge. We reaffirmed this pledge last May for a further 12 months. I do not believe it is useful to add anything to that reaffirmation. We retain our normal rights on such things as dumping, but will exercise them with care, respecting our international, and our EC, obligations. As you will recall, in accepting the Trade Pledge we agreed under the condition that sufficient financing will be available to cover deficits, and that the economically strong countries would assume responsibility to adequately expand their economies.

I have said many times that I do not believe that generalized import restrictions are desirable for the UK. They would ultimately end up by hurting our own exports. One-quarter of our production is for export.

I agree with all that has been said about the Tokyo Declaration and the MTN, and proposals for this new type of Kennedy Round, whatever we name it. Perhaps the American President would be a likely candidate.

Chancellor Schmidt: It should not be the Ford Round because that would be unfair to General Motors.

Prime Minister Wilson: I don't really care if it is unfair to Chrysler.

We rule out generalized import restrictions, but we cannot rule out protection for particular industrial sectors suffering or threatened with serious injury as the result of increased imports. It is particularly important that we be able to protect ourselves in particularly acute or unusual circumstances, as President Ford has indicated in his statement. There are some signs of lethal attacks by other countries directed at destroying two or three sectors of our economy. These are not lame duck industries. They can be viable when recovery comes if they survive this period, particularly if their survival is not threatened by a concerted attack. Some of these attacks are especially virulent and threatening, such as those from Eastern Europe and Taiwan, and threatens the existence of these industries.

I also agree with what President Ford, I think, said about the need for a mutually acceptable basis for regulating trade in agriculture products.

Chancellor Schmidt: Harold, you talked of viable industries, and indicated that this excluded lame ducks. You referred to textiles as an example. I am a close friend of the chairman of the textile workers union in Germany. It is a union of a shrinking industry. I would hope that this would not be repeated outside of this room. Given the high level of wages in Europe, I cannot help but believe that in the long run textile industries here will have to vanish. We cannot ward off cheaper competition from outside. We will eventually need some hothouse or botanical garden for this industry. It is a pity because it is viable; capital invested in a job in the textile industry in Germany is as high as it is in the German steel mills. But wages in East Asia are very low compared with ours. The garment industries in France and Italy, which make high fashions, will survive. They are ingenious and creative and will survive. The German textile industry is viable, but will vanish in ten or twelve years. We should not, however, speed this up during the recession; but it will happen.

Also, Harold, are you talking of motorcars? There are rumors in the US and UK that people want to exclude foreign auto imports through certain ingenious methods. Germany is a major market for Italian, French, and Japanese cars. If they are cheaper they ought to be sold there. If we try to ward off competition, we will add to world recession, economically as well as psychologically. Resisting such pressures is what I meant when I said that we must explicitly pledge to fight tendencies toward trade restrictions in our countries.

I see both motorcars and textiles as viable. The textile industry will have to suffer in the long run but motorcars will survive. These industries can be innovative and viable over the longer term. If we resort to restriction of industrial production, we are hurting world trade.

Prime Minister Wilson: I accept Chancellor Schmidt's distinction between short and long term. I have long experience with the textile industry. It has shrunk at a faster rate in the UK than in Germany. Now it is a highly modernized industry. A great deal of capital has been invested, increasing productivity while reducing the number of workers. It does not have to vanish. Some parts of it are highly specialized. Not all will have to go. But I agree there is a difference between what will happen in a few years and what happens during this recession. I believe that predatory attacks from abroad will have to be resisted. Sometimes, however, they are difficult to prove, as in dumping.

With respect to footwear, the worst abuses to fair trade come from Eastern Europe. We think some of these are planned. On the matter of motorcars, I too take the view that this industry can and will survive. The industry has a bad headache at the moment. We are restructuring British Leyland which was out of date. We are providing capital on a competitive basis, not on subsidized terms, for restructuring this industry. I am confident that the US interests in the UK car industry are viable—Ford and Vauxhall are indeed competitive.

I agree also with the distinction between autos and textiles. All textiles are now tied together under a multi-fiber agreement. We all recognize the problem in textiles. When I talk about viability, I do not say they will survive indefinitely. The problem is letting industry go down in a recession, aggravated by attacks, go out with their throats cut.

I recently went into a shop in my Liverpool constituency to buy a shirt. I couldn't find one of the kind I wanted with my neck size. But I did see an array of shirts from Korea on a table as big as this room. They were being sold at a price which I regard as a dumped price, but this is difficult to prove. Our textile industry is revivable; it is not a write-off. But we are going to make efforts to subsidize textiles in assisted areas, giving them reasonable help. Eventually some of them should shift out into other areas, such as chemicals.

President Giscard: Since this is a meeting of heads of government, the conclusions belong to the heads of government. There are two things we should do. We should agree not to engage in protectionist measures and we should express our determination to accelerate the MTN along the lines of the Tokyo declaration.

But we should avoid the Helsinki danger which is that public opinion does not believe what we say. If governments, a few weeks later, take measures in the opposite direction of what we say here, people will not believe our declarations at this meeting. On the Continent, it is believed that the UK is going to implement generalized import restrictions. If this were done people would say our deliberations here were not credible. Prime Minister Wilson's statement allows us to take a more vigorous attitude.

My position on adjustment is one-half of the way between the Chancellor and Prime Minister Wilson. Many of these industries can survive if they evolve, if they specialize. The US textile industry is highly specialized; it produces goods of high quality, and for that reason it can survive. We need specialization along with a modification in size. We in France still make fine materials. We leave the ordinary production to others. To generate this kind of evolution we need to accept market pressures. We must avoid gigantic immediate problems resulting from imports, and therefore we may need certain sectoral measures.

Our system of price competitiveness does not fit in well with Eastern Europe. Competition between ourselves is an objective fact. Some of our prices are lower than others and that is the way we compete. With respect of imports from Eastern Europe, no one knows if prices correspond to production costs. We will have to give thought to the problems raised by Eastern Europe. We cannot tell if prices are calculated on the same basis as ours.

President Ford: The US auto industry is viable. It has responded well to market pressures. The evidence is its resurgence, which we believe will continue next year. For a period of time it did not respond well to the demands of the US public for smaller and more efficient autos. Now we have responded to pressure from Europe and Japan.

Although this year the US auto industry, particularly labor, sought action under the trade law for an investigation, I am convinced that we have met the challenge. I cannot forecast with certainty the same results as in the case of the steel industry matter. The auto industry will respond, and be viable, and will not force the US to adopt a protectionist attitude. The Administration will resist actions by labor and management in this test case.

Prime Minister Miki: We in Japan suffer from some imports like North America and Europe. Particularly we have a problem vis-à-vis imports from Asia, where most countries have lower wages than Japan. It is important for our countries to engage in collaboration, getting information on a mutual basis to resolve problems of this kind. We should avoid engaging in measures in violation of the principles of free world trade in solving each of our problems. We should make a determined stand on the inadvisability of restricting trade.

President Giscard: I think we have concluded this discussion of trade. The Foreign Ministers should give thought to these issues. Now I would like to go to monetary issues and try to conclude them before lunch.

Monetary Issues

President Giscard: On monetary matters, the technical side is enormously complex. Certain people here know the technical aspects very well. But our discussions today should be on a political level, to determine a particular orientation. We had the Bretton Woods system, which we lived under for years. It worked well until the 1970's. It was a sort of religion. When people criticized it they were condemned for heresy. From 1970 on it began to fall apart. Now people who speak well of it are treated as heretics.

We are at present in a floating situation. Canada, Germany, the US, Italy, France and the United Kingdom all took decisions to bring that about. This was not a collective choice, but successive individual decisions. Under the floating system, we have had deep fluctuations. People in favor of floating feel that the market is just as qualified as statesmen to decide on exchange rates. The main spokesman for this view was Carl Schiller, who has since disappeared from the scene.[9]

Chancellor Schmidt: Thank God!

President Giscard: There have been considerable fluctuations in currencies in recent months—and particularly the dollar versus the European currencies—that did not reflect the relative economic situations. These changes were purely monetary in nature. They reflect the technical situation in the market, not the real situation. The economic situation in our countries did not change 25% in a two or three month period. The problem this raises is that whether whole sectors in our economies are competitive or not depends on the value of our currencies with respect to the dollar. This determines what we can or cannot sell. It is futile to discuss lowering of tariffs from 7 to 5% since this means nothing if there are major changes in the relative value of currencies. These fluctuations are a source of disorder in the world economy. They have contributed to the world recession.

It is desirable to have more stable exchange rates. We could, in my view, set up a more stable monetary system. But some say that conditions are not right for such a system. We need not discuss this today. I know the US position. Would it not be more striking for us to reach agreement here—for the great Western Democracies to attempt to bring order to the international monetary system? We could in this way have a more positive impact on the evolution of the world economy than we could by not making a decision.

[9] Karl Schiller was the West German Minister of Economics and Finance from 1969 until 1972.

For East Europeans it is incomprehensible that industrialized country exchange rates change so much. The developing countries also see this as decadence.

But we should not now reach agreement on this, and we need not discuss it at greater length. There are two other possibilities—to discuss what a more stable situation in the future might be, and to determine how to improve the IMF. At the Nairobi meeting of the World Bank/IMF we agreed on a future monetary system, although we have subsequently not managed to finalize the form. Hopefully we can reach some agreement in Jamaica.[10] If we could move this further, it would be a good step. Today we should not have a theoretical or technical discussion on the future situation, but we can today give the world the impression that the monetary system will be more stable.

Japan wants greater monetary stability versus the dollar. Italy and Britain have internal economic policy situations which require managed flexibility in their external affairs. They require a certain leeway. France, Germany and Benelux have managed to stabilize exchange rates among themselves. But there are fairly strong fluctuations between the seven countries in the "snake" and the US dollar. Can we stabilize the rate of the seven with the dollar? The Italians are apparently nearer to joining the "snake" than earlier, which should make a contribution.

Could central bank action, already successful in reducing monetary instability, do something more? Could this improve stability with respect to the dollar? In the present circumstances there are no agreed parities, but I regret this. We should in any case try to give more stability to the system. Let the central banks set up a more active exchange of information. Let us see if it will be possible to reach agreement at Jamaica on changes in the IMF rules. We should aim at a more active role for central banks in stabilizing exchange rates and for reform of the IMF.

Chancellor Schmidt: The French proposal is useful, and conciliatory, if one looks at the substance.

First, a more general remark for public use tomorrow with respect to financial issues. The highly volatile movement of exchange rates in the last two and one-half years, and the enormous sequence of meetings under the IMF umbrella, give a bad impression to our publics. They convey a message of uncertainty and unpredictability in the world economy. This is not so bad for our countries or the multinational corporations, or for big national corporations. But it hurts the

[10] The Interim Committee met in Kingston, Jamaica, January 7–8, 1976.

small countries, and enterprises who just cannot cope with uncertainty about exchange rates, or make long term deals if they don't know what the exchange rate will be even 24 hours from now. Big countries and corporations can deal with it. Small ones cannot.

For public use we need to stress greater continuity and calculability with respect to the monetary system. In effect what we have now is not a system, it is a constellation.

With respect to the French points, I agree that fluctuation between the dollar and the "snake" must be reduced; this is the key to dampen volatility of world exchange rates. For individual European countries, 50% or more of trade takes place at stable rates within the realm of the "snake." Trade has not decreased as much within the "snake" countries of Europe as it has with other nations outside of Europe. We should show that we have not only the intention, but also the will to dampen exchange rate volatility; thereby, we can add to world recovery.

It is worthwhile to consider whether we should publicly say we would try from both sides, by intervention of central banks, to dampen the world movement of exchange rates. We have had some success in 1975. We should not fix a margin, because if we do so, markets will try to move against it. Couldn't we build on what has been done so far through the intervention policies of the central banks. We should make clear that the US is interested in dampening volatility. I know that more action to intervene by the US central bank would not make much difference. You have to borrow through swaps in order to intervene. But you can give the impression that you are interested in dampening volatile movements.

I come back to the Jamaica meetings. Looking back through history, I find it very difficult to understand the enormous prestige invested by more than just one country participating in this discussion in the future of the monetary system or the IMF. What Valerie said was forthcoming. He did not insist that as soon as possible we go back to fixed parities. This should be honored by the other side. We should ask our Finance Secretaries in Jamaica to arrive at a solution based on the results of the discussions of the IMF Interim Committee, which met in Paris a number of months ago.[11] This compromise quite rightly put stability of the system, or constellation, into the foreground. It envisaged fixed parities as an ultimate end.

Fruitless meetings of the Finance Secretaries are devastating. They are diminishing confidence and will continue to do so if we don't get results. We cannot now have a system of fixed parities. We have already dampened floating rates. In the end we all know we want fixed

[11] The Interim Committee met in Paris from June 10 to 11, 1975.

parities though. The endless discussions are creating uncertainties in industries. Let's get that out of the way. We should agree in Jamaica on a modus vivendi—state what we are doing and end the struggle on theology. I know of the difficulty this poses for the US, since it is opposed in the Senate. But all of us here have oppositions.

We should not, at this time, make these arrangements public. But we should agree here and stop the discussions. I say this from an economic and political point of view. People just don't understand the future of the monetary system. People are reading of the irritations among us on this issue, and when they read of these irritations they become irritated themselves.

President Ford: During the past year there have been intensive negotiations by our Finance Ministers to complete a package of amendments of the IMF Articles of Agreement in order to accomplish reform of the international monetary system. Progress has been substantial but arrangements have not been completed. We all share the broad objective of exchange stability, but we all agree that a system of exchange rate arrangements based on par values would not be viable at the present time. I would further state that the US and France have reviewed these issues and we have resolved our differences on exchange rate matters. This will be an excellent signal that this overdue agreement can be signed in Jamaica. I hope that the Finance Ministers can reach final agreement today or tomorrow.

I hope we can also explore ways to achieve more stability under current economic conditions. We believe that the resolution of these issues must be firmly rooted in the successful management of our domestic economies. The international exchange system that is adopted must permit each country to choose the exchange rate regime that will permit it best to pursue its desired growth, employment and stability policies while meeting its obligations to other countries to avoid trade and cooperation restrictions and other beggar-thy-neighbor practices. Consistent with this concept there are a number of alternative formulations that might be considered.

In seeking to maintain orderly conditions in exchange markets, we should be aware that no regime that runs counter to market realities could remain in effect for very long. Within that constraint there are a number of concepts that might be adopted.

Our experts have been working on these problems for some months. They have made good progress. They have especially made major efforts prior to this meeting. I think we all share an interest in rapid resolution of these questions, even though present arrangements are working well. We have made a major effort prior to this meeting with each of you to resolve these questions. I hope that we can reach agreement by January of next year.

Prime Minister Wilson: I agree with President Giscard d'Estaing's forthcoming and conciliatory approach and with President Ford's statement. We should not allow dogmatic beliefs to hinder progress. We should separate long term from short term objectives. Our emphasis should be on stability in the long term with adequate ways for prompt and adequate adjustment.

Now on the issue of goals and stability, etc., there is a difference between France and the US. This brings to mind the ruling of a Yorkshire judge on a rape case. He was very deaf and did not hear a word of the evidence. For seven hours he thought he was listening to a case of a breakdown of a marriage. After seven hours he ended the proceedings with the comment, "What a pity that these two young people cannot get together." In my view the heads of government should tell their Finance Ministers to settle this before the Interim Committee Meeting in Jamaica. They should bring this problem back to the Group of Ten next month.[12]

Prime Minister Miki: I had the notion that differences between the United States and France might create confusion at the meeting. I welcome the conciliatory relationship between France and the US. There is nothing illegal or inconsistent about floating. Since we are now caught in a period of inflation, recession and economic conditions of continuing instability, conditions are not ripe for moving to a fixed parity system. We must distinguish between the long and short term point of view. Attempting to reach an agreement in Jamaica in January is the most practical thing at this time.

Prime Minister Moro: The French analysis contains thoughts which we can largely share. We should not give up the purpose of a more stable system, which is the one which prevailed until recently. We should all bring a contribution. It is desirable to have a certain discipline in dealing with fluctuations, but Italy and Britain now need a certain amount of flexibility as well. We will do all we can to reenter the "snake." Agreement should be reached on the issue of stable exchange rates taking into account the Giscard approach and the US President's constructive views.

I was impressed by Chancellor Schmidt's statement. I agree that mention should be made in the Communiqué of the desirability of central banking system participation and agree that they can be helpful. I hope the Finance Ministers can put it in the Communiqué.

Chancellor Schmidt: I agree with what has been said.

President Giscard: I am interested in what happened with respect to the rate in the UK before World War I. The way this issue of ex-

[12] The G–10 Ministers and central bank governors met in Paris on December 19.

change rates is presented should emphasize that we are meeting here to tackle the difficulties of the world economy. The question of theological attitude or final situation did not come up here; we were considering what is needed now. We should emphasize the cooperation among the Finance Ministers.

I am not sure I agree with Chancellor Schmidt—do you really think that we should stop the Finance Ministers from enjoying the beauties of the good life at their frequent meetings? But I agree we should reach a solution.

There is a possibility of a common attitude with respect to Jamaica. I recognize that it is mainly between the French and US Finance Ministers to work things out, although they should meet with their other colleagues to make certain that the agreement fits with their attitude. This matter is the first priority for the Finance Ministers to include in their discussions.

This afternoon we should do energy, raw materials, and developing-developed country issues. We will meet without the Finance Ministers, only with the Foreign Ministers. The Finance Ministers will work on the first part of the Communiqué. The Foreign Ministers will then meet tomorrow to discuss the follow-up. Also at that time the heads may exchange information among themselves. We can do that after dinner or tomorrow morning.

Do the Foreign Ministers prefer to meet tomorrow or tonight? If it is agreed, the heads will meet among themselves tomorrow morning. The Finance Ministers will meet together this afternoon at 3:30. We will meet at 4:00.

President Ford: Mr. President, you expressed interest in having a discussion of New York City. When would it be appropriate to do this? Now, or this afternoon? I think the Finance Ministers might like to hear this too.

President Giscard: Let's do it now while the Finance Ministers are here.

President Ford: Over the last four months I and the Economic Policy Board have met with the Mayor of New York City and the Governor. They have proposed to us orally the things they are going to do. But over the last three months there has been no firm proposal of a viable nature. Nothing written. Over the last 72 hours, however, the following has been agreed to:

—The State will impose certain additional taxes, and identify specific reductions in city and state expenditures.

—They will enact a state statute along the lines of what was enacted in the 1930's providing for renegotiations of obligations of investors.

—As a consequence of enactment, there will be a renegotiation of bonds, extending maturities and lowering interest rates.

—The labor organizations will renegotiate their pension plans which were heretofore uncontrollable and excessive.

If all these things are done, there will be two possibilities:

—The possibility that with the strong measures I have identified, private money would meet the seasonal demands of New York City. If all these things are done, New York City will have a seasonal five months demand for $1.5 billion. Over the next seven months, they will have a cash flow such that at the end of the twelve month period they will end up at 0. The second year they will need $5 billion on a seasonal basis, but after the twelve month period they will again end up with 0 deficit.

—If these things are accomplished, and the banks are unwilling to meet the problem I would probably recommend legislation either to guarantee the obligations of the City to meet the cash flow problem on a seasonal basis or legislation to loan to New York City necessary money to meet the cash flow problem with a lien against money advanced by other government programs. This should satisfy the questions and the psychological concerns that many people have in the US and the world.

The problem earlier had been that we have had promises but no written proposals for action—no action by the City, State, financial institutions or unions. If they do these things, these courses of actions on a technical level will be taken.

The only way we have achieved results is to be difficult. But I want to tell you that I have gone further here than I have publicly. This has been a sort of brinksmanship by the Administration forcing New York City and New York State to take responsible action.

Chancellor Schmidt: Let me express my gratitude, Mr. President, for your statement. I am relieved. I was concerned about the drastic effects in other countries. I also want to excuse myself for the blunt remarks in New York City a while ago.

President Ford: There were people in our countries who sought to generate apprehension and concern. People felt we had been discounting the adverse effects had the City gone into default. It was my belief that by keeping pressure on, the politicians in New York faced up to things they had to do. Let me add also that the relationship between the city and state governments and the federal government in the US is different from those of Europe. By patience and firmness our policies will achieve satisfactory ends.

Prime Minister Wilson: Thank you for your reassurance. Could you tell us further whether you want it mentioned to the press that you discussed New York City? Would it be better if there were no comment on the fact that New York City was mentioned.

President Ford: This is very sensitive internally. I think it would be best if the fact that this was mentioned was not made public. If there is advance information that we are caving, necessary action will not materialize.

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124. Memorandum of Conversation[1]

Rambouillet, France, November 16, 1975, 4 p.m.

Energy, Raw Materials, and Development

President Giscard: I turn the floor over to President Ford, who will begin the discussion of energy.

President Ford: Strong domestic energy programs are absolutely critical. As the largest consumer of energy, the United States is determined to be in the forefront in conserving energy and developing new supplies. We have defined our short and long term energy objectives and reorganized our government machinery to achieve them. Our goal is to dramatically increase all domestic energy sources, decrease demand, and cut oil imports sharply. Our target is to hold our imports of oil in 1985 to a level 10 MMBD below what they otherwise would have been. Conservation will account for half of this massive import reduction; new domestic supplies for the remainder.

The achievement of these objectives will require a tough, comprehensive national program of energy conservation and accelerated energy production. I submitted such a program to the Congress in January.[2] The national energy debate has been lengthy, and progress has been slower than we had hoped.

The Congress is now in the final stage of completing a comprehensive legislative package on energy. This legislation does not cover fully the proposals I made in January. In some areas, it would provide a good basis for a serious national energy program, including conservation. In other areas, however, such as the domestic pricing provi-

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[1] Source: Ford Library, L. William Seidman Papers, Box 312, Foreign Trips File, International Economic Summit, Nov. 15–17, 1975—Memoranda of Conversations and Notes on Discussions. Secret; Nodis. The meeting took place in the Chateau de Rambouillet, approximately 30 miles southwest of Paris. (Ibid., President's Daily Diary) This memorandum of conversation covers the summit's third session. For a list of participants, see Document 122.

[2] On January 30, President Ford sent the Energy Independence Act of 1975 to Congress. For the letter accompanying the bill, see *Public Papers: Ford, 1975,* Book I, pp. 136–138.

sions, it falls short of what I had proposed. We have made significant legislative progress, but we still have a long way to go.

The new energy bill has some attractive features. It would provide many elements for a medium term mandatory energy conservation in the United States. For example, it would impose new automobile efficiency standards; it would create new incentives for more efficient use of energy in private industry; it would establish efficiency labelling requirements for electrical appliances; and it would create a new program under which individual states will be encouraged to develop their own energy conservation programs.

At the same time, this energy bill could substantially strengthen our ability to withstand any future embargo. It would provide me with the authority I need to impose mandatory restraints on energy consumption in a crisis and take the other emergency measures necessary to implement the IEP oil sharing agreement. In addition, the legislation would authorize the creation of a large, new emergency oil stockpile. We would be able to initiate promptly a strategic storage program of 150 million barrels, with an eventual target of one billion barrels.

However, the provisions of the new bill dealing with domestic oil prices are less satisfactory. The question of price decontrol has been perhaps the most controversial issue in our domestic debate over the past year. I strongly advocated the removal of artificial price controls on our domestic oil out of conviction that these prices should reflect actual market value. Others have wished to defer any decision on the future of price controls, arguing that the economic impact of decontrol would be unacceptably harsh. The bill contains a proposed compromise on this key issue. The composite domestic oil price would be rolled from $8.75 per barrel at present to $7.66 in 1976 and then allowed to increase gradually with eventual full decontrol after 40 months. The pace of decontrol is much slower than I would have liked. Because of less than completely satisfactory pricing provisions, but other very desirable elements, I will carefully review this bill after it is completed before making a final decision.

I should stress our conservation effort over the past year, even without the new program, has produced substantial results. As a result of higher prices and increased public awareness of the need for conservation, the US is using one million B/D less of imported oil than would otherwise be the case. This saving, which has already been adjusted to remove the effects of the economic slowdown and bad weather, translates directly into reduced demand for oil imports. These savings will continue to grow.

We also initiated a voluntary automobile fuel economy program to ensure that automobile manufacturers increase by 40% the efficiency of their vehicles by 1980. This program will lead to an import savings of two MMBD by 1985. In the 1976 model year alone, a 17% increase has been achieved. In addition, we have undertaken major programs to expand the use of coal in place of oil and gas in existing power plants and to encourage construction of new power plants for electrical generation that do not depend on imported oil. To stimulate development of new supplies, we are:

—Moving rapidly forward to complete a pipeline to begin moving Alaskan oil to markets in the lower 48 states by 1978.

—Accelerating the leasing of frontier OCS areas.

—Seeking authorization for a $100 billion Energy Independence Agency to provide financial support for new energy projects.

—Working with Congress to complete action on an $11 billion synthetic fuels program to complement our unprecedented research and development effort and make commercial production of synthetic fuels a reality.

—Actively encouraging construction of a fourth uranium enrichment facility by private interests to enable us to achieve our ambitious targets for nuclear power and ensure that we meet our commitments to provide enrichment services to foreign purchasers; and

—Expecting early congressional authorization to open up our substantial Naval petroleum reserves for exploration and development.

These actions will bring in millions of barrels of additional domestic oil supplies during the coming years. I am also pressing Congress to end price controls on domestically-produced new natural gas, and the Senate has already voted to do so.

I am convinced that these and other new measures that make up our comprehensive program will enable us to achieve our energy objectives. I am fully committed to their realization, and I am convinced that the American people will support me in this effort.

While recognizing the preeminence of national programs in meeting the energy challenge, we have all participated in varying degrees in cooperation and collaboration among ourselves and with other major oil consuming countries. Our bilateral consultations have been extensive and productive. We have joined together in the OECD's Financial Support Fund to protect against destabilizing movement of OPEC assets. Some of us have agreed to an oil sharing arrangement in the event of a new embargo and supply disruption. We attach particular importance to this achievement.

After months of negotiation, those countries that have chosen closer collaboration are nearing agreement on concrete measures to implement their commitment to long term cooperation. The package of measures include:

—Review and comparison of members' conservation programs to encourage greater effort and identify particularly effective elements for emulation by others.

—General and specific incentives to stimulate development of new supplies, including a minimum safeguard price and a framework of cooperation on individual energy projects with provisions covering non-discriminatory access to investment and product; and

—Reinforcement and extension of national R&D activities by a pooling of effort under joint strategy and including jointly financed projects.

The minimum safeguard price mechanism and the access provisions for project-by-project cooperation stand as concrete manifestations of members' solidarity and are highly important to a coherent program of cooperation.

I think the access commitment is particularly important. The United States sees significant potential for using this type of cooperation to develop new supplies of advanced energy as well as some new conventional energy. All new energy will be costly in capital terms and make great demands on our capital markets. We welcome investment by countries with limited energy resources, recognizing that they would find participation particularly attractive if it increased the amount of energy available to them. To promote this type of cooperation, we are prepared to make the following offer: In return for other countries participating in large new projects in the US which develop energy that would otherwise not have been produced, we will wherever feasible guarantee that a portion of the incremental energy production can be exported. Projects will be considered on their merits in their environmental, economic and regional context. In some areas, where environmentalist and other concerns are great, we will have less scope than in others. We think a commitment of this kind is a major innovation in international cooperation. We are prepared to discuss it in detail with other consuming countries.

The package of measures for long term cooperation in conservation, the development of new supplies, and R&D will complete the framework of our energy cooperation. It will ensure that our individual and collective efforts will be adequate to achieve our objectives. It is imperative that the early December deadline for the adoption of the program be met. Once the program is in place, it will be possible to devise arrangements for other industrialized countries to participate in our cooperative programs, including R&D and the development of new energy projects.

We believe our individual and joint efforts to reduce our vulnerability are consistent with our common desire for a broad and constructive economic dialogue. A clear demonstration of our determination to master our energy destiny will enhance our bargaining leverage and facilitate our guiding the discussions in productive and non-confrontational channels. To do so most effectively, the representatives of the industrialized countries should coordinate in advance their positions on the substantive issues.

We think the dialogue will contribute significantly to a more cooperative atmosphere between developed and developing countries and to a more rational search for mutually beneficial solutions to our common problems. As our own efforts have demonstrated, we are committed to a successful dialogue. We commend the Government of France for its initiative.

In our opinion, the dialogue should be used primarily (1) to encourage the oil producers to develop greater awareness of their own stake in a growing and stable international economy, thereby reinforcing the moderate OPEC countries on pricing decision, and (2) to set in motion effective and cooperative programs by producers and the industrialized nations to ease the LDC's economic and financial burdens caused by high oil prices. We are particularly concerned that financing of LDC's payments deficits will become acute by next year and believe that this problem, and all its ramifications, should be fully considered in the dialogue.

We do not think the dialogue will enable us to negotiate an agreement on oil prices at a cost we are willing to pay. The producers are not likely to cede their unilateral control over prices or to agree to reduce prices. The consuming nations would reap little or no advantage from indexation or any similar arrangement that would freeze prices at their current real level. This would legitimize current high prices, neutralize LDC and market pressures, ratify the gains of the cartel and make cartel management easier, and expose political leaders to the charge that they are conspiring with producers to drive prices up.

Thus, we must continue to deal with high and uncertain oil prices with our own energy programs. High oil prices cannot be ignored; they have shaken our confidence, diminished our ability to deal with our problems, and compromised our economic development. There is no easy way to end our vulnerability and regain our freedom of action. We each must take the hard decisions necessary to implement and sustain strong and effective domestic energy programs, whose combined effect over time will be to shift the balance on the world oil market. To reinforce our individual efforts and to provide political impetus for greater future sacrifices, I hope that at the Summit we will pledge our nations to a maximum effort to reduce our dependency on OPEC oil imports in order to enhance our own economic well-being and to contribute to the long term energy needs of the world.

Chancellor Schmidt: I should like to ask the President to repeat the precise terms of the offer he referred to in connection with the participation by other countries in the major energy programs in the United States.

President Ford: Let me repeat what I said. In return for other countries participating in large new projects in the US which develop energy that would otherwise not have been produced, we will wherever feasible guarantee that a portion of the incremental energy production can be exported. Projects will be considered on their merits, in environmental, economic and regional contexts.

Prime Minister Wilson: In his presentation of energy questions the President discussed the CIEC. [omission in the original] striking and encouraging feature about the point at which we now stand in our relations with the developing countries was the marked difference in atmosphere between the Sixth Special Session of the UN General Assembly and the Seventh. This improvement was, in particular, due to a realization between developing countries that confrontation, as expressed in the Sixth Special Session, was not getting them very far. They realized that the adverse effects on the world economy of the oil price increases and other factors meant that the unilateral demands being made on some of us were not going to be met. And perhaps they saw a better prospect of real advance to themselves from negotiation rather than from an adversary, confrontational relationship. Their attitude this year has been consistently more realistic than in the past.

You may be aware of my commodity initiative at the Kingston meeting of the 34th Commonwealth Heads of Government last May.[3] The Commonwealth represents an important grouping in the UN, and accounts for more than a quarter of the UN membership and more than a quarter of the world's population. The debate at Kingston demonstrated the continuing value and importance of the Commonwealth as a forum for advanced and developing countries—from Europe and indeed all five continents—among whom new issues could be looked at from the point of view of both types of countries.

Although the confrontation between the developed and developing nations was never of our making, we in the industrialized world have played a full part in replacing it by the present armistice. At the Seventh Special Session, the UK's proposals at Kingston, the united approach by the EC and the wide ranging US proposals led to the final resolution of the session.[4] This would have been unthinkable a year earlier. We must demonstrate in the future the same unity that we then achieved or the Group of 77 will divide us.

We must work hard to maintain and build on the new atmosphere of consensus both at the coming UNCTAD meetings at Nairobi next May[5] and before that at the CIEC. We must, however, take care that

[3] British Commonwealth heads of government met in Kingston, Jamaica, from April 29 to May 6, 1975.

[4] For the resolution adopted unanimously by the United Nations General Assembly on September 16, at the close of the Seventh Special Session, A/10301, see *Yearbook of the United Nations, 1975*, pp. 348–354.

[5] UNCTAD convened for its fourth session in Nairobi, Kenya, from May 5 to 31, 1976. See Documents 301–304.

discussions in the CIEC and its commissions not cut out the IMF, IBRD, GATT, and UNCTAD, to name only four.

We must not, however, deceive ourselves into thinking that the consensus so far will be easily preserved. We must of course aim to make progress in directions, and by means, which would promote rather than damage a healthy world economy and our own individual economic development. The developing countries face fearsome problems. And our relationship with them, the poorest in particular, must be an evolving and not a static one. The plight of these countries is serious. Their terms of trade are deteriorating because of the continuing world inflation, the high cost of oil, and falling export prices. At the same time they are facing a prolonged recession in their normal export markets.

During 1975 the non-oil producing developing countries had to reduce the volume of their imports by 15%. Things are not likely to change until there is a substantial recovery in world trade. They are not only having to pay for the oil which they did not produce themselves, they are also having to pay for oil-based fertilizers, and are thus doubly impoverished. These countries, therefore, have an urgent and substantial need for balance of payments assistance if they are to reverse this fall and restore some prospect of domestic growth in 1976–1977. To help them is not mere charity; a recovery in their buying power will serve as a fillip to world economic recovery from which we will all benefit.

The poorest countries are facing the bleakest prospects. For these countries at the margin of subsistence there has been no growth in per capita GNP for the last two years. For them, there is the prospect of an average rise of no more than 1% a year, if any, for the rest of the decade because they will benefit less than the richer developing countries from a recovery of world trade. In addition to balance of payments support, they will need concessional aid in order to avoid unmanageable debt servicing problems in the future or a drying up of purchases. We in the industrialized world all faced problems in the past 20 or 30 years where we had to give loans to help countries in debt servicing needs.

The industrialized nations face, in differing degrees, the problems of inflation, unemployment, balance of payments deficits, and the achievement of recovery without inflation. We will be able to offer the developing countries little as a result, and certainly far less than the minimum they feel is their right. And even in holding the line we set ourselves a most difficult task. But in the UK, despite cutbacks in government expenditure, we have not only held but even increased the percentage of our resources spent on aid. We must do what we can to help these countries. Our strongest ally will be a recovery of world trade, which would help us and the LDC's. This makes it still more essential as yesterday's discussions showed, to promote early economic recovery.

At the Seventh Special Session a number of special proposals were made to increase directly the purchasing power of the LDC's. At Kingston I stressed the need to stabilize commodity prices and argued that "boom and bust" should be avoided. It was to no one's advantage, and affected our exports.

In the course of international discussions, emphasis has been placed by Chancellor Schmidt and others on the need to improve the stability of export earnings, rather than on improving actual prices. Assisting commodity prices would primarily benefit Australia, South Africa and Canada. Helmut has thus emphasized export earnings rather than price stabilization for exports. Many of these proposals would fall primarily within the realm of the IMF—the Trust Fund, improvement in one way or another of the compensatory financing facility, and a variety of other proposals involving new issues of SDR's. There were also proposals which would entail special concessionary terms for the poorer LDC's. There are of course many complex practical issues which have to be resolved in relation to these proposals such as the appropriate method of funding, the extent and feasibility of links with IMF gold sales, etc. The idea of issues of SDR's itself has raised some basic policy questions which will be pursued in other meetings.

In this meeting we should demonstrate the necessary political will about objectives and the urgency of finding practical means of achieving the objectives. We need to concentrate on securing decisions, through the appropriate international organizations, which would produce practical results as quickly as possible. Apart from the Trust Fund, we should concentrate our attention on arrangements to stabilize export earnings as Helmut has suggested. There is already a general consensus that this is the most promising area for action, and one which lends itself to rapid progress in meeting LDC needs. Dr. Kissinger's proposals for a Development Security Fund,[6] proposals now in the IMF, and others of the same general theme show that a great deal of common ground has already been marked out.

I have two additional points. First, there is already an existing arrangement in the IMF on which we can build and improve rapidly. Second, the most pressing problem is to mobilize the required financing. There is some scope within existing IMF resources and also the attractive possibility of using some profits on sales of IMF gold. We should build within the IMF or from it, though there are a variety of

[6] Kissinger put this proposal forward at the UN General Assembly Seventh Special Session; see footnote 6, Document 112.

options. I believe, and I hope my colleagues will agree, that practical action to implement enlarged arrangements to stabilize developing country export earnings are urgent and our governments should co-operate to secure it.

So far as other organizations are concerned, there are other avenues of approach whose effects will take longer to work through but are of vital importance. We should each do what we can in respect of the fifth replenishment of IDA, an increase in the capital subscriptions of the World Bank and IFC, and contributions to the International Fund for Agricultural Development and to the World Bank's Third Window. There are also US ideas on the table for utilizing private capital, such as an International Investment Trust, which I find attractive, and guarantees for developing countries to borrow in our domestic markets.

Not all of these ideas are uniformly welcome to all of us. The UK, for example, cannot at present open its capital market to the LDC's to borrow, and we entered a specific reserve on this at the Seventh Special Session. On the other hand, we strongly support the IDA replenishment and we hope others will support it according to their means.

We also hope for progress in the commodity field. We want to end up with better arrangements for world trade in commodities. We in the industrial world want to be seen as doing this, taking a lead in achieving these improved arrangements. What form they would eventually take is not yet clear. We all no doubt prefer a selective approach, commodity by commodity. Each product has its own pattern and characteristics and method of financing. The most appropriate arrangements can only be found through negotiations between the producers and consumers of each commodity. We might not be able to achieve this entirely, and it might be a slow process. I first advocated this myself in 1946.

There might be some merit in a coordinated approach to considering different commodities. At the Kingston meeting in May, I suggested the possibility of a general agreement on commodities, which one could spell with capitals or not, which would embody an accepted set of general principles. This is preferable to the UNCTAD proposals for an integrated approach and one fund for buffer stocks, which is based on the assumption that all commodities should be treated similarly and should be subject to the same kind of control. Nevertheless, I would not oppose further study of the integrated approach and a common fund. Our overriding aim must be to avoid schemes which are inequitable and impractical.

If we can make headway in the discussions of individual commodities, one by one, so much the better. There are signs that some of the developing countries are beginning to see more merit in this approach. The prospects are not too discouraging. But we have to face the fact that the OPEC syndrome is catching on. There are already phosphates-pecs, bauxite-pecs, banana-pecs and others. A new tin agreement has just been concluded and there has also been a useful negotiation on cocoa. Coffee is under active negotiations, as is a new wheat, or possibly general grains, agreement. Copper is being studied in various forums; it is one commodity which is now no higher in price than it had been before the commodity boom. On tea, we have just launched an initiative within the Commonwealth to consult Commonwealth producers on the prospects for an early agreement, to be pursued under FAO auspices. So we have some reason to be optimistic. We are less optimistic, however, with regard to a new agreement on sugar, when the present one expires at the end of next year, since sugar producers want an agreement starting at the price peak.

We must do what we can in the multilateral trade negotiations in the GATT to help the LDC's, while recognizing that we must be able to create more resources before we can redistribute them. We have to continue in addition to look for ways of getting more help to the poorest within whatever assistance we can provide.

In conclusion, we have won ourselves a breathing space. The initiative on these issues has, at least partially, been transferred to the sort of people sitting around this table. But we cannot rest on what we have achieved so far. The conditions of the developing countries have worsened while the expectations have increased. If any of us were importers of oil and other commodities, and faced droughts and the need to import food at existing prices, we would also feel extremely bitter. Led by OPEC and other "pecs" they will be pressing forward at UNCTAD IV and beforehand in CIEC; the needs of some of them are vitally urgent. There is also a political alliance between the more militant oil producers and other developing countries. And, for the same economic reasons, this is a time when we are least able to help them. In the hope of preserving world consensus, we must make clear our desire to help and to help the poorest most and first. I think that export earnings stabilization offers the most promising avenue, while for everyone the best prospect lies in early world economic recovery.

One last thing. Let me again point out the inordinate proliferation of world bodies dealing with these issues. Whatever the subject, there are at least 15, and sometimes 50, world organizations. I have commissioned a list of them. It is six pages, and excludes all EC organs and commodities. Including them it would be 6½ or 7 pages. I will avoid boring you but will distribute the list which I have prepared. This is an incredible load on officials. They say the same things in different organs. There is also the problem for ministers.

I remember in 1946–47, spending four months preparing the mandate for the FAO. I remember meeting an old curmudgeon in Washington—Sir James Gray. He said that Washington was a town of international beachcombers strolling around trying to form committees or organizations around the pieces of wood which they found. This list really is a challenge to the international community. We really have to study this.

Chancellor Schmidt: We should start in the EC.

Prime Minister Wilson: We are not being good leaders to the world as long as this proliferation continues.

Chancellor Schmidt: I want to get back to the field of energy. In the field of international energy there are two very important decisions to be taken. First is the test case for the capability of industrial democracies to really cooperate regarding critical energy questions. If we cannot live up to this test, we will not be able to achieve cooperation in some other areas. The energy policy field is of particular importance in 1975–76 in achieving economic recovery or failing to do so. If in 1976 there are unilateral political actions by OPEC, all of our recoveries can be expected to be along the lines Harold Wilson has described. I feel that another display of unilateral action in the oil area will emphasize the unpredictability of the situation, quite apart from balance of payments deficits. The result will be reduced world trade. This is a test case of our ability to cooperate together. It is one major decision we must take to overcome recession.

Second, with respect to some of President Ford's points: First, I commend his initiative to further production of energy resources. If it can be achieved, it will reduce the dependence of the West on OPEC. I take his remarks to mean that cooperation in the IEA should be strengthened. I should like to add two concerns of the Federal Republic merely in order to indicate how very great the distortions in the energy market are and their impact on the energy situation. In spite of the fact that oil is so expensive, at present in the FRG there are so many oil products on the market that domestic refinery production in some cases has been discontinued. Because the MNC's abroad have considerable production capacity, they produce far more than they can sell on traditional markets. This surplus production is thrown on the German market. They cannot get rid of their production on other markets. We have had to postpone setting up a national oil company for this reason. I am not saying this so that you will be sorry for us or to get sympathy, but just to state a fact.

This disruption cannot continue. Germany has no raw materials except intelligence, technology, and of course coal. The energy capacity of the world has increased over the last few months. The dumping of foreign products, especially the dumping of cheap heavy fuel oil, has meant that our only domestic energy source, coal, has been led to bankruptcy. Fifteen years ago, 140 million tons of coal were marketed. This year only 100 million tons of coal will be marketed. At the end of the year we will have a stock of 20 million tons of coal. The result is massive dismissals of workers in the coal industry, and a closing of mines. This is contrary to the development of national energy sources, which is a desirable objective. It is the ridiculous result of lack of coordination in the energy field. I am trying to bring home the consequences of short-sighted policy in the energy field. We started the effort to cooperate in 1973, this led to the results of 1974 in Washington,[7] but we have not yet been able to overcome a certain lack of cooperation even up to this afternoon.

As in the past, governments of the Western industrialized countries have not been able to envisage an overall energy concept. Individual countries have changed concepts and pursued national goals and prestige operations. They also have no common concept. The United States, United Kingdom and Germany as well, are all guilty of this.

I am profoundly concerned by this state of affairs. I have devoted some personal effort in preparation of the dialogue between consumers and producers, but I still do not see possible results. I do not favor an indexing system; the more prices and wages are indexed, the greater the rate of inflation, and this leads to greater difficulties. On the other hand, we shall have to accept it, like it or not. It is better than the producers just fixing prices every six months.

The idea of a floor price, or minimum selling price, is only theoretically sound. Theoretically it is desirable to protect energy resources through an MSP, in order to protect against foreign dumping. In practice it is not very important for the next few years because the world is convinced that prices will be high. And even if the idea is good, it is not very necessary at present. This is not a bargaining device versus OPEC, since when you mention it to them they just smile. If oil becomes so cheap that we need the MSP, then we can agree amongst ourselves to implement an MSP in order to see that revenue to energy producers is high enough.

The real problem is that the OPEC countries are still playing football with us. I really have not heard a sound strategy for preventing this. To be honest, I don't have one either. The other OPEC countries need a couple of years until they understand that recession, or trends toward lower growth in the world, would harm their expectations and mean that the aspirations of OPEC cannot be achieved. But this will not happen for a few years. Even the United Kingdom will have to reduce its North Sea oil expectations.

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[7] The Washington Energy Conference was held February 11–13, 1974.

The main question is how the big oil producing countries can be gotten away from the idea that they can from time to time adjust oil prices as they see fit without damage to themselves. A second question is how to get the developing countries away from their alliances with OPEC. The developing countries have suffered worse than us. We have flexibility far greater than that of the LDC's. Many of them frequently have to depend on one single crop. We must find a way to break up the unholy alliance between the LDC's and OPEC. But we cannot say so in so many words. We should do this in the CIEC by discussing the balance of payments problems of the LDC's and showing how they are being damaged by this situation. We can make the point that the newly rich countries have to take part in new developmental aid in accordance with their new riches. We will also have to convince the LDC's of our genuine interest in their well-being, by helping them in the area of raw materials.

We must find some way to make OPEC more responsible. We should not, and cannot, use force. We need a conciliatory attitude. We must attempt to convince the world that there will be no earthquake and that violent disruptions and demonstrations in the system will not occur in the near future.

In the future OPEC will be stronger than it is today. But the West has no new proposals to deal with them. If we had some there is no vehicle for proposing them jointly. This is a necessary field for the West to develop an economic strategy. This is why I am not sure we have had the worst of the world recession. OPEC could raise prices by another 10% next July, when the current freeze ends. The FRG can manage with a 30–40% oil price increase, but the world economy cannot. And whatever harm takes place will also include all of us—the US to a lesser extent and Europe to a greater extent.

Prime Minister Miki: Oil is a very serious matter to Japan. 99.7% of the oil used domestically in Japan is imported. Petroleum constitutes 80% of all the energy used in Japan. We do not have the kind of coal that others of you have. In the final analysis, the security of petroleum, conservation of energy use, and the development of alternatives are key questions. In the future, the supply and demand of energy will be tighter. The energy situation is still volatile and will continue to be a most crucial problem for us for a long time to come.

A multilateral understanding and concerted approach will be essential. Cooperation among the consumers and a dialogue with the producers will be two wheels of the vehicle for progress. Prior to the decision that OPEC made last month on price increases, I wrote personally to the heads of OPEC countries to explain Japan's views. The replies of these countries showed great reasonableness. Cooperation between consumers and producers is essential. In this sense, I greatly welcome the CIEC. Energy, development, and commodities will be dealt with in sweeping fashion. We all hope for clarification on the issues of a secure supply of production.

Secretary Kissinger has done lots of good work on the Middle East. I like to think that the problem is being improved step-by-step. I look forward to more good work by Secretary Kissinger.

I have been deeply impressed by President Ford's statement. His statement was highly suggestive and enlightening. With respect to the minimum safeguard price, we have some problems. We hope to further discuss this in the IEA. We have a 9% conservation target in Japan, but our energy situation is quite different from yours.

Unlike your countries, only 30% of Japanese oil is used of consumers, while 70% is used for industrial energy. There is, therefore a limit to what can be conserved with our best effort. We are, however, determined to do everything possible to conserve energy. We have 73 days of petroleum in reserve. Protection of our industries and wise use of our resources for improving human life should be the responsibility of everybody. All of us should do everything we can to conserve on the use of energy.

Ultimately, the energy sources of man will be nuclear fusion. This has reached the level of research and development. I propose not that we can realize the benefits of this today, because it takes a great deal of time. I suggest, however, that we make a long range effort to join forces, or divide the work for wiser research and development, on nuclear fusion so that this major effort can benefit from cooperation among us. I hope that we can reach an international agreement; but short of an agreement, we should give attention to the divisions of labor so that we can develop new energy from this source.

Prime Minister Moro: I have listened with great interest to President Ford. He mentioned certain measures or options on oil prices. Certain recent developments seem to justify a new effort to safeguard stability of the provision of energy resources of the West. Energy demand will increase, but supply will not, in the short term. OPEC countries will play a very important role. Some members will reduce their own production to ensure OPEC's position of strength vis-à-vis the West. The LDC's who are not oil producers are still faced with a severe balance of payments crisis. The accumulated surplus of OPEC countries increases the uncertainty on financial markets. This situation contributes to the advantage of the already strong developed countries and to the disadvantage of the weaker. This instability is also of concern to our countries, who account for 75% of the oil consumption and financial reserves of the West.

We should aim at greater stability in the energy market by developing more certain projections of consumption curbs. Japan's proposal for cooperation in research and development on fusion is very important and most appropriate. It will help us to plan a better world economy and to reduce the scope for disruption between supply and demand.

Then there is the problem of the transformation of the role, and a reduction of the intervention of, the multilateral corporations. Governments must take up the functions of those MNC's in control of the energy market.

Increased interdependence of the industrialized countries requires us to ensure equal access to energy directly or indirectly controlled by the Western world. We should try to eliminate excessive disparities in the positions of the industrialized Western economies.

We should also try to ensure equal opportunities in the use of recycling mechanisms, either bilaterally or multilaterally, to ensure proper use of currency surpluses, and to permit them to be used to develop new energy resources. Part of this increased financial availability can be used to expand the economy of the LDC's in order to reduce or close the gap between developed countries and developing countries.

President Giscard: With respect to energy, I would like to begin with the problem of conservation. All of us have established very effective programs. Consumption in 1975 was less than our target figure. The question is whether this reduction results from government actions or from the slack in economic activity. Will consumption begin to rise when activity begins to pick up?

We should encourage industries to use technology which requires less energy. It is possible to introduce techniques to conserve [*consume*?] less oil. This will not dramatically change the situation. It will only improve it. But the problem will still remain. We need to develop new sources internally. I recognize that there is a certain strategy underway on production and investment in the US.

I don't understand why we have not had more coordination on energy programs. Especially, there should be better nuclear cooperation.

The geographical distribution of oil reserves is not in our favor. Most exportable reserves are in the Middle East. It is useful to change the effect of such disposition in our favor, therefore exploration is extremely useful. That is why we hope that the Western Sea will be fruitful. New production is our only really effective response to the present situation.

The present status of the market in oil strengthens the cartel. As soon as a country becomes a producer it behaves like an OPEC country. These people tell us that we will move away from old trade roles and will have a new oil policy. This is related to the structure of the market. Perhaps the dominance of the multinational corporations in the market strengthens cartelization. What I mean is that supplying countries would normally sell only the oil which comes from their territory. Once the oil gets mixed into a universal cocktail, as the market is concerned, no country has the incentive to sell oil at a cheaper price. At the same time, the multinational corporations do arrange for intelligent distribution, but it is the only way to organize things. We must ask the question whether it would not be better to have a different strategy.

I understand President Ford's arguments rejecting indexation. Indexation does have the disadvantage which you describe, Mr. President. But producing countries calculate the price of oil in dollars. Because of inflation and exchange rate changes oil producer incomes have decreased and some of them cannot pay their bills. Iran, for instance, now finds itself short $2–3 billion per year below what it had planned for. They now want to up the price of oil to make up the shortfall. I agree that indexation is probably not the best solution, but it would be extremely useful for the industrialized countries to say they were trying to achieve some solution to this OPEC problem. This could be useful in dealing with the indexation pressures. Also, by saying we want more stable exchange rates we could allay some of the fears of the LDC's.

I recall in Secretary Kissinger's speech the statement that we could not accept being subject to the whims of the cartel. But in a way we are lucky, because some of the cartel members are moderate, like Saudi Arabia. And others have good relations with the US, such as Iran. If radicals took over, it could be an intolerable situation. In trying to have a dialogue we should go as far as we can in demonstrating our goodwill. And we should encourage, in turn, our partners to act with goodwill.

In the organization of the energy market we rely very heavily on the private market. Because of the nature of energy distribution and the sources of supply, we need a more organized market. So far the uncertainty of the problem has inhibited progress. We favor more actions to regulate the energy market and to avoid the present absurd situation with respect to energy prices.

Prime Minister Miki: I would like now to deal with energy and primary products at the same time. Japan is the world's largest importer of primary products. The issue of primary products should be neutralized in an efficient way. Through the dialogue with the developing countries and cooperation with them the problems of primary products can be brought closer to solutions. Primary products are the most important problems for the developing countries. Some depend exclusively on them. And development programs have been destabilized as a result of instability in primary product markets. We feel this in Japan. Therefore, in Washington on August 6, during my visit to the US,[8] I addressed myself to the promotion of LDC primary product exports.

[8] Prime Minister Miki visited the United States from August 2 to 10, stopping in Washington, Seattle, New York City, and Los Angeles.

A global scheme might be necessary to stabilize the earnings of developing countries from shortfalls in primary product exports. Dr. Kissinger has made an interesting proposal in the UN regarding the development security facility and I agree with the spirit of this. I have a further recommendation with regard to the IMF compensatory finance mechanism. I think we should put emphasis on the most seriously affected countries. Instead of being able to borrow 50% of their quotas we should let them borrow 120%, for the poorest. To stabilize the export proceeds of primary products, special schemes should be worked out.

Chancellor Schmidt: I should like briefly to respond to Valerie's remarks. If we were in the shoes of the oil producers, we would more easily understand that they want to maintain an established rate for their export proceeds because the things they buy and sell, and the success of their development plans depend on exports. And exports are the result of quantity times price. If one goes down, they don't have as much as they need. We may have to accept some form of indexing, but would our bargaining position really be any better as the result? We could someday be in the same situation again.

Another remark of yours, Valerie, could lead us a bit further. That is the question of whether the organization of the oil market should be in the hands of the multinational corporations in the future. I know very well a number of the gentlemen who are chairmen of the board of big corporations, especially the chairman of the US-based oil operations. I do not know about Shell or BP. They are very responsible people on one hand, but they do not really know the future of their operations. They are as helpless as our governments. They don't know what their future is. They are willing to accept advice, but we have none to give them.

Iran will be an energetic leader of OPEC for the time being. They don't like the multinational corporations; they want to deal between governments. This should not mean that we do away with the multinational corporations. We can use them to execute arrangements made between governments.

The draft prepared by the officials of our countries might be a nice Communiqué, but afterwards it would be lost. We cannot leave it as we have done so far to our finance officials and Finance Ministers. We must put something more into it.

President Giscard was right in July when he said that if we used political or military pressures it would eventually fail. But if we only use economic pressure, these countries will not take it seriously. We are facing a structural problem caused by change in the world energy market. There is a danger that this very great structural change could go on. The world has not been able to adjust very well in the last two years. I fear that it will not be able to adjust very much in the future to new disruptions.

Saudi Arabia is closely linked to the United States. It also has a great deal of funds in the City of London. I believe that they understand our problems. I know little of Venezuela, but I know more about Iran. The Iranians are well traveled, and they understand us better than we may believe. However, they are much too ambitious in their plans and above all in the kind of mentality by which they are led.

I am speaking aloud—I have no plan in mind yet. It may be advantageous to bring governments into direct contact with the oil producers in the near future. I don't say we should eliminate the multinational corporations—they are a good mechanism for sharing shortages and good marketers of oil. But they are not serious partners in OPEC capitals. In fact, they are despised. Theoretically, we should have an ordered market for oil as we have ordered market in agriculture, such as in the US and the EC.

I don't agree with the officials of my government on this. They are wrong. They want oil left to the free market, and feel that as a result Germany will get off better than the others. But to leave these decisions to officials somewhere in Africa or some Asian capital is not a good idea.

We could have a structural depression in the future as a result of this energy situation. It is ridiculous to develop our nuclear energy on a nationalistic basis or to deal with these issues purely on a national basis.

I don't believe that the conventional setup will lead to the necessary agreements. It is like hawks fighting in an arena. I asked myself, and this is not a German proposal, I asked myself whether or not we should not appoint one person in each of our countries to coordinate our policies, to understand the relationship between energy, raw materials, finance and monetary issues. If the situation goes on as it has done so far, it will not last longer than Easter. If the US speaks up as it did early this year at Prepcon I,[9] and the EC does, the world will have the impression of disunity. The world should have the impression that we want to cooperate with one another. A strategy for cooperation is needed.

Prime Minister Wilson: The question of more or less power for the oil companies has been discussed. I am not sure we have that choice. The leaders of OPEC are leaders of superstates. They have power that none of us would aspire to. In 1973, during the Yom Kippur War, the Dutch were blacklisted by the Arabs. They tried a total boycott of the

[9] At Giscard's invitation, oil producing and consuming countries met in Paris April 7–15 to prepare for what would eventually be known as the Conference on International Economic Cooperation.

Netherlands, sending them no oil. But the companies took their own decisions and acted above the state in the UK. They acted in accordance with their normal role up to a point, but at a place off of what is known as Land's End, in Britain, where the ships wait to get orders, many went not to their original destinations but to Rotterdam despite the oil boycott. The oil companies have very sensitive arrangements, and we should think twice if we think we can control them.

A second point, we need to admit that a lot of things have happened since oil prices have gone up. All of our discussions and all the multitude of international organizations failed to provide any common strategy at all. I don't mean only in the EC, but for oil consumers in general. I do not know what the strategy should be. I certainly don't want confrontation between consumers and producers. I am attracted by David Rockefeller's[10] view that we should try to persuade OPEC to take a long term view. Some oil producing countries have a short term survival rate on oil. Their children may be paupers in two generations. In such cases we should persuade them to produce through helping them build up other types of production.

We should also consider new methods of getting energy such as tar sands and shale oil. However, I warn against in situ production. I hope you can find an in situ process that works. I doubt it, but I hope one can be found in our lifetime. In any case, we should emphasize research and alternative energy resources, and we should protect our alternative sources. Nuclear is expensive, and there are some problems. But it is important. One key problem is disposal of waste. We need more research on this; for instance, I gather that it can be turned into a type of glass. The UK is developing a steam generating light water reactor, like the US. We need to do more in the nuclear area. We were all told the the fast breeder reactor was the answer. We were told that this would not merely conserve but breed. But not one bit of new uranium has been produced; it has proved to be infertile. It is no more fertile than the pandas which were in the London Zoo for 15 years and didn't touch one another.

Finally, the Group of 77 has asked for four more seats at the Conference on International Economic Cooperation. I find it hard to believe that the country which will in 1980 produce 90% of all oil in Europe should not be represented.

President Ford: I should like to have Henry make an observation or two.

[10] David Rockefeller was the Chase Manhattan chief executive officer and board of directors chairman, an economist, philanthropist, and brother of Vice President Nelson Rockefeller.

Secretary Kissinger: Thank you, Mr. President. I appreciate this opportunity. A number of the people around this table have expressed solicitude about my condition. They are not used to seeing me silent. It is unfamiliar to them.

I was impressed by the observations and train of thought of Chancellor Schmidt. I agree that we do not have a complete strategy, but I should like to analyze what we have been lacking.

Our strategy has been to transform market conditions for oil. Our basic theme has been conservation and the development of alternatives. Our goal is to reach a point where OPEC loses its unilateral power to control oil prices. This cannot occur before the 1980's, and in the next five years conditions mentioned by the leaders here will obtain.

At the same time, we should not talk about OPEC as a monolith. OPEC sets prices because it has the power to control production. The multinational corporations, as was mentioned, do help it, because it is more difficult to get individual countries to cut prices if the multinational corporations, which are technically equipped and familiar with the market, manage exports for them. OPEC cuts production to achieve set prices. On the other hand, cuts in production are not uniform. This is an opportunity for us. If the West has the strength to absorb the financial surplusses of OPEC, they must export oil in order to import goods. Iran can no longer significantly cut production to sustain oil prices. Iran is tempted to increase oil to keep up exports.

Chancellor Schmidt: Iran has already tried to make separate deals with us to export more oil.

Secretary Kissinger: That is exactly my point. To the extent that separate deals are desired by Iran, if consuming countries are not willing to deal at present prices the prices would weaken. Algeria, Iran and Iraq cannot afford to cut production. Only one country can cut production—Saudi Arabia.

Chancellor Schmidt: Also maybe Libya, Kuwait and the United Arab Emirates.

Secretary Kissinger: I agree. What this amounts to is that OPEC is playing with Persian Gulf chips. Iran provides the intellectual leadership, not the economic leadership. In addition, the countries sustaining oil prices are politically the most vulnerable; they cannot politically or psychologically sustain real confrontation with the West. We should not give them assurances by avoiding confrontation.

The military threats from American officials several months ago resulted from lack of planning and some bureaucratic disputes. But after the initial outburst, and after all our friends had disassociated themselves from us, the oil producing countries came to us to ask what was needed to prevent this course of action from happening. We should attempt to convey the idea that Saudi Arabia cannot underwrite the oil price increases for free without paying an economic and political price. I am confident that if one country's attempt to exert pressure for lower prices is successful with a particular oil producing country, other consumers will jump in and take advantage. The oil prices are being maintained by moderate countries in OPEC—those who are most psychologically dependent on the US. We can do a lot if we are not immediately disassociated by our colleagues. We expect a cry of outrage from the producers. We can take that if we are not disavowed by our friends.

We agree on the need for cooperation with producers. With cooperation we can separate the moderates from the radicals within OPEC, the LDC's from the OPEC countries, and prevent a lot of other "pecs." There is now much greater flexibility on commodities in the US government than in the past. The President only two weeks ago overruled some agencies unwilling to go ahead with certain commodity negotiations.

Our strategy is to link these energy discussions with commodities. We should try to break what the Chancellor correctly called the unholy alliance between the LDC's and OPEC. This can happen, and we can achieve our results, if they know that their disruptive actions could stop discussions on commodities or that they will pay a price in terms of cooperation, or military exports. In this way we can combat our dependence with a coherent strategy.

It is highly probable that within the next year or two some industrialized OPEC countries will approach some of us for bilateral oil deals. Saudi Arabia is about 6 million barrels per day below capacity. Others are at the top of their production. It would be suicidal to enter a dialogue without cohesion among the oil importers. We should not be deceived into thinking that cooperation among us is confrontational vis-à-vis OPEC. We can, in this way, hold our ground if we are confronted. Consumer countries should work out a common strategy between now and 1980, for the next five years.

President Giscard: I found Henry's analysis on energy to be very interesting. His analysis of market strategy is right. It is in our interest to have a technical situation in which the OPEC countries sell large quantities of oil.

On the issue of confrontation, however, we should be careful. Confrontation strengthens the hands of the radicals at the expense of the moderates. In an international climate of confrontation it is important for the moderates to disassociate themselves from the radicals.

If the US wants to create special tensions, we could be apprised of the results. But a joint confrontational stand places the moderates in a difficult situation. And, if Secretary Kissinger's strategy is right, there will be some elements in our economy who will not be benefitted by a drop in oil prices. Some of our energy sources have aligned their prices with the oil market, for example natural gas. Therefore, national production is aligned with high oil prices. This level is a sort of floor beyond which OPEC prices will not fall.

With respect to energy strategy, European strategy depends on coordination among the Nine. I hope we will engage ourselves in a homogenous strategy. Then the nine states can coordinate with the US and Japan. We could agree that if countries try to make bilateral deals with us, we should consult. We could agree to consult before exploring the matter to see how to make their response accord with common strategy.

Chancellor Schmidt: I feel there is no basic disagreement between Secretary Kissinger and President Giscard. I still feel that the reality of coordination among the six countries here differs from a partial strategy. I urge that President Giscard's last intervention be taken up, that a country will inform us mutually when offered special deals. I also urge that we do the same when we make special deals with respect to the delivery of industrial products, especially preferential deals. This partial strategy can work with a measure of solidarity at the bargaining table and cohesion here to facilitate its success. The will for solidarity of action has not fully emerged. We can talk about this further.

However, in less than one year everyone may be trying to rescue their own skins. This is a critical problem. Giscard was right last summer—this is an issue of grave political weight for the oil importers. Both the US and the UK will continue to be net consumers. If our countries run in different directions they will create a crisis in the industrialized West. Our destiny will lie in the hands of a few OPEC leaders rather than in our hands. After some recovery, we may be in a deep mess unless solidarity can be practiced.

Prime Minister Miki: We need solidarity among the consumers to avoid confrontation. But we will not solve the problems of the consuming countries without dealing with the producers. The producer nations want industrialization and they need aid from the industrialized countries. The Fourth World and OPEC might be divided. The non-oil producing LDC's take a dim view of OPEC. The producers do not like to see great divisions between them and the LDC's. The consuming countries should continue to engage in a dialogue with the oil producers. In this way OPEC can become more rational and logical in its orientation. We should not give up hope.

President Giscard: We need an upturn or we risk competition with one another instead of a coherent energy strategy. We must show the developing countries that we are aware of their problems. We must also adopt strategies which do not make these countries indifferent to energy price increases. We should try to isolate to some extent the oil exporters, while showing them that we are aware of their problems. But attacks can strengthen the solidarity of the LDC's.

Without being sentimental, we must recognize that the developing country problems are difficult. And their economies are important parts of world economic equilibrium. We must not allow them to join together with OPEC in a bloc, and not make them indifferent to the world price of oil. For instance, we should be careful about expanding the IMF facilities so much that the LDC's think that whenever there is an increase in the price of oil the IMF will bail them out.

In any case, an increase in aid, given the situation with respect to our national budgets, is extremely difficult. We ought to find better ways of directing our bilateral aid. By using monetary assistance we create a lasting world inflationary situation. This will push the credit situation to a state of permanent tension. Certain commodity arrangements might be helpful, and we can find things that can be done in this area. We can set up reasonable and effective arrangements in commodities. Copper and tin, for instance, can be stockpiled, and cannot be manipulated by certain countries. We should also give thought to the stabilization of LDC exports. Such a system would contribute to the stability of the world economy. We should show awareness of the importance of continuous improvement in the lot of the LDC's.

Prime Minister Wilson: The effects of the world oil and commodity situations have divided the LDC's. Some have been able to compensate themselves for oil price increases. Many LDC's pay, as the result of the increases, a great deal more for machinery and feed grains. A fourth group is starving because of drought or floods. Bangladesh has suffered as a result of first a drought, and then floods.

I agree in a strategy of parallelism between oil and commodities. We have our own situation, and our problem with respect to oil. But some countries have a more important set of problems relating to commodities. None of us gains from periods of boom and bust. Booms are harmful to prices in our various countries; in the UK we almost needed sugar rationing last year because of the shortages. We therefore have no interest in price booms. But neither are busts in prices useful to us because they lead to underproduction.

I agree with President Giscard about budgetary aid. This is a matter of great political sensitivity. We have increased budgetary aid for the developing countries. We should continue this at a time when many of them suffer from major problems. Budgetary aid rather than financial assistance is the answer to this.

Chancellor Schmidt: The developing countries are going to have a $35 billion balance of payments deficit. They have almost reached their capacity of borrowing—that is the LDC's other than OPEC. We have to help them. We ought to say in our statement something about their enormous deficits and point out our dialogue strategy. Our objective should be to sever them from OPEC. We should also help them in order to aid recovery from world recession, and we should do it for moral reasons.

I am not convinced that the UK and France speak for all of us when they say we should speak up for development aid. It is not the most important thing that we strengthen the arguments for classic development aid. It is more important that we educate the developing countries to understand, think, and operate in market economy terms. We should make them understand that in the long run they can't spend more than they earn. We should help them to earn more rather than get more and more aid. And helping them to earn more will in part be dependent on the growth of the industrial countries.

How can we help them earn more money? One way is the SDR–aid link. As much as I have always been opposed to creating SDR's, since I believe there is enough world liquidity already, and as much as I have opposed the SDR–aid link which gives a greater percentage of SDR's to the LDC's, we could now think of this as one way to create new reserves. We could grant SDR's only for the developing countries. We would all declare that we wanted to be left out, thus giving the new SDR's only to the developing nations.

My main point is that we should do something analogous to the Lome agreement.[11] This is a good idea which could be refined and extended to other countries. It could be a global system under which a number of LDC's are given benefits. In this way the export earnings of a certain number of commodities could be stabilized. We would need funds for shortfall payments to the developing countries. If they earned more in the next period, they should pay it back. If they can't pay on time, they need to pay interest. There could be a lower interest rate to countries which can afford it less. If this were made part of the IMF we could use some other resources to subsidize the interest which developing countries would pay. This would be more than the Lome model. It could be done with all industrialized countries on one side and all the developing countries on the other. It would take into account total raw materials exports. And this could be in the upcoming dialogue.

All of us have a deep interest in free trade in the world, which we discussed this morning before lunch. I want to stress this particularly—

[11] On February 28, 1975, the EC and 46 LDCs signed the Lomé Convention, whose provisions included an earnings stabilization fund for LDC primary commodity exports (known as Stabex); free entry into the EC for most LDC primary commodity exports; MFN status for EC exports to the 46 LDCs; and various development assistance initiatives. (*The New York Times*, March 1, 1975, p. 1)

that we should make it clear that we are not giving up the market economy for something else. In general, we should stress the free market apparatus. We should keep as much of the system as can be maintained. I am opposed to any international dirigism. There may have to be exceptions on oil, but those who depend on the world market should use the dialogue to indicate that we are not giving up the market, which is essential to our survival.

Prime Minister Wilson: Some of the developing countries are becoming more assertive with respect to their raw materials. The bauxite producers have imposed an export tax. Also some developing countries are refusing to export raw materials. The bauxite producers want to have their own alumina plant. Iron exporters want to process iron into pig iron.

If we stabilize prices, we are helping the wrong people. We need a change in our aid philosophy. Instead of helping the raw material exporters who can achieve big successes, we should say that aid should be primarily used to help countries get off the ground. This is the reason for giving emphasis in our aid to rural development.

The proponents of the new International Economic Order which Chancellor Schmidt criticizes, have supported many commodity initiatives. They also say the IMF and the World Bank should be democratically controlled. When created, these institutions had stockholder control; now the consumers want greater control than those who put up the money. They spend the money, others can contribute it. At Jamaica we succeeded in reducing support for this concept.

Prime Minister Moro: Consumer/producer arrangements are important, or even necessary, to achieve stability of industrialized country supplies and to contribute to development in the less developed countries. We should try to find effective solutions to the raw material problem and avoid price disruptions. We should not try to stabilize prices. That could lead to consumption modifications. The position of the raw material producers is not as strong as OPEC. We should seek stabilization of the commodities market, and protection against too great fluctuations in raw materials. In the 7th Special Session there was a suggestion to create stocks to stabilize prices. We need to achieve a certain international balance between us and the developing countries.

President Giscard: I have three comments:

—For India, Bangladesh, and Pakistan, there are not many solutions.

—In talking about the transfer of public real resources we need to reaffirm the need for emphasis on health and agriculture.

—The Lome agreement has not yet led to the spending of a single dollar, pound or franc. For the time being it has not yet been applied. We should follow how the mechanism operates before we extend it. Lome will not prevent cartels. But if we have commodity arrangements, the LDC's will become accustomed to talking prices with the producers and may avoid, as a result, unilateral price setting.

With respect to the final document, I believe we should draft the text in the form of a declaration. Some others think the draft should be done along the lines of a press release. Do we favor a declaration or press release, or both?

Prime Minister Miki: The current draft contains some specific economic formulations. The Foreign Ministers are working on a detailed document. It can be used for the press. Perhaps we might have a separate declaration, of the type we have prepared, of a more political nature.

Prime Minister Wilson: Such a declaration would not be suitable for everyone. The Japanese statement is a sort of Communiqué. I do not think this would do the trick.

President Ford: I support Prime Minister Wilson. Much work has already been done on the Carlton draft, and I think we should stick with it.

President Giscard: We have been proceeding on the basis of the Carlton group paper. We should add to the document wording reflecting our discussion today on energy, raw materials and development. The Finance Ministers have already been drafting wording on the economic situation, trade and monetary issues. The Foreign Ministers should do a text on what we have done this afternoon.

Foreign Minister Sauvagnargues: We must recognize that we cannot speak in behalf of the European Community on subjects which are in the competence of the European Community. On the subject of energy and raw materials we are working under an EC mandate. We have said things here which go further than we have gone in EC forums. The draft of the Carlton group is general enough on one hand not to disrupt our strategy and on the other hand not to hurt with respect to EC discussions.

Prime Minister Wilson: I have more confidence in the Foreign Ministers than M. Sauvagnargues.

President Giscard: During the discussions there is a difference between what we have said and what we have agreed on. We go along with the conclusions. The question now is what will be said. The fact that we don't publish it doesn't mean we haven't agreed.

Could the Foreign Ministers meet tomorrow at 9:00 and the Heads of State at 10:00. The Foreign Ministers will join us at 11:00.

Prime Minister Miki: I hope that you will put the spirit of our declaration into the Communiqué if you publish only one document.

President Giscard: Yes, the Foreign Ministers will try to do this. They will try to include as much of the Japanese document as they can.

125. Memorandum of Conversation[1]

Rambouillet, France, November 17, 1975, 10 a.m.

Prime Minister Moro: I should like to discuss economic and social relations between the East and West, particularly relations between Western Europe and Eastern Europe. To counterbalance the influence of the Soviet Union in Eastern Europe, it is necessary to emphasize that we are attractive partners for Eastern Europe in East-West economic relations. Communist countries take 5% of the overall exports of the industrial countries. The amount varies from one to another—7–8% for some, 2% for North America. In 1974 industrialized countries' exports to the Socialist countries amounted to $27 billion, and their imports were $23.4 million. For the Socialist countries trade with the West varies in importance. Many are dependent on us for imports of machinery. The Soviet Union imports 5% of its GNP. We in the West import maybe 2.5% of our GNP from the Soviet Union.

Thus, East-West trade, for us, is not particularly important. The amount is not very high when compared to world trade, but is qualitatively important. First, economic relations between the East and the West are important factors in world stability, and are closely related to détente between East and West. Thus it contributes to improving relations. And it helps to improve the standard of living in both of our economic systems over the long run.

In the development of economic relations between the East and West, trade has been stepped up in the past few years. But the East has had a deficit since 1972. The result is that the relations between imports and exports with COMECON have worsened. The East has experienced a structural balance of payments deficit. The reasons for this trend have varied. The Eastern nations need plants and technology from the West. But the intensive economic development of the Socialist countries has not yet enabled them to produce goods of a quality satisfactory to the West. The recession in the West has also led to an imbalance in trade. But the increase in the deficit is worse with the smaller Eastern Europe countries. The Soviets and China have exploited the oil price increase and their markets in East Europe in order to increase wheat and cereal imports from the West.

[1] Source: Ford Library, L. William Seidman Papers, Box 312, Foreign Trips File, International Economic Summit, Nov. 15–17, 1975—Memoranda of Conversations and Notes on Discussions. Secret; Nodis. The meeting took place in the Chateau de Rambouillet, approximately 30 miles southwest of Paris. (Ibid., President's Daily Diary) This memorandum of conversation covers the summit's fourth session. For a list of participants, see Document 122.

The traditional East-West framework has not significantly changed. It should be emphasized that there has been an increase in percentage of exports of manufactured goods sold to the Socialist nations. Exports of these products were $2 billion in 1972, $3 billion in 1973, and $4 billion in 1974. Half of the deficits concerned China.

Western export credits have been extended to allow Eastern countries to strengthen their industrial production: but these countries cannot produce enough to pay off these loans with exports. However, the structure of planned economies makes it easier for them to call on credits from the West. The Soviet Union has been the main beneficiary—with $57 billion of credit outstanding at the end of 1975. The credit enables the Soviets to provide financial aid to COMECON countries which have deficits with the Soviet Union. The West has also lent money to COMECON, which has an outstanding debt of $7.7 billion in 1973 and $9.7 billion in 1974. There also is a trend toward the development of bank credit to East Europe countries, but the banks have been cautious.

The rules in the West to safeguard freedom of trade and to eliminate discrimination are difficult to apply in relations between the West and the East. Poland and Rumania are interested in commercial advantage, not simply political. Some of these countries are not able to guarantee strict adherence to the GATT. Nonetheless there have been some results through closer trade relations with the East. A gradual expansion of trade has taken place. The possibility has also arisen of the Soviet Union and China becoming associated with the GATT on specific problems. Rumania is already in the IMF, but certain advantages of membership might lead others to apply. However, we must also recognize that the bilateralism of East Europe is not consistent with the rules of the Fund.

It is important that East-West relations should be seen in the framework of international economic relations—including North-South relations—because of their interrelationships. The $30 billion balance of payments deficit of the non-oil producing developing countries for 1976 is a threat to world economic recovery. This might lead an important part of mankind toward misery and hunger. The volume of credit to the Socialist countries, under these conditions, is not justified. These countries present themselves as privileged partners. The Soviet Union contributes only about $5 billion to development in the Third World, and this is mostly to Socialist countries. It is time to increase the Socialist program of aid to developing countries, particularly in multilateral institutions. They should help solve the balance of payments deficit problem for the developing countries, and also participate in price stabilization and currency facilities.

We should control and monitor the trend of credits to the Eastern countries. They should not be allowed to receive sales conditions detrimental to Western markets. We should assess the implications of industrial production arrangements which are not determined by market forces and practice and which call for payment in goods in return for capital investment. We must also pay attention to differences in interest rates and the duration of credits to the East. The recourse of the East to bank credit could support trade. The Western countries should harmonize their credit policies with respect to the East. There should be a minimum interest rate to be reviewed periodically and understandings on the maximum duration of credit. We should commit ourselves not to delay further in reaching agreement in these issues.

With respect to trade in primary commodities, we have to recognize that raw material shortages are harmful to Western economies. To the extent that we help Eastern countries to exploit their resources, the West gets more raw materials. We should, in addition, coordinate on our raw materials deals.

The rules of the West are sometimes difficult to apply in East-West economic relations. The Eastern European nations operate between planned and market economies. This leads to asymmetrical behavior, which in turn leads to conditions of weakness in industrialized countries. It is easy for the Eastern countries to compete with the West on credit facilities. Today and in the future there will be certain export opportunities for us thanks to a common effort of coordination. We should avoid extending excessive credit facilities to the Eastern European countries, and we need better coordination among ourselves in a number of areas, for example, on large resource enterprises, on common policies to force an opening up of Eastern markets with respect to consumer goods, on trade of industrial products on a stable basis, and on avoidance for dumping. The European Community, Japan and the United States should engage in intensive coordination.

President Ford: I welcome the inclusion of East-West economic relations in our agenda for this meeting. It is our belief that the development of strong economic ties with the countries of Eastern Europe, the Soviet Union and the People's Republic of China represents an essential element in our overall policy. Close economic ties and increased trade enhance our ability to foster restraint and cooperation in the behavior of the communist countries.

I need hardly tell you that today East-West trade represents a multi-million dollar exchange of goods and services between more than a dozen industrialized nations and close to a dozen communist countries. The growth of such trade has been striking. Twelve years ago, in 1963, the level of such trade was only about $7 billion. At the end of last year, however, the volume of East-West trade had increased to well over $40 billion, with prospects for continued rapid growth.

For many years, the role of the United States in East-West trade was negligible. This is no longer the case. The United States has a direct interest in improving our economic relations with the communist countries, and in increasing the level of our trade with them. The level of our East-West trade has been relatively small, in comparison with the trade of most of your countries, and last year amounted to only a little over $3 billion. By 1980, however, we anticipate that under normalized trading conditions the volume of our trade with the communist countries will rise to more than $11 billion. Clearly, the role of the United States in East-West trade is a subject not only of national importance, but one of importance and interest to all of you.

My country intends to continue the strengthening of détente through improved economic relations and increased trade with the communist countries. I am sure you are aware that the Trade Act of 1974 contains amendments which restrict the normalization of our trade with these countries by linking the extension of Most-Favored-Nation tariff treatment and the availability of government export credits to improved emigration practices. We are seeking to modify these restrictions, which have proved to be harmful to our own national interest and have not achieved the benefit for which they were intended.

In concluding a long term grain sale agreement with the Soviet Union, we have taken a step which we believe to be economically beneficial, and one which reinforces our overall relationship. We believe this agreement will stabilize the Soviet Union's erratic grain purchases, which in recent years have sent grain and food prices soaring. Most importantly, this agreement should help to dampen undesirable price fluctuations to the benefit of all buyers of US grains.

I would like to emphasize that with respect to our commitment to the USSR, we are free to reduce exports if our own grain supply in any given year falls below 225 million metric tons. At that level or above, we are confident that the United States can meet the needs of its traditional customers.

I would like to add that with regard to our proposal for an international system of grain reserves, our agreement with the Soviet Union is designed to meet only average Soviet demands. It does not provide the Soviets with any assurances on meeting their peak demand, such as occurred this year and in 1972. Such assurance is obtainable only through the international coordination of grain reserves, which would include Soviet participation, as we have proposed.

You are aware that parallel to the conclusion of our grain agreement with the Soviet Union we have been conducting negotiations with the USSR on the purchase and shipment of oil. I want to assure you that any agreement we may reach with the Soviets on oil will in no way threaten the cooperation on energy matters now established among the developed consuming nations. In fact, we anticipate that the Soviet supply will represent a net addition to the petroleum resources of the West.

We are all aware that increased East-West trade must rely heavily on credits extended to the communist countries to finance their imports from the industrialized Western world. We do not believe, however, that it is economically wise, nor in the general interest, for us to compete among ourselves in providing low cost credits to the communist countries. We believe that it is preferable of us to harmonize the credits extended to these countries, and to set rates which are more reflective of the market. An important first step in this direction can be taken by concluding the Gentlemen's Agreement, on meaningful terms.

I know you agree with me that in the area of East-West economic relations, as in the other areas that we are considering at this important meeting, we must work closely together to ensure that our policies are consistent and in the mutual interest of all concerned. We stand ready to consult closely with you in the conduct of our economic and trade relations with the communist countries. We hope that you will be ready to join with us in such consultations. By working closely together in this area, I am convinced that we can continue the fruitful development of East-West economic relations, which play an essential role in further progress toward détente.

Chancellor Schmidt: I support the Gentlemen's Agreement on export credits and I hope reservations can be overcome. Others take it for granted that there will be an understanding on this.

Prime Minister Wilson: I agree with the lines of Prime Minister Moro, President Ford and Chancellor Schmidt with respect to the Gentlemen's Agreement.

President Giscard: With respect to the harmonization of credit facilities, I should like us to bear in mind two factors. One, we already have existing agreements, and we cannot modify these. The only steps we can take concern new agreements. Two, there are the issues of the duration, rate and certain elements of the repayments arrangements. Harmonization must concern all elements. For the time being, there is no harmonization on duration or repayments. We favor negotiations, but we cannot agree unless the negotiations cover all elements of credit arrangements.

Prime Minister Wilson: Our main problem is that we do not know the terms provided by others. The USSR frequently plays countries off against one another. They try to talk interest rates down. They say someone else is offering a better deal. If you don't believe them and you reject their offer, and they happen to be telling the truth, you don't get the deal. If they lie, and you go along with them, then you get involved in a process of undercutting. It is useful to know what the others are doing. Romania plays this game too.

President Ford: There seems to be a high degree of unanimity on the need for a Gentlemen's Agreement. We strongly favor it. If we don't put it in the Communiqué we lose the impact of what we are seeking to accomplish. If we put it in, we tell the Soviets that the industrialized countries in the future intend to do something about it. They should know of the unanimity at this meeting. It would lose impact if we leave it out.

Chancellor Schmidt: I agree with President Ford. In these arrangements the old deals would not be submitted. So, Valery, one of your points is easily covered. This paragraph is in the Carlton group draft—paragraph 12.

President Ford: All we need is a two line sentence that we will intensify efforts to achieve prompt conclusions of negotiations now underway to reach a Gentlemen's Agreement on export credits.

Chancellor Schmidt: I agree. We need a conclusion of the negotiations now underway concerning export credits, deleting the word "Gentlemen's Agreement."

President Giscard: Yes, I suggest we add this statement by Chancellor Schmidt. What shall we call this document? The Declaration of Rambouillet, or how about the Rambouillet Declaration?

President Ford: I understand there are two matters which are still problems.

Minister Fourcade: Yes, there are two sentences which are problems. They are in brackets. The first is a detailed discussion of what we should achieve in trade negotiations. Some ministers felt it was not a good idea to go into such detail and that this did not add much to acceleration of the Tokyo Round. The second sentence was a Japanese proposal designed to achieve maximum possible level of total liberalization.

Chancellor Schmidt: Seems to me that both sentences are valid. We should express both themes. I move we suppress the brackets and sustain both sentences. If we include them, it will give an affirmative message. It will give people the impression that we are interested in substance rather than just words.

President Giscard: All we can say is that we want to accelerate the negotiations, not take a different stance. Might I remind Chancellor Schmidt that this is a Community issue. All we can do is to reiterate what we have decided.

Chancellor Schmidt: Surely we can say something about specifics, and that is not inconsistent with our mandate. We have agreed to the Tokyo Declaration, after all.

President Giscard: Why don't we put at the end of the sentence on specific items the phrase "in accordance with the mandate agreed to in Tokyo."

Secretary Callaghan: Why don't we put this at the front of the sentence so that it reads "in accordance with the Tokyo Declaration . . ."

Prime Minister Moro: We welcome rapprochement of the US and France in respect to monetary problems. Minister Fourcade has given information to his colleagues on this. It appears that as regards the arrangements for consultations relating to this issue, there is supposed to be daily consultation among central bankers of the Five, with consultations on a weekly basis by Ministers or their representatives. We would like these consultations to be expanded to Italy: from a political point of view this would be helpful.

President Giscard: We understand this problem of Italy. With the agreement of the US delegation we could replace the number of Five by the phrase "central banks concerned" or "number concerned," and this will be decided in January.

Prime Minister Moro: Couldn't we just say the "ministers concerned" or "central bankers concerned." In any case this probably will not be published.

Minister Miyazawa: I suggest in the section on monetary issues we delete the brackets around the words "and other appropriate fora."

Chancellor Schmidt: I agree with Mr. Miyazawa.

President Giscard: There also seems to be a problem with paragraph 15 on energy.

President Ford: The US strongly believes that paragraph 15 reflects what we discussed yesterday, and should be included. It is an integral part of yesterday's discussion, indicating that our cooperation is essential. I recommend deletion of the brackets in the third sentence of this paragraph.

President Giscard: If we were asked we would have to spell out that this does not mean the IEA.

Prime Minister Wilson: This indicates that we would continue to cooperate closely, it implies no change.

President Giscard: We should also provide some cooperation with LDC's.

Chancellor Schmidt: That is not in paragraph 15.

President Giscard: But that is a broader dialogue and not only referring to energy.

Secretary Kissinger: We are talking about continuing to cooperate closely. We can make a modification to meet this need.

President Giscard: Okay. We can accept that.

Time is short. Lunch is in five minutes. Then we will have a press conference and then go 200 yards on foot to the city hall. There we will have short statements by each of us. Then we will come back.[2]

President Ford: I should like to thank President Giscard d'Estaing for his hospitality. I am sure we are all most appreciative.

[2] For the final text of the Declaration of Rambouillet, issued at the end of this meeting, see Department of State *Bulletin,* December 8, 1975, pp. 805–807. It was also printed in *The New York Times,* November 18, 1975, p. 14. For President Ford's remarks at the end of the meeting, see *Public Papers: Ford, 1975,* Book II, pp. 1883–1884. The text of Kissinger's and Simon's press conference following the last session is printed in Department of State *Bulletin*, December 8, 1975, pp. 807–810. Their statements were also transmitted to all diplomatic and consular posts in telegram 272808, November 18. (National Archives, RG 59, Central Foreign Policy Files)

126. Notes on an International Monetary Group Meeting[1]

Washington, December 5, 1975.

I. Exchange Rate Arrangements

A. *Proposal for Article IV*

1. Under Secretary Yeo has presented the French/U.S. exchange-rate agreement[2] to Germany, Canada, the United Kingdom, The Netherlands, Belgium, and will soon present it to Japan. (Only in the U.K. and Canada were representatives from the central bank present; in most cases a joint U.S./French presentation was made.) The agreement has been well-received. (The French have also briefed the rest of

[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B63, International Finance—General 1975 (1). Strictly Confidential (FR). Drafted by Truman on December 8. Attached to an undated note from Truman to Burns that reads: "You might be interested in the attached notes on the International Monetary Group meeting Governor Wallich, Mr. Solomon and I attended on December 5. You might also be interested in knowing that Treasury is sending the complete French/American memorandum of understanding to Representative Reuss today; Yeo will see him about it Tuesday."

[2] On November 17, Kissinger and Simon held a press conference while traveling on Air Force One back to Washington after the conclusion of the Rambouillet economic summit. Commenting on the summit's proceedings, Kissinger suggested that the U.S.-French agreement on international monetary issues was "perhaps the single most significant thing that happened there." Simon briefly described and answered questions on the U.S.-French memorandum of understanding, which had been initialed earlier that day, asserting his belief that the accord would "pave the way for agreement at the Interim Committee on overall monetary reform in January." (Telegram 272808 to all diplomatic and consular posts, November 18; National Archives, RG 59, Central Foreign Policy Files)

the EEC.) On Monday, December 8, a copy of the proposed Article IV will be presented to each IMF Executive Director.

2. The proposed Article IV has already been shown to Witteveen and Gold[3] of the Fund. They are not too happy with it, but they have been told that France and the United States will not consider language changes; they will consider substantive and operational changes.

3. Section 1 of the proposed Article lays out the general obligations of members with respect to exchange rates. To satisfy the French the language says, "each member pledges to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates." To satisfy the United States, all of this is linked to underlying economic policies and related obligations. The United States attaches particular importance to a pledge to "disavow practices that serve to manipulate the system in order to gain unfair competitive advantage relative to another member or members." (In the Treasury view we were on the verge of an exchange-rate war with the French during the summer.) There was some discussion at the IMG meeting concerning the implications of a statement that members agree "to follow financial and exchange policies compatible with these objectives;" it was argued by Governor Wallich that this does not relate to monetary policy.

4. Section 2 of the proposed Article describes how the IMF members move from the present situation to a situation where countries' exchange arrangements are explicitly recognized by the Fund. This section also contains a provision whereby by an 85 per cent vote *any* provision of the Article relating to general exchange arrangements can be modified; this is interpreted by the United States as meaning that something other then the present system or a par value system could be implemented in the long run.

5. Section 3 of the proposed Article describes the role of the Fund in exercising "firm surveillance" over the present system and any future systems. It is envisaged that the Fund should have a major role, but it will be a role of monitoring and not a role in actual intervention or in the definition, for example, of erratic exchange-rate fluctuations.

6. Section 4 of the proposed Article describes how the IMF members could by an 85 per cent majority vote establish a "generalized system of exchange arrangements based on stable but adjustable par values." It stipulates that any such decision should be based upon economic conditions and be made in light of satisfactory liquidity and adjustment arrangements necessary to make any par value system viable. The section refers to a separate Schedule that will apply if it is decided to adopt a par value regime. Once a decision to adopt par value has been made a country cannot be forced to adopt a par value.

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[3] Joseph Gold was the IMF General Counsel.

Once a country had adopted a par value it can only be forced to retain it, not terminate it, by an 85 per cent majority vote—allowing a U.S. veto. (Canada accepted this apparently, but we may have assured them that we would not allow them to be forced to retain a par value.)

7. We expect this Article to be accepted by the Interim Committee in Jamaica.[4] It will be discussed by the G–10 Deputies on the 11th and 12th of this month and by the G–10 Ministers on the 19th.[5] It is not clear whether or not it will be discussed by the IMF Executive Directors.

B. *Other Agreements with the French.*

1. We have agreed with the French on an analysis of the sources of instability in the international economy and their relation to exchange-rate fluctuations.

2. We have agreed on a system of consultation in the future which will focus on intervention behavior and consultations on underlying economic and financial factors. It is not clear which countries will participate in these consultations; nor is it clear who from each country will participate. For the moment we are concentrating on gaining acceptance of Article IV and not on the other arrangements.

II. Gold

A. The United States and France have reached an agreement on gold that will settle the question of whether or not countries may purchase gold sold by the Trust Fund. This agreement, if accepted by other countries, will enable the early establishment of the Trust Fund.

B. This latest agreement is *secret* for the time being!

III. Development Security Facility

A. This discussion in the IMF is not going well. There are too many proposals. Treasury is concerned that we are in danger of exceeding the outer limit on the IMF's resources. Under Secretary Yeo said, it is necessary to take the IMF apart as a banker would in order to answer this question.

B. State argued that we might be more sympathetic to proposals to liberalize regular tranche policies in the IMF; this proposal by the Managing Director is like one we made last year when the United States was suggesting alternatives to the Oil Facility. State is concerned about the North/South dialogue and the pressure we may get on the debt moratorium proposal. State said that Schmidt may be attracted to the idea. It was also said that the issue of the SDR/Aid link is certain to be raised at the dialogue and endorsed by the Europeans—Schmidt has apparently endorsed the idea again.

[4] The Interim Committee met in Kingston, Jamaica, from January 7 to 8, 1976.

[5] Both meetings took place in Paris.

127. Memorandum From Edwin Truman of the Federal Reserve System Board of Governors Staff to the Chairman of the Federal Reserve System Board of Governors (Burns)[1]

Washington, December 8, 1975.

SUBJECT

French/U.S. Agreement on the Issue of Gold Purchases

At the International Monetary Group meeting on December 5, Under Secretary Yeo announced that the United States and France had reached an agreement about how to resolve the question of when governments will be allowed to purchase gold from the market or other governments at a price above the official price.[2] Following the IMG meeting I had a conversation with Sam Cross in which he briefed me further on this agreement. My understanding of the situation is the following.

1. De Larosière and Ed Yeo have agreed upon language that might either be used in the January communiqué of the Interim Committee or be used in an IMF decision. Sam Cross read the language at the IMG meeting.

Taking into account the fact that Article IV cannot at present be fully implemented and pending the ratification of the amendment to the Articles, the Fund notes that certain member countries have indicated their intention in order to provide resources for the Trust Fund to reserve the right to acquire at a market price gold paid under Article VII, Section 2(ii).

2. The points to note about this approach are the following.

a. The reference to Article IV is a reference to the fact that the exchange-rate (par value) provisions of Article IV have been de facto suspended. As you know, the provisions of Article IV include in Section 2 the restriction on purchases of gold by members at a price above the official price.

[1] Source: Ford Library, Arthur Burns Papers, Federal Reserve Board Subject Files, Box B63, International Finance—General 1975 (1). Strictly Confidential (FR). Copies were sent to Wallich and Solomon. Attached to a December 8 note from Truman to Burns that reads: "Attached is a memorandum summarizing my understanding of a French/U.S. agreement that attempts to resolve the question of when and under what conditions countries will be able to purchase gold at a price above the official price. I will be leaving Washington on Tuesday evening, December 9, to join Governor Wallich for the meeting of G–10 Deputies on the 11th and 12th. I think that it would be very useful to Governor Wallich and to me if you could give me your reactions to this proposal before I left on Tuesday."

[2] See Document 126.

b. The IMF is required only to *note* the fact that certain members *may* buy gold at a price above the official price; the IMF is not put in a position of approving such transactions or the technical violation of its Articles.

c. The agreement to give limited approval to the possible purchase of gold by members at a price above the official price applies only to gold transferred to the Trust Fund (through the replenishment provision of Article VII, Section 2(ii)); it does not apply to other transactions between members or to other purchases from the market.

3. Now that this language has been worked out with the French, my understanding is that the proposed U.S. approach to this issue is to play a passive role. It is possible that the language will be incorporated in a decision by the Fund (adopted by majority vote); it is now anticipated that the United States would abstain from any vote in the Fund on this question. The objective is to make it clear that the United States will not violate the Articles and will not condone a violation by another member.

4. The next step is for the French to obtain approval and support for this language and approach from its EEC partners. The language itself, like that of the French/U.S. exchange rate agreement, was closely negotiated and would be difficult to change. We do not know whether or not the Bank of France has been brought into this yet. Nor do we know whether or not the proposed approach will be discussed at the B.I.S. meeting. We do expect that it will be discussed at the meeting of the G–10 Deputies on the 11th and 12th and at the G–10 Ministerial meeting on the 19th.

5. It is anticipated that the IMF management and staff may raise objections to this approach. It is also possible that some representatives of the LDCs will object. The language will not be shown to the Fund or to countries outside the G–10 until it has been accepted within the G–10. (Some consideration was given to the possibility of postponing the creation of the Trust Fund or its sale of gold until after the IMF Articles are amended; Treasury apparently rejected this approach because it feared that by postponing the Trust Fund we would be opening the Fund up to a number of very undesirable alternative proposals, e.g., extensive borrowing by the Fund or the creation of more special interest subsidy accounts.)

6. With this latest agreement between France and the United States, the way is now open to resolve all the outstanding issues in Jamaica.

a. It has apparently been agreed between France and the United States that the Trust Fund proposal will be adopted. The Trust Fund will receive ⅙ of the IMF's gold and will sell it in the market over a period somewhere between the 3 years proposed by the United States and the 8 years proposed by the IMF staff; of course, some of the gold might be purchased by governments at the market price. (I remain somewhat skeptical that all the roadblocks have been cleared away, but it is possible that they have been.)

b. The effective date for the two-year period envisaged in the August 31, 1975 G–10 Agreement on gold[3] presumably will be January 1976.

c. On the question of immediate "restitution" of the other ⅙ of the IMF's gold to members, Sam Cross thinks that it has been agreed with France that the Fund should adopt the so-called "general deposit" scheme whereby countries are able to count the gold in their reserve while the Fund retains legal claim on it. Priority use of the replenishment mechanism would be reserved to the channeling of gold to the Trust Fund.

7. In light of these developments, it would appear that we need to anticipate the coming into force of the G–10 agreement on gold at an early date.

[3] See Document 101.

128. Memorandum From Secretary of the Treasury Simon to President Ford[1]

Washington, January 13, 1976.

SUBJECT

Jamaica Meetings of Interim and Development Committees

I am pleased to report that at Jamaica last week, the IMF Interim Committee reached agreement on a major reform of the international monetary system.[2]

Building on understandings reached at earlier meetings in August[3] and at the Rambouillet Summit, we concluded several years of nego-

[1] Source: Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 5, Presidential Subject File, Monetary Affairs. No classification marking. A notation on the memorandum indicates the President saw it.

[2] The Interim Committee met in Kingston from January 7 to 8. Excerpts from the communiqué issued on January 8 were printed in *The New York Times,* January 10, 1976, p. 34.

[3] See Document 101.

tiations and produced the first sweeping revision of our international monetary arrangements since the Bretton Woods Conference in 1944. As a result, we will now have a flexible monetary system which can adapt to changing international circumstances, avoiding the strains and stresses of the 60's which resulted in an uncompetitive U.S. economy and eventually a breakdown of the system in August 1971.

The main features of the Jamaica agreement are:

1. Revision of the *exchange rate provisions* of the IMF Articles of Agreement to eliminate the rigidity of the existing provisions, to legalize the various exchange arrangements presently applied by countries, and to provide a flexible framework for future evolution of the exchange system. The new provisions focus on the need for underlying economic stability rather than on action to control the exchange rate. Under the new provisions, the U.S. will have a controlling voice both in the future adoption of general exchange arrangements for the system and in the selection of exchange arrangements to be applied by the U.S. individually.

2. Implementation of measures to *phase gold out of the international monetary system.* The official price of gold will be abolished; the use of gold in transactions with the IMF will be eliminated; the IMF will begin immediately to dispose of its large holdings of gold; and the major central banks of the world will adhere to transitional guidelines on official transactions in gold designed to assure that a central role for gold does not re-emerge. By placing gold on a one-way track out of the monetary system, we reinforce the move toward flexibility embodied in the revised exchange rate provisions and reduce the risk of pressures on the United States to assume once again the responsibility for maintenance of a gold-based system.

3. *Measures to meet the increased financing needs of IMF members.* As previously agreed in principle, there will be a one-third increase in IMF quotas, which provide the financial resources of the IMF. Our quota—which determines our lending obligations, our borrowing rights and our voting power—will rise from about $8 billion to about $10 billion. As a result of the U.S. quota increase and agreed changes in many of the voting majorities for decisions in the IMF, the U.S. will retain the power to block important decisions in the IMF if not consistent with our interests.

4. It was also agreed to *expand temporarily the quota limits on access to present IMF resources by 45 percent.* While support for this expansion came mainly from the developing countries, it will be available to all members. We believe this will be within the IMF's financial capacity on a purely temporary basis. Upon the completion of the quota increases, mentioned in 3 above, this increase in access to fund credit will lapse.

To help meet the increased calls on IMF resources, it was agreed that all members will make their currencies usable by the IMF within six months—to end a situation whereby some countries in strong position (including some in OPEC) could avoid providing their share of IMF credit.

5. *In addition, for the developing countries:*

a) *Agreement was reached to establish a Trust Fund* to channel to the poorest countries the profits on sales of one-sixth (25 million ounces) of the IMF's gold for balance of payments assistance needed urgently as a result of the current international economic situation. As a quid pro quo for IMF gold sales, another one-sixth of IMF gold will be distributed directly to members in proportion to present quotas. The LDC's will receive about 28 percent of this distribution.

b) There will be a *major liberalization of the IMF's special facility to partially offset primary producing countries' fluctuations in export earnings* resulting from wide swings in the demand for commodities that are typical of business cycles. This proposal is a major element of the U.S. approach to commodity issues.

Amendment of the IMF Articles of Agreement and the IMF quota increase will require Congressional authorization. After final technical examination by the IMF Executive Board, the entire package should be ready for submission to Congress about mid-April. While some concern has been voiced by individual Members about certain aspects of the gold agreement, I anticipate Congressional support for the package as a whole. We have kept the Congress closely informed as we have negotiated the agreement, and we will be working intensively with key Members and committees in preparation for formal submission of legislation.

Following the activity of the Interim Committee, there was little interest in the subsequent meeting in Jamaica of the Development Committee[4]—essentially the same ministers focused on the problems of the developing countries. There was a consensus that the financial problems of the developing countries continue to be serious, although less difficult in 1976 than in 1975. There was general agreement that implementation of the Trust Fund and expanded access to IMF resources, as agreed in the Interim Committee, are significant steps to help the developing countries. As we have not yet received appropriations for our first of four annual contributions to the fourth replenishment of the International Development Association, we could not agree to positive statements on contributions to IDA-Five, on which negotiations have started.

[4] The Development Committee met in Kingston on January 9.

As a final note, let me add that the close working relationships we have developed with the French proved to be the critical element in reaching the accords on the international monetary system. I anticipate continuing to try to work with them closely in the future.

William E. Simon

129. Briefing Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Enders) to Secretary of State Kissinger[1]

Washington, January 15, 1976.

Monthly Report

The Jamaica Monetary Accord and Beyond

The monetary agreement wrapped up at Jamaica embraces two sorts of decisions. First, of immediate importance, are the measures which will substantially enlarge the availability of IMF balance of payments support, particularly to developing countries. These measures include the liberalization of the Compensatory Financing Facility (the main element of your Development Security Proposal),[2] the Trust Fund, and the enlargement of access to normal IMF credit drawings. The decisions on these matters represent a highly successful conclusion to our strategy for dealing with the financing needs of the developing countries over the critical next few years. We have already analyzed their significance in a separate report to you.[3]

The second category involves decisions, mostly embedded in the package of amendments to the IMF Articles of Agreement, about the fundamental structure of the international monetary system. These de-

[1] Source: National Archives, RG 59, Records of Secretary of State Henry Kissinger, Entry 5403, Box 19, Nodis Memcons, December 1976. Limited Official Use. Drafted by Gordon Balabanis of the Office of Monetary Affairs, Bureau of Economic and Business Affairs.

[2] Among the proposals in Kissinger's speech to the Seventh Special Session of the United Nations General Assembly (see footnote 6, Document 112) was the replacement of the compensatory financing facility in the IMF with "a new development security facility." Eventually, the idea of establishing an entirely new facility was dropped in favor of liberalizing the existing one. See de Vries, *The International Monetary Fund, 1972–1978,* Volume I, pp. 404–410.

[3] Not found.

cisions, in fact, have themselves settled very little about the shape of the future world monetary system. Paradoxically, this could be considered the essence of their major achievement in the area of long-term reform; but broad areas remain in which the struggle over important features of the system is likely, after some pause, to be renewed.

In geopolitical terms, the issues that have been resolved were those that had separated the industrialized countries—especially the United States and France. The issues remaining outstanding are ones which to a greater extent involve elements of north-south conflict. The package did provide extremely important benefits to developing countries—the short-term measures referred to above—but it left relatively untouched some basic issues involving longer-run LDC interests.

Gold and Exchange Rates: The essence of the U.S.-French compromises on the two central elements of the monetary reform agreement—exchange rates and gold—is to allow the ultimate shape of the system to be determined by evolutionary forces. In each case, the provisions are consistent with a broad range of eventual outcomes. The French essentially gave up their efforts to give the legal framework of the system a strong tilt in favor of a particular exchange-rate system—a generalized structure of fixed par values. At the same time, the more stringent U.S. proposals for agreements limiting the use of gold as a means of settlement among central banks were successively abandoned. Thus the final compromise has a kind of symmetry in its permissiveness.

There is less symmetry, however, in the most likely eventual outcome in these two areas. In both, the bargain seems very likely to turn out well from the current U.S. viewpoint. Within the agreed IMF Article IV on exchange obligations, countries may freely choose the exchange arrangements best suited to their own circumstances, so long as they adhere to general principles of good behavior. One section, to be sure, provides for the possibility of a re-establishment of a general system of par values. But an 85 percent majority of voting power would be required (the same majority as required for amendment), and individual countries would still be able to opt for alternative arrangements. Even apart from the current U.S. attitude and its veto position, it seems extremely unlikely that this provision would ever be activated. Instead, countries will pragmatically choose a variety of exchange arrangements, depending on their circumstances, as they do now. These choices could vary over time. For instance, countries becoming increasingly interdependent and achieving close integration of economic policy may well find greater advantages in mutual rate stability and form new or expanded joint floating arrangements. However, for larger and relatively more self-sufficient countries—and certainly between major country groupings—the advantages of rate flexibility will remain clear. And the United States will be able to continue to reap the advantage of that flexibility (which we have enumerated in a previous report[4]) as long as it desires to do so.

The ultimate outcome on the role of gold in the system may be less easy to forecast, but vital U.S. interests are also less clearly at issue. To be sure, gold has been removed from its central operational role in the IMF, and this is sure to be permanent. Gold could, however, conceivably be reactivated as a major means of official transactions among central banks, if there were to be a strong desire to do so. The present agreements among the G–10 countries (no pegging of the price of gold, and a global ceiling on the volume of official holdings) discourage, but certainly do not preclude this possibility; in any case they are temporary 2-year agreements. Nevertheless, it seems unlikely that official gold transactions will become commonplace. Certainly, the current attitudes of most countries are not favorable to such a result. With fluctuating market prices of gold, it will be difficult and cumbersome to arrive at satisfactory pricing arrangements for official transactions. The possibility of substantial disposals of IMF and national (including U.S.) stockpiles of gold heighten uncertainties. Attempts to peg the market price would probably not prove to be worth the effort. In sum, official gold transactions are likely to be limited to occasional cases where an individual country has a need for substantial liquidation beyond the capacity of the private market.

The Dollar and the SDR: Given this limited prospect for gold, it still remains unclear how the reserve asset system will evolve over the longer term. For the time being, of course, the dollar remains the dominant international reserve asset. The SDR is clearly being put at the center of the system as common denominator, but it is still a very long way indeed from replacing the dollar as the principal reserve asset. Despite the earlier agreement in principle that the role of both gold and reserve currencies should be reduced in favor of the SDR, there is no agreement on how this is to be done. The U.S. (Treasury), in fact, is backing away from its agreement to the earlier language on the reduction of the role of reserve currencies (on the ground that the premises of the earlier agreement have been altered by the adoption of floating rates). It is now taking a distinctly unfriendly attitude towards proposals such as an IMF substitution account that would replace official reserve holdings of national currencies and/or gold with a special issue of SDRs.

We are not likely to be pressed hard for action on this residual issue of monetary reform for a while. Active pressure from the other in-

[4] Not found.

dustrialized countries has almost completely subsided, possibly as the result of adamant U.S. opposition and higher priorities in other areas of the monetary agreement. However, the developing countries are continuing to keep the issue alive, for reasons explored below. This issue, and other issues related to longer-term LDC objectives in the monetary area, may remain quiescent for a while in the relatively decorous monetary groups. But they will be re-emerging in the main north-south fora such as UNCTAD and possibly the CIEC.

LDC Interests in Remaining Monetary Issues: Two main continuing LDC objectives in the monetary area stand out. The first is related to their desire to obtain a continuous, assured flow of additional development financing on favorable terms, free from political or economic policy strings and from the vagaries of national legislative appropriations. One of the central proposals to achieve this goal is to tap the potential in the creation of international liquidity through creation of additional SDRs—i.e., the SDR–aid "link" proposal. This desire is thus closely related to LDC positions in favor of reducing the reserve asset role of gold and the dollar in favor of the SDR.

The LDCs have strongly protested the relaxation of barriers to the activation of official gold holdings at market prices. The reasons are obvious: LDCs generally hold proportionately much less gold in their reserves than do the developed countries, and the expansion in liquidity through activation of gold greatly reduces the prospect for additional SDR creation. Of course, the gold agreement had its short-run benefits, particularly the financing of the Trust Fund. Moreover, under the amended Articles, it will be possible to tap the remainder of IMF gold for LDC purposes again. But the LDCs will continue to work against gold as a freely usable reserve asset.

LDC interests in the role of the dollar are in fact mixed. Many LDCs have found it quite advantageous to hold dollars, in terms of convenience, interest earnings, and maintaining financial ties in New York. On the other hand, LDC groups, in their formal statements, continue to call for the replacement of the dollar with a "truly international reserve asset." The rationale is sometimes expressed in terms of achieving greater international control over liquidity creation or in terms of reducing the scope for the reserve currency country to "manipulate" the system. However, the underlying reason is more likely the knowledge that if international liquidity continues to be created through dollar accumulation, the scope for SDR creation again will be reduced or eliminated. (In addition to their desire for the SDR–aid "link", the LDCs have put forward ingenious schemes for dollar substitution accounts which would generate automatic aid flows.)

It may well be that maintenance of the dominant reserve asset role of the dollar and refusal to consider proposals for reducing this role is, and will continue to be, in the interests of the United States. It may also be that there is no convincing case to be made that the replacement of dollars by SDRs in official holdings would be in the interests of the system as a whole. It may be that our lonely opposition to the SDR–aid "link" is well founded in terms of the best interests of the system. However, all of these propositions require further examination and debate.

The second main LDC objective in the monetary area will be to tap the resources of the IMF for the support of their proposals in the commodity area. Specifically, their integrated commodity program has as a key element the establishment of a common fund to finance buffer stocks of important commodities. The LDCs are pressing for a relaxation of current IMF rules so as to allow the IMF to directly finance buffer stocks. (The present IMF buffer stock facility makes financing available only to member countries that need balance of payments assistance to enable them to contribute to international buffer stocks.) If direct IMF financing were available, this would be an important source of financing for the common fund. We will need to consider further how much we wish to stretch the basic purposes of the Fund to meet these demands.

Conclusions: The Jamaica monetary package will bring a period of repose in monetary issues among the industrialized countries, allowing the system to evolve in a pragmatic fashion, and defusing the conflicts that have troubled our relationships, especially with the French. And LDCs have received a substantial payoff in the package which should have a beneficial effect on north-south relations. But we will still need to deal with some longer-term monetary issues in the context of our continuing efforts to improve our relationships with the developing world.

The Economic Summit at Puerto Rico, March 1976–January 1977

130. Memorandum From Robert Hormats of the National Security Council Staff to the President's Assistant for National Security Affairs (Scowcroft)[1]

Washington, March 17, 1976.

SUBJECT

Economic Storm Warnings

In both the monetary and trade areas there are major storm warnings on the horizon. Volatility in currency markets, reflecting major internal problems in Britain and Italy, has contributed to a deteriorating psychological and political climate in Europe. The US decision on relief for the specialty steel industry,[2] and prospects for additional use of the escape clause, countervailing duty, anti-dumping and unfair trade practices provisions of the Trade Act are being characterized as a manifestation of overt protectionism in the US at a time when European recovery is lagging behind that of the US, and levels of unemployment remain high. The resulting strain on international cooperative efforts, prospects for increasing international protectionism and a deterioration in the economic and political situations in the UK, Italy, and Spain warrant urgent high-level USG attention to the problems at hand.

With respect to *monetary policy,* the lira, which had been held at a rate of 680 to the dollar at the cost of $1.5 billion worth of intervention by the Italian Central Bank has now dropped roughly 20%, to approximately 850 to the dollar. While this will strengthen Italian exports, it will also worsen Italian inflation and could contribute to a further lack of confidence in the Christian Democrats. Sterling has now dropped to roughly $1.90 in a two-week period again helping British exports but worsening inflation. Both Italy and Britain, plagued by domestic inflation, are unlikely to achieve in coming months the domestic economic stability required to stabilize their exchange rates. And the required adjustment from an economy based on foreign borrowings to

[1] Source: Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 5, Presidential Subject File, General Economic. Secret; Sensitive; Eyes Only.

[2] On March 16, the Ford administration determined that U.S. specialty steel producers had been injured by imports; however, it delayed the imposition of quotas for 90 days to provide time for the negotiation of restrictive import arrangements with foreign suppliers.

one forced to live more within its means will require a discipline which could cause major internal political difficulties.

The French franc (whose weakness has resulted from higher rates of inflation in France than in Germany and the fall of the lira and sterling) has fallen by roughly 5% since January 1. This has forced Giscard to suffer the political embarrassment of having to withdraw from the European "snake"[3] which France had entered last summer as a political symbol of its commitment to stabilize fluctuations among European currencies and which the French Central Bank had spent over $1.7 billion in the last week to remain in.

Although order may return to foreign exchange markets as speculation decreases, underlying internal economic instability in Italy and France, and a speculative psychology which feeds on continued internal instability, may cause outbreaks of currency volatility. From the point of view of US exports, the drop in value of the franc, pound, and lira, which has roughly paralleled increases in internal prices in those countries reflecting differential rates of inflation, will probably not harm the competitive position of US producers.

With respect to *trade,* we face a potential disaster:

—On May 11 Treasury must decide whether foreign auto producers have sold in the US at less than fair value. If they do so (and it is expected that they will find this to be the case for a substantial percentage of the $7.5 billion worth of autos imported into the US affected by the complaint), the issue would go to the ITC to determine by November 11 if injury to US producers or consumers has taken place. In the interim, appraisement of all imported autos affected by the Treasury finding will be withheld, i.e., importers would not know how much duty they would have to pay and thus not know the final price of the foreign car in the US. This would inject enormous uncertainties among importers and potential buyers of imported cars.

—The President must decide by April 20 whether to impose restraints on $1.1 billion of shoe imports. The largest supplier of shoes is the EC (with $380 million exports to us in 1975), and Italy within the EC. Spain, Brazil, Taiwan, and South Korea would also be affected.

—The President must decide in April whether to provide relief on stainless steel flatware (suppliers are Japan, Taiwan, and South Korea), shrimp and stainless steel wire.

—A number of unfair trade practices cases are also pending which affect the EC and other US trading partners.

[3] The French Government permitted the franc to float freely outside the EC snake on March 15. (*The New York Times,* March 15, 1976, p. 1)

—And there have been court challenges to a negative Treasury determination with respect to border tax remissions on steel imports from the EC and $1 billion worth of electronic product imports from Japan. There are also countervailing duty complaints against Brazilian leather handbags, shoes, cotton yarns and castor oil.

The EPB discussed the monetary situation on Wednesday[4] and trade will be discussed on Thursday or Friday.[5] I have privately discussed the trade issues with Fred Dent and his people and the monetary problems with Yeo.

Yeo is going to meet with German and British officials this weekend in London (highly sensitive). Greenspan and I will meet with him before he departs to explore potential remedies to the problem including ways we can work more closely with the Germans (since US/FRG cooperation will be essential in any solution). The EPB will also examine policy options next week in preparation for a meeting with the President.

Dent is preparing a paper listing upcoming trade issues—the picture is not pretty and doubtless will shock the EPB with the enormous magnitude of the trade vulnerable to import restrictions under the 1974 Trade Act. We shall have to work quickly (before the shoe decision) to develop an overall approach to take to the Hill and the American public in order to convince the parties involved that restraint in our implementation of the provisions of the law is in the US interest. If we do not have an "umbrella" approach, we could be "ad hoced" into protectionist responses on each item which comes before the International Trade Commission, the Treasury or the President.

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[4] March 17, the date of this memorandum, was a Wednesday. It is unclear whether Hormats was referring to a discussion earlier that day or to one the previous week on March 10.

[5] Thursday, March 18, or Friday, March 19.

131. Memorandum From Robert Hormats of the National Security Council Staff to the President's Assistant for National Security Affairs (Scowcroft)[1]

Washington, March 19, 1976.

SUBJECT

Suggested Meeting on International Economic Situation

As I indicated in my memorandum of March 18, 1976,[2] serious economic problems appeared to be on the horizon in both the monetary and trade areas.

Yeo, Greenspan and I yesterday discussed in detail the monetary situation, in particular the enormous internal problems in Britain and Italy which have given rise to the current instability on European money markets. Trade is no less worrisome; a very substantial percentage of European exports to the US are now subject to investigations pursuant to complaints filed under the Trade Act of 1974. If we impose import restrictions on even a minor part of this trade, the Europeans will more than likely retaliate, and we could be faced with an escalating series of restrictions on both sides of the Atlantic and Japan.

I suggest we deal with the problem in the following way:

—First, that you ask George Bush to pull together some analysis on the political impact of the currency instability in Europe and on the likely impact of new US trade restrictions imposed under the 1974 Trade Act.[3]

—Second, in order to underline the seriousness of the situation, that you call together a meeting to include Seidman, Simon, Dent, and Kissinger to explore the dimensions of the currency problem, and its fundamental causes, as well as the potential for further restrictive US trade actions.[4]

—Third, that at the meeting Dent, Simon, and Kissinger be asked to have their people pull together an itemized list of the outstanding trade issues being investigated under the Trade Act, the amount of trade for individual countries, and the timing of future Treasury, ITC, and Presidential decisions. And that the same group be asked to ex-

[1] Source: Ford Library, National Security Adviser, Trip Briefing Books and Cables for President Ford, Box 21, June 27–28, 1976—Puerto Rico Economic Summit, General (2). Secret. Sent for action.

[2] Presumably Document 130.

[3] This paragraph has a checkmark next to it.

[4] This paragraph has a checkmark next to it.

plore the advisability of a comprehensive USG position spelling out the political and economic implications of new protectionist actions (i.e., the implications of our erecting the maximum barriers pursuant to potential findings under present trade investigations), and how we might convey to the Congress and public the need for a restrained approach in implementing the countervailing, dumping, escape clause and 301 provision of the Trade Act.

—Fourth, that Treasury be asked to pull together a list of the actions the United States, unilaterally or with its trade partners, might take to ameliorate the present instability in currency markets, and what measures we should encourage the UK and Italy to take to stabilize their internal situations.

—Fifth, that you and Seidman make preparations for meeting with the President to discuss the aforementioned papers and the overall situation at the middle or end of next week.

The present situation remains highly unpredictable. A further weakening of the lira will further erode confidence in the Christian Democrats, possibly forcing them to request large-scale financial assistance from the US, a rejection of which could further erode the CD. Conceivably, also, the OPEC countries might withdraw sterling deposits forcing a precipitous drop in the pound which only massive American intervention could limit. Yeo is currently exploring with the Europeans means of stabilizing the situation and should be able to report on his efforts by early next week. If the situation rapidly deteriorates, tough decisions must be taken here, and we should have all the facts and alternatives before us on a contingency basis.

On trade, we need to have a better understanding of how to limit protectionism by looking at the problem in the aggregate and adopting an "umbrella approach" under which the President could more easily justify restraint in respect of individual problems. Unless we do, we could be ad hoced into protectionism on each item that comes along.

132. Memorandum From Secretary of the Treasury Simon to the Economic Policy Board[1]

Washington, undated.

SUBJECT

The International Monetary Situation

The problems which have surfaced in recent months in the form of disruptions in the exchange markets have their origins in the domestic economies of several important countries. Deep divisions on the distribution of income have in Italy and the United Kingdom, for example, been obscured by efforts to manufacture solutions through policies which would assure rapid economic expansion. Internally, highly expansionary fiscal and monetary policies have triggered strong and sustained inflationary pressures. These pressures have been augmented by "external shocks", the most important of which was the quadrupling in the prices of oil. The external manifestation of these underlying factors has been disequilibrium in balance of payments positions. The choice has been whether this disequilibrium should be financed or be permitted to reflect almost directly the exchange rate of the countries involved.

On the premise that the underlying disequilibrium was of a transitory nature and that countries would over time effectively adjust, countries such as Italy opted to finance the imbalance in their external accounts. Unfortunately the basic premise has not been borne out by events. Adjustment has been almost nil and in fact heavy external borrowings (loans on international markets) have provided reserves which have been used to finance the status quo, both in terms of basic domestic economic policy and in terms of the level of the countries' exchange rates.

The practice of financing the status quo is coming to an end. Italy no longer has access to private funds in the international money market and can no longer use this technique to avoid adjustment. The United Kingdom, while not in the same specific situation, is in an overall sense in the same category.

The principal danger in this situation involves the types of adjustment efforts that could be taken. Import controls can produce, initially, the form but not the substance of adjustment. Competitive depreciation of an "adjusting" country's exchange rate can produce the

[1] Source: Ford Library, L. William Seidman Papers, Box 77, Economic Policy Board Subject File, Monetary—International. No classification marking.

form of adjustment and lack the substance. Both types of maneuver will elicit responses from other countries and in the end be counter productive to the interests of the initiators and to the world as a whole. It would represent a turning back to a world of economic and financial relations guided by the law of the jungle.

Our objectives have been on the following lines:

1. Discourage the use of import controls as a substitute for internal adjustment.
2. Create a climate both in terms of the legal content of the Jamaica Agreements and in terms of world public opinion which makes competitive depreciation policies unacceptable.
3. Facilitate the provision of financing—through the IMF and the Financial Support Fund—that would truly be conditional on tangible progress in the direction of domestic stabilization.
4. Keep the U.S. from becoming involved either in a political sense or in a financial sense in the congestion produced by the Italian, British, and to a degree the French situations. The method followed has been heavy involvement in trying to facilitate solutions both in terms of those countries' underlying problems and the incidents produced by them. At the same time we have taken care to protect the dollar and our other direct interests. What follows is a description of recent events and an account of our activities including a review of what additional action might be considered at this time.

Recent Events

During the past few weeks the pound sterling and the French franc each declined about 5% in value in relation to the dollar; the Italian lira declined about 19%; and there has been upward pressure on the German mark. Most of the turmoil which surrounded these changes could have been avoided had governments either pursued more effective fiscal and monetary policies to achieve improved economic stability, or been willing to allow their exchange rates to move naturally in response to the pressures of underlying economic and financial conditions. Both of these policies are in accordance with our understandings at Rambouillet and Jamaica. Underlying conditions have, of course, been highly unstable and inflation rates among major countries continue to vary widely. The exchange rate movements have tended to compensate for diverging domestic prices and thus avoided the distortion of competitive positions and the accompanying disruption of world trade patterns.

For varying reasons, however, the Italians, the French and the Germans attempted to resist the market-directed changes in their exchange rates while the British took steps which some observers suspected of being a deliberate effort to push their rate down.

In an effort to stimulate domestic growth last summer Italy adopted expansionary fiscal and monetary policies. The Italian authorities have now spent most of their foreign exchange reserves and utilized most of their borrowing capacity in an effort to prevent the lira from falling in the wake of those expansionary measures. The pressures on their position intensified with the fall of the Moro government in January[2] and a growing lack of confidence in the ability of the centrist parties to restore economic stability.

The French and the German currencies had been locked together in the European Common Market arrangement, popularly known as the "snake," which called for fixed exchange rate relationships among the currencies of the participants although allowing the rates to move against the U.S. dollar. Strains on the snake became quite acute in January following the withdrawal from the market of the Bank of Italy[3] and the depreciation of the lira, as the continued divergence in inflation rates and other underlying conditions among members of the snake—particularly Germany and France—made it increasingly apparent to traders that these relationships were unsustainable. The Germans were, however, unwilling to appreciate at a time when economic recovery was still tenuous and unemployment high because it would be politically unacceptable; the French were unwilling to devalue unilaterally, fearing damage to President Giscard d'Estaing's prestige. By inducing an increase in short-term interest rates, issuing strong public statements, and spending some $2.8 billion in defense of the rate, the French prevailed and a temporary calm returned. In this effort they had cooperation from us as well as from the Germans.

When market operations by the Bank of England on March 3 and a lowering of British interest rates on March 4 triggered a massive selling of sterling which caused a drop of about 5% in a matter of days after a lengthy period of stability, many suspected that the decline had been deliberately engineered. The British government has staked its future on the expansion of exports as a means of restoring domestic growth, curbing unemployment and reducing external borrowing.

The British action rekindled the fires of speculation on the Continent. The French used another $1.8 billion of their reserves and made another attempt to negotiate a multilateral change in the snake rates. When this failed, they withdrew from the snake and let the franc find its own level in the market.[4] Subsequently, the French may also have decided to reduce somewhat the emphasis on the control of domestic inflation and give greater attention to employment and growth, per-

[2] Italian Prime Minister Moro and his Cabinet resigned on January 7, 1976; Moro resumed his post as Prime Minister at the head of a new government on February 10.

[3] The Italian foreign exchange market closed on January 21. It reopened on March 1.

[4] France left the snake on March 15.

haps in the expectation that international competitiveness can be maintained through a declining exchange rate.

Current Outlook

While the market now appears to be returning to a more orderly situation, some difficulties remain because of the efforts of the remaining members of the snake to preserve its rules despite divergences in underlying conditions. The market continues to feel that an increase in the central rate of the German mark within the snake is likely to be announced in the near future. Periodic pressures among the snake countries must be expected to continue until underlying stability is achieved or the snake arrangements are abandoned.

Currently the Bank of Italy is attempting to prevent sharp exchange rate fluctuations without interfering with basic trends, although they have used a substantial portion of their new loans from the U.S. and Germany in this process. The extent of the decline in the exchange rate, 19%, has undoubtedly been a factor in persuading the new government to adopt more forceful internal measures. The Italians have increased interest rates sharply, reduced inflationary bank financing of the government deficit, and imposed new taxes designed to reduce the deficit about 10%.[5] Very little progress has been made, however, in correcting the basic longer term problems of excessive government expenditures and wage rate increases which go beyond both probably productivity gains and cost of living increases. Neither political nor economic stability in Italy is likely to be assured until these excesses are corrected.

Role of the United States

The U.S. has played a very active role in moderating the impact of these events, largely behind the scenes. In my visit to Rome on March 8 and 9,[6] I told the Government of Italy that unless they put their own house in order external financial assistance would be money down the drain. They now have taken quite significant steps. Whether these actions will prove adequate remains questionable. U.S. assistance, through drawings on the Federal Reserve System, has been used judiciously in applying this pressure. We have also encouraged other lenders—the European Common Market and the IMF—to attach firm conditions to their credits.

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[5] Italy announced its austerity program on March 18. (*The New York Times,* March 19, 1976, p. 1)

[6] A copy of Simon's March 15 report to President Ford on his trip to Italy, as well as to the Middle East, Spain, and Germany, is in the Ford Library, National Security Adviser, Presidential Agency Files, Box 18, Treasury Department (1).

In close and continuing consultation with other major countries we have been pointing out that these exchange rate flurries have arisen essentially because of the failure to apply the principles agreed upon at Rambouillet and at Jamaica. You will recall that at Rambouillet it was agreed that orderly underlying economic and financial conditions were a prerequisite to the maintenance of exchange rate stability and that governments should focus on economic and financial policies to deal with underlying instability. In the foreign exchange markets action was to be taken to counter only disorderly market conditions destined to be described as "erratic fluctuations."

We have quietly pointed out to the French and the Germans that the snake concept is untenable—the inverse of Rambouillet. With the French departure, the snake now becomes little more than a group of small countries linking their currencies to that of Germany.

Significantly, we have also issued a clear warning to the British—with the French within hearing—that we will not tolerate deliberate competitive depreciations.

Policy Choices for the Future

In the case of Italy, one choice is to continue to link the limited financial support which we are in position to provide to the implementation of strong domestic restraint measures. The alternative would be to encourage restraint but not to make our financial support conditional on its adequacy. The former approach would be based on the view that in the absence of an adequate domestic restraint program, external financial support would be wasted and would simply use up what remains of Italy's borrowing capacity. Failure to restore economic stability is likely to lead to Communist participation in the government eventually anyway. The latter course would be based on the conclusion that the Christian Democratic Party does not now have sufficient political strength to implement an adequate restraint program and that financial assistance would buy time during which the political situation might improve. I have been following the first course and believe we should continue to do so.

These disruptions in the foreign exchange markets arouse political and economic concern in the United States as well as in Europe. Our capability to solve the problem is, however, quite limited. It is clear that the philosophy agreed upon at Rambouillet is not yet being applied in Europe. Insufficient attention is being focused on the need for internal policies which can lead to stability. There is need for a broader and better understanding of the operating principles on which the Rambouillet and Jamaica agreements were based. The consultation mechanism needs to be refined and strengthened as envisaged at Rambouillet. We also need to develop safeguards against the possibility of manipulating the system for unfair competitive purposes.

We might consider the issuance of a Presidential statement. Such a statement would constitute the most powerful method of communicating our views. Unfortunately, however, the problems which have created these disturbances are not problems of the exchange rate system, which is in a period of transition. The roots of the difficulties lie in the domestic policies of the European governments and there are no quick, practical solutions to the high and divergent rates of inflation. Thus a Presidential statement at this time might have limited impact.

Another possibility would be to call for a second economic summit, a sequel to the Rambouillet conference. Such a conference would focus public attention on these problems but it would need to be both carefully prepared and properly timed. We should not call for such a conference in the absence of a reasonable prospect that the conference could bring visible progress. Since less than five months have elapsed since Rambouillet, a call for another conference at this time might be criticized as substituting motion for policy.

In the coming months, refining and improving the consultation mechanism, as envisaged at Rambouillet, may be the most viable option. I plan to devote major effort to this task.

William E. Simon

133. Memorandum of Conversation[1]

Washington, March 26, 1976.

SUBJECT

Economic Stabilization of Western Europe

PARTICIPANTS

Henry A. Kissinger, Secretary of State
Alan Greenspan, Chairman, Council of Economic Advisers
Charles W. Robinson, Under Secretary of State for Economic Affairs
Rutherford M. Poats, E, Notetaker

Greenspan: I have been doing some thinking about our international economic relationships in the light of our pledges of cooperation at Rambouillet. I have had a chance to talk briefly with the President

[1] Source: National Archives, RG 59, Central Foreign Policy Files, P820117–1477. Confidential; Nodis. Drafted by Poats and approved in S on April 5.

as to what type of response he would be prepared to make to the several economic problems that have developed in Western Europe.[2] The problem is economic and political. Italy and Britain, particularly, are in a situation in that not unlike New York City—they have been consuming at levels beyond their production, meeting their external deficits through borrowing, and their budget deficits through monetary expansion, consequently inflating their price levels and spreading inflation to the whole community. The recent issue over exchange rates and maintaining the "snake" is only symptomatic of this largely political/economic problem.

At this point I believe that it has become a matter of concern to all of us that joint steps be taken to achieve greater stability in the industrial nations.

The United States for the first time in years now has the capacity, particularly in cooperation with the West Germans, to do something about this. We need to find some mechanism, some form of financial aid programs tied to commitments by the sick countries to move ahead on steps that they now seem willing to undertake to stabilize the whole economic situation.

I discussed this with the President and he urged me to talk immediately with you.

Kissinger: Would the Europeans do it, that is, could they do it politically, accept United States leadership?

Greenspan: That is a political question. As to the economic possibilities, it is just possible that we could succeed.

Kissinger: I'm in favor of another Rambouillet type meeting. I discussed the idea with Giscard, without talking substance. The question is what could be accomplished. Something must come out of it. What could the United States put before that meeting?

Greenspan: We could offer to support a program of financial stabilization, in cooperation with Germany. We are the only ones who could do it.

Kissinger: Giscard thought it would be a good idea to have another meeting and was willing to come here.

Greenspan: The first step would be to discuss it with Schmidt.

Kissinger: He is coming here in July.[3]

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[2] On March 25, Ford met with Greenspan and Cheney in the Oval Office from 5:50 p.m. until 6:10 p.m. (Ford Library, President's Daily Diary) No memorandum of conversation from this meeting has been found.

[3] Chancellor Schmidt visited the United States from July 14 to 20, stopping in Washington, Williamsburg, Baltimore, Philadelphia, and San Francisco.

Greenspan: That would be too late. I told the President that if we don't do something soon, the situation in Britain and Italy will continue to deteriorate. We don't know, of course, what will happen in Britain as a consequence of their devaluation.

Kissinger: (To Robinson) What do you think?

Robinson: The first step is to get the Financial Support Fund operating. I have just been testifying on that before the Senate Foreign Relations Committee.

Kissinger: I will be glad to get together with you, possibly for breakfast, as soon as you get back. In the meantime (to Robinson), work on a paper but don't circulate it all over this place.

I am in favor of it, that is, another Rambouillet type meeting.

Greenspan: This must be resolved within four weeks. Otherwise we will be up to the political convention time and nothing can be done.

Kissinger: Then we will have to send George Shultz to Europe—someone Schmidt trusts.

Robinson: In the meantime, I will talk further with Alan and will start developing some ideas.

Kissinger: Good.

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134. Memorandum From the Under Secretary of State for Economic Affairs (Robinson) to Secretary of State Kissinger[1]

Washington, March 29, 1976.

SUBJECT

Greenspan Europe Support Discussion

Problem:

Alan Greenspan has discussed with the President his concern over growing economic instability in Italy and the U.K. (This is in addition to the existing difficulties in Portugal and Spain). The President suggested that he review this with you on an extremely confidential basis to determine what steps we might take in cooperation with Germany

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[1] Source: Ford Library, U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 39, Subject Files, Economic Summit (Puerto Rico) June 1976 (3). Secret; Sensitive; Nodis.

to encourage these problem nations to adopt programs of economic stabilization. These efforts would be undertaken in the context of the joint pledge of cooperation at Rambouillet last November.

Background:

At the Rambouillet summit meeting the six leading industrialized nations pledged support for cooperative efforts to achieve economic stability and sound future growth. They also pledged to cooperate in preventing abnormal and erratic movements in foreign exchange rates based on the belief that this could be accomplished through coordinated efforts to achieve underlying economic stability in the industrialized nations.

Since Rambouillet, our experience in this area has been less than encouraging.

—Italy's economic deterioration is mirrored in a 20% reduction in the value of the lira and heavy foreign borrowing since the first of the year.

—The U.K.'s persistent double-digit inflation and low productivity have forced abandonment of serious Bank of England efforts to defend the pound, causing its value to decline 7% in the past few weeks.

—Devaluation in Italy and the U.K. has put severe pressure on the French franc, forcing its withdrawal from the European monetary "snake" with what could be serious economic and political consequences.

These developments raise serious questions as to whether or not the industrial countries have yet faced up to the basic problem of establishing economic stability so as to assure sound economic growth throughout the free world. In his summary analysis to you,[2] Greenspan explained that domestic political policies of over-consumption in Italy and the U.K. have driven them to maintain expansionary fiscal and monetary policies, resulting in excessive budget deficits and mounting foreign debts. Labor has demanded and been granted inflationary wage increases. The inevitable result is a declining value of the currency which cannot be resisted for long by central bank intervention in exchange markets.

Greenspan suggests the possibility of a second Rambouillet type meeting to discuss this critical issue which, he feels, could approach crisis proportions this spring. He suggests that the U.S. and Germany cooperate in providing financial aid to Italy and the U.K. (and perhaps other problem nations) on condition that they undertake stipulated economic-political policy reforms designed to restore sound and sustainable financial stability.

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[2] See Document 133.

This matter has not been discussed with anyone other than the President and Greenspan requests that it be kept on this basis until we have developed a more definitive concept of the problem.

Discussion:

We face three basic questions in considering and acting on Greenspan's suggestion:

—Is the situation so critical as to require extraordinary measures beyond the capacity of the IMF and the European Community institutions?
—If so, what appropriate action could be developed within the limited time frame suggested which is "do-able" in both political and economic terms?
—How should we proceed in initiating and implementing such a plan?

With regard to the threshold question, we need the judgment of key Europeans and Witteveen, whom we must not approach prematurely. While reserving final decisions on this basic point, I believe we should proceed on Greenspan's assumption and assemble our own data discreetly.

With regard to the plan itself, we have two possible alternatives:

—To utilize an existing multilateral mechanism or to establish a new mechanism, either multilateral or a set of coordinated bilateral programs. I believe an effort to establish a new mechanism would be abortive and perhaps counter-productive for the following reasons:

> —It is unrealistic to expect that we can develop a new mechanism now, given the realities of an election year;
> —In any event, entirely new approach would require a great deal more time than appears to be available.
> —Public discussion of an aid program for Italy and the U.K. could precipitate an even more serious crisis in these countries, further compounding our problem.

Further, I believe bilateral U.S. aid to OECD countries is neither saleable to the Congress nor politically appropriate for the kind of intervention in national policies that will be required.

Accordingly, we should look at the possibility of using an existing multilateral mechanism, modifying it as required to serve our specific purposes. The logical candidate is the Financial Support Fund. Its resources could be supplemented by the IMF.

Final agreement to establish the Financial Support Fund has been delayed by inaction on the part of our Congress, which must authorize U.S. participation. It now appears likely that this authorization will be forthcoming within the next several weeks.

The Financial Support Fund was designed for a somewhat different purpose. It was intended to protect OECD member nations from abrupt shifts of OPEC surplus funds. Our experience to date suggests that the banking system is meeting this need, and this threat is not likely to require heavy drawings on the Support Fund. However, the Financial Support Fund of 20 billion SDR's (approximately $23 billion) would be available as a last resort safety net, to meet serious balance of payment problems encountered by any participating country.

The articles of agreement establishing the Fund make it available to nations in financial crisis situations not limited to those caused by petrodollar shifts. Its use is subject to three conditions:

—Avoidance of restrictive trade measures.
—Cooperation on energy policies.
—Adequate economic and balance of payments policy.

It is the latter condition which would allow the Fund members, as a group, to impose monetary and fiscal reforms on a borrowing member so as to correct the causes of its crisis.

The present formula provides for U.S. participation of 28% (or approximately $6.5 billion). West Germany's quota is $3.0 billion and the Japanese have the third largest participation, $2.8 billion.

We might need to modify the borrowing limits for each nation, with a maximum amount allowed for the U.K. under the present formula of $3.8 billion and $3.3 billion for Italy. (These amounts now can be exceeded only with a special and unanimous vote.)

There may be other Fund amendments which expert and political analysis would suggest. However, I will not arrange for such a study unless and until it is decided that we should pursue this proposed alternative.

Proposed Action:

In planning a course of action to assist the U.K. and Italy (and possibly Spain and Portugal) in their immediate crises, I see great disadvantages in the idea of calling a second Rambouillet immediately because

—We don't yet have a definitive plan to discuss;
—inasmuch as the U.S. and Germany (and possibly Japan and Canada) will have to assume primary responsibility for any solution, we should have prior consultation with these key countries before any further action is taken;
—a Rambouillet meeting to discuss the U.K./Italy could accelerate deterioration of confidence in these countries, greatly compounding our problems.

Accordingly, I propose that we proceed sequentially along the following lines:

1. Meet with Greenspan during the week of April 5, following his return from California.

2. Work with Greenspan on a general plan for adapting (or if necessary modifying) the Financial Support Fund to achieve our objectives.

3. If we agree on an approach, meet confidentially with Simon to solicit his views and support.

4. Seek Presidential approval and arrange for George Shultz to visit with Chancellor Schmidt to explore this problem and our suggested approach. (This could be expanded to include Miki.)

5. If we are sufficiently encouraged by George Shultz's efforts, initiate confidential bilateral discussions with the U.K. and Italy.

6. Based on the foregoing, consider the possibility of convening Rambouillet II, billed as a general follow-up to Rambouillet I, where the activation of the Financial Support Fund and its use in conditioned assistance to the U.K. and Italy would be discussed with predetermined prospects of agreement.

I would like to discuss this with you further, prior to Greenspan's return.

135. Memorandum of Conversation[1]

Washington, April 6, 1976.

SUBJECT

European Economic Stabilization: Rambouillet II

PARTICIPANTS

Henry A. Kissinger, Secretary of State
Charles W. Robinson, Under Secretary of State for Economic Affairs
Alan Greenspan, Chairman, Council of Economic Advisers
Rutherford M. Poats, Office of the Under Secretary of State for Economic Affairs (Note-taker)

Kissinger: I like the idea of a second Rambouillet-type meeting, but I'm leery about a quick, emergency meeting. Britain has a new

[1] Source: Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 3, Presidential Subject File, Economic Summits—Puerto Rico (1). Secret; Nodis. Drafted by Poats and approved on July 13 by the Secretary of State's Special Assistant Haley Collums.

Prime Minister.[2] Schmidt is likely to be negative about anything that costs money. His disdain for Italy is total. He has a right-wing problem, as we do here—concern that he'll be accused of a give-away.

The only way I see to approach Schmidt is to have George Shultz explore the situation and our idea with Schmidt, confidentially. He is the one they all trust. Callaghan has no special affinity for Shultz, but I can take care of that. Shultz would have to see Schmidt, Giscard and Callaghan in that order.

If they respond positively, I'm for it.

We need to talk to Shultz.

Robinson: I did. He'll do it, but he is concerned about the Bechtel anti-trust problem.[3]

Kissinger: That shouldn't be an obstacle.

Greenspan: The economic problem of Britain and Italy was summed up well the other day by Callaghan: Britain has been spending more than it has been producing.

Kissinger: Because of the oil price increase?

Greenspan: Not altogether.

Kissinger: If so, this would be a matter of historical interest.

Greenspan: The Italian case is more pronounced: large budget deficits financed by the printing press; exchange rate declines mirroring rather specifically the domestic budget gap which is rather difficult to close. Italy has run out of private foreign sources of financing. Britain has not quite reached this point. If nothing is done, it would take an act of faith or luck to assume that Italy can avoid a collapse of wide ramifications.

The British have achieved lately semi-stability. Whether they can maintain it, I'm uncertain.

Kissinger: What's your conclusion?

Greenspan: We should offer some aid with strong constraints, requiring these governments to start to put their domestic economic houses in order.

Kissinger: How?

Greenspan: Slow down their budgetary growth, reduce the pressure on exchange rates and prices.

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[2] James Callaghan replaced Harold Wilson as British Prime Minister on April 5.

[3] In January 1976, the Department of Justice launched an anti-trust investigation into whether the Bechtel Corporation was respecting the decades-old Arab League boycott of Israeli companies and third country companies doing business with Israel. Shultz was Bechtel's president.

Kissinger: Would it cost France anything?

Greenspan: You mean money or political cost?

Kissinger: I must look at the politics of it. When Shultz goes to Schmidt and Giscard, will they turn it down completely?

(To Robinson): Did you discuss this aspect with Shultz?

Robinson: Only very broadly.

Kissinger: Have you talked with Sonnenfeldt?

Robinson: No.

Kissinger: Why don't you do so . . .

If Schmidt thinks they can get something for nothing, he'll be for it.

Greenspan: The French will be very interested in a solution to the Italian problem. France is very sensitive to the deterioration of the lira and pound.

Kissinger: Can we get Shultz down here tomorrow?

Robinson: I'll try. He was to be in New York tomorrow. Perhaps late in the day. When can you see him?

Kissinger: I can be free after 5:00 p.m.

Robinson: The Financial Support Fund affords the mechanism to do the job. During my hearing at the Senate Foreign Relations Committee today, Senator Javits indicated the Senate would bring out the bill on the Support Fund right away. We should have authority to participate in a few weeks.

Greenspan: Can we set conditions on use of the Support Fund.

Robinson: That is precisely what it requires.

Greenspan: How would we enforce conditions?

Robinson: Release the money in tranches.

Kissinger: When can Shultz come?

Robinson: He has meetings in New York tomorrow. I'll ask him to come here late tomorrow.

Kissinger: All right.

Greenspan: I plan to go to New York late tomorrow afternoon.

Robinson: Can you delay?

Greenspan: I'll see what I can do.

(Pause while Secretary takes a phone call.)

Robinson: Alan and I were talking about the problem of George Shultz's visibility when he goes to Europe.

Kissinger: He can just say he's on a trip. He goes to Europe frequently.

Try to get him down here late in the day tomorrow, around 5:00 to 6:00 p.m.

136. Memorandum of Conversation[1]

Washington, April 7, 1976.

SUBJECT

European Economic Stabilization: Rambouillet II

PARTICIPANTS

Henry A. Kissinger, Secretary of State
Charles W. Robinson, Under Secretary of State for Economic Affairs
Helmut Sonnenfeldt, Counselor Department of State
Rutherford M. Poats, Office of the Under Secretary of State for Economic Affairs (Note-taker)
George P. Shultz
Alan Greenspan, Chairman, Council of Economic Advisers
Robert Hormats, National Security Council

Kissinger: George, have they explained what the problem is? I have never heard your views on it, Hal.

Sonnenfeldt: My view is that we face a vicious circle. We can't do anything effective about the Italian economic situation without the risk of bringing the Communists in; and if we don't act vigorously the Communists also may be brought in.

Kissinger: We can't participate in bringing the Communists to power.

Shultz: I have two initial observations: (1) The problem, which is fundamentally political, is bad in the UK, worse in Italy. (2) Solutions to such problems usually work better if they are internally generated rather than forced upon a country from outside.

Kissinger: Unless their government wants the excuse of external pressure.

Shultz: The UK has just adopted a pretty tough program of economic restraint.[2] We might disagree on whether Callaghan's incomes policy is sensible or will hold, but he is trying.

Kissinger: If I know Callaghan, if we tried to tell him how to solve his problem through a better incomes policy we would receive a volcanic reaction.

We need to separate the two problems we are considering: Should we propose a second Rambouillet meeting? And should it be an emergency meeting?

[1] Source: National Archives, RG 59, Central Foreign Policy Files, P820117–2133. Confidential; Sensitive; Nodis. Drafted by Poats and approved by Collums on July 16.

[2] On April 6, the newly formed Callaghan government introduced its budget in the House of Commons.

Giscard asked me whether we should plan one for this summer. It would have to be in July, after the bilateral meetings. I don't know whether we could deal with the Italian economic problem at a July Rambouillet type meeting. Alan, you say the Italian situation is on too short a fuse.

Greenspan: It is very difficult to say today whether the Italian crisis can wait that long. It is conceivable that it will go into a temporary state of remission for some months, but I wouldn't count on this.

Kissinger: My solution would be for George to go to Europe, not on an emergency basis but on a trip to take stock of the European economic situation and of whether there should be a Rambouillet II. He would turn the conversation to Italy, test Schmidt's reaction to doing something for Italy.

I must say that I like the idea of a second Rambouillet. It was a good initiative.

Greenspan: It is the ideal forum for considering whether we should take some joint action on the Italian problem.

Sonnenfeldt: Rambouillet II, as a practical matter, means a meeting in July at the earliest.

Robinson: Here in the U.S.?

Shultz: That's open, but it would be difficult to do before Giscard comes in June.[3] And Schmidt in July. The Secretary will be in Europe in May.[4]

Robinson: And at the OECD Ministerial in June.[5]

Sonnenfeldt: There also are EC meetings in this period.

I don't know how Schmidt would calculate his advantages and disadvantages in considering a program in which the Germans are inevitably the big paymasters.

Shultz: Rambouillet gave the impression of progress. But I don't think you can have another one without coming out of it with more specific results.

Sonnenfeldt: I agree that it would be better to focus it on a specific problem.

Robinson: Don't underestimate the importance of the problem of a response to the North-South issues coming out of UNCTAD and the CIEC this summer—the question of how the major industrial countries deal with the demands of the LDCs.

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[3] President Giscard visited the United States from May 17 to 22, stopping in Washington, Yorktown, Philadelphia, Houston, New Orleans, and Pascagoula, Mississippi.

[4] Kissinger was in Paris on May 7. He was also in Europe May 20–27 stopping in Oslo, Bonn, Stockholm, Luxembourg, and London.

[5] Kissinger was in Paris June 20–22 attending the OECD Ministerial meeting.

Sonnenfeldt: Yes, but the key issue is whether the meeting could contribute to a solution of the Italian situation.

Robinson: I agree.

Shultz: Before I go around talking to the Europeans, I'd like to have a program in mind to suggest—not just tell them what everybody knows, that Italy is a serious problem. Schmidt knows that, and he'll say he is doing something about it.

Kissinger: How should we go about developing a program?

Greenspan: We should establish a small U.S. Government task force to define the dimensions of the problem and what is being done now, and work out a set of proposals. We have to realize that anything we may prescribe runs into the almost impossible political problem of the ability of any Italian Government to carry out a tough program.

Shultz: I agree, but there may be some ways to make it have a better than even chance of political acceptability.

Greenspan: This or that program can be conceptualized, but we don't now have the numbers to attach to it. Worse than doing nothing is to try to do something that is not of the scale required.

Robinson: First we must consult with the Europeans on what might be politically do-able and what is not. George needs to get from Schmidt, particularly, a better understanding than we now have of how we can attach conditions.

Kissinger: I don't like the idea of calling an emergency meeting. If we take the lead, the Communists will exploit it. The British reaction also could be explosive. I do think you should go and take stock. You can say, George, that we are concerned about Italy, but we don't know what to do about it. You might even say to Callaghan, "we're concerned about you, too."

Robinson: And be ready to duck.

Shultz: Whether I talk about Italy or taking stock on Rambouillet, I can do better if I have in my kit bag a set of program possibilities, so I don't go empty-handed into the discussion.

Kissinger: How should we move on this?

Robinson: We and CEA and CIA can go to work on it right away.

Shultz: Italy is bound to come into the discussions.

Kissinger: I wouldn't be too coy. Talk with them about Italy as an emergency problem which has arisen since Rambouillet I. Discuss the British economic situation, too.

Sonnenfeldt: As a practical matter, it is hard to see how a Rambouillet meeting could be held before July, between political conventions.

Kissinger: Then our people can point to Italy and say we've had another foreign policy failure. In this country we have made an art form of making foreign policy successes look like failures.

Shultz: Can a Rambouillet type meeting be held in the United States between nominating conventions?

Kissinger: Every candidate would want to attend.

Shultz: Then you will organize the bureaucracy to give me what I need?

Kissinger: The first things you need are letters, to Schmidt and the others. You can't just show up.

Shultz: Second, I need someone here to work with. The last time it was Hal.

Kissinger: You get along with Hal?

Greenspan: My impression is that the expertise on the Italian economy in the U.S. Government is pretty small. We may need to get some help from outside the government.

Sonnenfeldt: It's not that bad.

Kissinger: Don't bring in too many academicians. They leak like crazy.

Shultz: You've got to include Treasury.

Kissinger: Of course, that will be no problem.

Robinson: We'll proceed on the next steps.

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137. Message From President Ford to West German Chancellor Schmidt[1]

Washington, undated.

In the past several months both of us have had to deal with a series of extremely complex international and domestic economic issues. The exchange of views we had at Rambouillet has proved to be very

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[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 35, West Germany (6) (4/14/76–7/15/76). Secret; Sensitive. Sent via Charlie Channel. Initialed by Scowcroft. This message is Tab A to an April 14 memorandum from Scowcroft to President Ford that reads: "Based on your conversation with Secretary Kissinger on Monday in which you agreed on the usefulness of exploring a possible follow-up meeting to Rambouillet, I am forwarding a message (Tab A) for your approval to FRG Chancellor Helmut Schmidt seeking his views." Scowcroft noted that "The message does not include specific reference to the matter of location, as it is important first to have his reaction to the concept. The fact that you are initiating the dialogue on the second summit reserves the option of proposing the United States as the site. This can be done in a second round of messages and in George Shultz's meeting with Schmidt." President Ford initialed his approval of this message.

helpful to me, and I believe it has contributed to harmonization of policies among the industrial democracies. Because we agreed at Rambouillet that the problems we face warrant highest level attention and frequent contact among leaders, I am now considering how best to follow up on the Rambouillet meeting, and whether another meeting to review subsequent developments and consider common action on some of the more difficult problems facing us would be useful.

I would like to have the benefit of your views on the current situation, steps which might be taken to follow up on Rambouillet, and on the desirability of convening another summit meeting to concert views and approaches to economic recovery, trade and monetary issues, energy, and relations with the developing countries. Specifically, I am interested in exploring means to ensure continued progress in the areas discussed at Rambouillet, in taking a concerted approach to the problems facing such countries as Italy, and in further strengthening the cohesion among the industrialized democracies.

If you believe it useful to consider further how we can best fashion a common approach to these problems, I would like to ask George Shultz to visit with you to share our thoughts in greater detail. I have not yet approached any of our other colleagues, because I would first like your very private reactions. If you think a visit by George Shultz to discuss these issues with you is desirable, please let me know.[2]

[2] In an April 22 message to President Ford, Chancellor Schmidt said that he was "very much in favour of your idea" for a second economic summit. Schmidt wrote: "Before we definitely decide for another conference to be held, it should, however, be made sure, as was done last time, that there is sufficient substance to warrant a successful outcome of the conference. I would be glad to go into these questions with my old friend George Shultz." (Ibid.)

138. Memorandum of Conversation[1]

Washington, May 18, 1976, 10:15–11:49 a.m.

PARTICIPANTS

President Ford
President Valery Giscard d'Estaing, President of the French Republic
Dr. Henry A. Kissinger, Secretary of State
Brent Scowcroft, Assistant to the President for National Security Affairs
Jean Sauvagnargues, Minister of Foreign Affairs
Amb. Kenneth Rush, U.S. Ambassador to France
Amb. Jacques Kosciusko-Morizet, French Ambassador to the United States

SUBJECT

Rambouillet II; Lebanon; Djibouti; Nuclear Non-proliferation

Ford: I thought we might discuss further the idea of a second Rambouillet. I have asked my people to say just what might lend itself to a substantive outcome.[2] North-South relations would certainly be one, to include your African initiative, and other topics. [He reads the topics from the draft talking points at Tab A]. The way we did it the last time was for the private group—George Shultz for our side—laying out the details. For us, the results of Rambouillet I were very good and I have that impression from the others. I think the same thing could ensue from a follow-on meeting.

Giscard: I think there are two general items which could be discussed. (1) What will be the general attitude in a period of renewed economic activity and toward inflation. It would be interesting. I don't know whether we could find practical solutions but it would be a useful discussion. Also, it is useful to have a discussion of the North-South dialogue. We can't accept the demands of the developing countries, but there is still a large gap between your position and ours and the developing countries. I don't know whether you are ready to advance in this field.

[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 19. Secret; Nodis. The conversation took place in the Oval Office. All brackets, except those that indicate omitted material, are in the original.

[2] On the previous day, President Ford and President Giscard briefly discussed the possibility of another economic summit. President Giscard had "no objections in principle" to a second Rambouillet, but added, "I think it is important to have results if we have a meeting. It is not apparent to me what results we could announce. We can't have Italy the only subject. We could discuss the recovery which is underway, and measures against inflation. But I am not sure if those are dramatic enough for a meeting." (Memorandum of conversation, May 17; ibid.)

Kissinger: All the advances we have made have been through the President's intervention with the economic agencies. Otherwise the movement is marginal. Therefore a conference would help us internally to get motion.

Ford: We do have internal differences and the pressure of having to have a position facilitates movement.

Giscard: We shouldn't get too technical, but we are thinking of things like a research institute to look into commodities arrangements, and perhaps a fund which would finance stocks. The developing countries want to go farther—to a single fund managed by themselves. But a mixture of your ideas and ours might work. I would center it on Nairobi[3] rather than the North-South dialogue, because of the participants. I think George Shultz should look at the substance of a possible communiqué as he makes his travels.

Next is the question of the time and place. Both Helmut [Schmidt] and I are coming to the United States and it would look awkward for us to come back here again so soon. Helmut suggested meeting in Germany, but I am against that. It would get into their election campaign.[4] Perhaps an island in the Atlantic or in Scotland or Ireland. It would be difficult to come to the United States again so soon.

Ford: We have been thinking of the last part of June. It would be difficult for me as we get into July. We have been thinking of here, but not in Washington or Camp David. Someone mentioned Bermuda.

Giscard: Or the Virgin Islands or some place in the Caribbean.

[Discussion of some spots.]

I think somewhere in the Caribbean would be fine. The end of June is a lousy time for all of us. I am going to Great Britain and I have to leave on Friday morning, the 25th. I should really go back to France on the 1st. How about July 1 and 2? That would give you one day before your festivities.

Ford: I probably can do that.

Scowcroft: I will look into it.

Giscard: Then the question of participants. Japan I assume would be there. Then the issue of Italy and Canada. We would not stand in the way on Canada.

Ford: If we held it in this hemisphere, we feel it is best to have Canada.

Giscard: Let us start with Italy.

[Discussion of why Italy was invited to Rambouillet I and where they will be with their elections.[5]]

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[3] The fourth UNCTAD session was held in Nairobi, Kenya, from May 5 to 31.

[4] Bundestag elections took place in the Federal Republic of Germany on October 3.

[5] General elections took place in Italy on June 20 and 21.

If Italy does not come, I think it would be hard to have Canada.

Ford: I see that problem, but since Italy will be a big topic of conversation, it might be best to have them present.

Sauvagnargues: It depends on the outcome of the election.

Ford: Yes. There may be discussions that they should not attend. Arthur Burns called me this morning. He had met with Schmidt, who proposed a meeting among France, Germany, and the US to propose consortium loans to Italy if they didn't go Communist and we would state they'd get no loan if they did. I thought I should mention it because it relates to this discussion.

Sauvagnargues: It is impossible without the British.

Giscard: We can make hints about such a thing. It must be known by the Italian voters, but in a very discreet way.

Ford: It might backfire otherwise.

Giscard: But it would be difficult to have the Italians present if the Communists increase their strength or stay the same. I suggest we have only the normal five. If there is some reason to have Italy to explain its case, we can ask them at the last minute.

Ford: If we don't have Italy, it is easier to leave out Canada.

Kissinger: If Canada comes in, the British will press for the EC President. That would, by happy coincidence, be Den Uyl.[6]

Ford: Puerto Rico might be very good. There is a new hotel.

Giscard: It is a question of facilities. Send George Shultz around. Pierre-Brossolette is our man.

[Omitted here is discussion unrelated to the economic summit.]

Tab A

Talking Paper Prepared for President Ford[7]

Specific Results of Proposed Summit Meeting

A central focal point of a summit discussion would necessarily be the problem of Italy. It will be a prominent issue over the next several months because of the political and economic implications of what happens there, especially their significance for the future of the European

[6] Dutch Prime Minister Joop den Uyl assumed the EC Presidency on July 1.

[7] Top Secret. A handwritten note at the top of the paper reads: "Used by President as Talking Paper with Giscard 5/18/76." A draft of this paper, attached to an unsigned May 18 memorandum from Scowcroft to President Ford, indicates that it was prepared in response to President Giscard's remarks in his May 17 meeting with Ford. (Ford Library, National Security Adviser Files, Scowcroft Daily Work Files, Box 13, 5/15–23/76)

Community, the Western economic system, and the Western political and security system. One objective at the summit would be to find ways of minimizing the potential damage from possible adverse developments in Italy, and maximizing our efforts to help Italy move in constructive directions. This could include an effort to be supportive of the Christian Democrats in the immediate post-election period. It would also include consideration of the sorts of fiscal and wage stabilization measures we should encourage Italy to take to stabilize the growth of government expenditures, reduce the relative share of consumption in GNP, and thus make room for faster growth of investment and exports to support these efforts, and consideration of what assistance the western democracies can provide to support an effective stabilization program, and what role the IMF can play.

However, because a discussion of the Italian problem does not lend itself to publicity, efforts should be made to avoid portraying the summit as a meeting focusing on the Italian situation. Therefore, we must attempt also to achieve concrete results on a list of items which do lend themselves to public focus and which are also intrinsically important to the industrial democracies. This list of specific results could include:

North-South Relations

Agreement on industrialized country strategy for the second half of the Conference on International Economic Cooperation. This could include a marriage of the French approach to commodity buffer stock financing and the American approach to resources development, a common approach to the future role of the Energy Commission of the CIEC, and means of improving technology transfer drawing on the French and US UNCTAD initiatives.

An African Package

Agreement to proceed on an African aid effort. The summit could support a broad approach to African aid, including improved donor-recipient, multilateral-bilateral aid coordination. It could provide a focus on the main priorities such as the transportation network in Southern Africa, the Sahel, and countries of highest political and economic significance.

Trade

Agreement to reinforce the Rambouillet and OECD pledges to avoid restrictions on imports, to work toward a constructive tariff cutting formula in the MTN containing an important harmonization element and aiming at a significant reduction in duties, to uphold the common commitment to the basic tenets of an open and nondiscriminatory trading system as contained in the GATT, and to undertake a more intensive process of consultations among the major industrialized nations in order to avoid and manage problems which might weaken the system. Privately, agreement might be reached on how to deal with the possibility that Italy will impose import restrictions which violate GATT and EC rules.

Medium Term Growth Strategy

Agreement on a strategy for stable economic expansion. Most industrialized democracies are now moving from recovery to expansion. The Rambouillet summit contributed to a more favorable economic climate and improved confidence, thus helping to facilitate the present economic upturn. As industrialized nations move to economic expansion, however, they will need to resist pressures for excessive stimulation in order to avoid its inflationary consequences. Thus while working to ensure expansion by all industrialized nations at a sustainable rate, they must also cooperate to avoid overexpansion. This subject will be discussed at the OECD Ministerial Meeting on June 21–22. Agreement could be reached at the summit on an approach which gives political sanction and impetus to agreement reached at the OECD.

International Financial Issues

Agreement could be reached on ways to deal with acute financing problems, including an approach to the LDC debt issue which avoids a generalized rescheduling but which examines the problems of each country in relation to its specific position and needs. The anticipated problem of Italy's repayment of its short term debt would be examined including its impact on financial institutions in other countries; and means would be sought by which Italy and the industrialized nations can manage the problem in a manner consistent with sound financial practices and Italy's particular economic and political requirements.

The European Community

Agreement on the economic and political significance of a strong and prosperous European Community. While there might be some reluctance on the part of European leaders to discuss Community issues in this context, there might be a discussion of ways in which Europe could evolve over the next several years and how the other industrialized nations might be most supportive of Europe's efforts. There might also be a discussion of how stringent internal measures in Italy might affect the European Community, and how the Community, and the industrialized nations in general, should react.

Investment Issues

Agreement on means of extending the investment package to be adopted at the OECD Ministerial to deal with such problems as bribery and to encourage an improved framework for the settlement of international investment disputes.

Energy

Agreement to continue intensified energy cooperation among the industrialized democracies through strengthened technical and research cooperation, strong conservation efforts as demand increases with the pace of economic recovery, and increased efforts to encourage energy development in Third World non-oil exporting nations.

International Institutions

Agreement to identify possibilities for combining or eliminating international institutions in order to avoid duplication or redundancy.

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139. Editorial Note

In London for the Central Treaty Organization Ministerial meeting, Secretary of State Henry Kissinger wrote to President's Assistant for National Security Affairs Brent Scowcroft on May 27, 1976, concerning participation in a second economic summit, to be held in Puerto Rico. Kissinger said that "despite agreement among four Foreign Ministers" achieved during a May 21 North Atlantic Treaty Organization Ministerial meeting in Oslo, French President Valéry Giscard d'Estaing "is adamantly opposed to including Italy and Canada. He wants only Five. Although argument has been made to him that announcement excluding Italy could have very negative effect on DC [Democrazia Cristiana (Christian Democrats)] election situation in Italy, Giscard takes position that Italy has no effective government and that if there should be need to have it attend we can extend invitation after election and at that point also address Canadian problem. Sauvagnargues evidently never told Giscard of Oslo understanding and Giscard maintains that in Washington talks [see Document 138] it was clearly understood there would be no initial invitation to Italy and Canada. As Pierre Brossolette puts it, Giscard feels he has made all the concessions in agreeing to meeting at all, and to Puerto Rico on top of it, so he feels that he should not make additional concession on participation. I remain persuaded that exclusion of Italy would have very bad effect on Italian election. I therefore recommend that the President telephone Giscard early today to put to him again the case for including Italy (and hence Canada). President should point out that we are arranging meeting in a way that will permit the three Europeans and the President to have preliminary private meeting at noon June 27." (Telegram Hakto 35, May 27; Ford Library, National Security Adviser, Trip Briefing Books and Cables for President Ford, Box 21, June 27–28, 1976—

Puerto Rico Summit, General (2)) A record of the May 21 NATO quadripartite Foreign Ministers' discussion is in the Library of Congress, Manuscript Division, Kissinger Papers, Box CL 141, Geopolitical File, France, Chronological File, Apr.–June 1976.

Talking points for the proposed call to French President Giscard were prepared for President Gerald Ford and sent to his Assistant, Richard Cheney. (Ford Library, National Security Adviser, Trip Briefing Books and Cables for President Ford, Box 21, June 27–28, 1976—Puerto Rico Summit, General (2)) According to his Daily Diary, President Ford spoke with President Giscard over the telephone on May 27 from 6:45 to 6:58 p.m., but no record of this conversation has been found. (Ibid., President's Daily Diary) However, the talking points for a proposed May 31 telephone call by President Ford to President Giscard note: "At the close of last week's telephone conversation, in which you discussed inclusion of Italy at the Rambouillet II Summit, Giscard promised to get back to you this weekend after talking with Italian Prime Minister Moro." (Ibid., National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France (8))

On May 29, in a message to President Giscard, President Ford acknowledged receipt of a message from President Giscard, the text of which was not found. President Ford replied: "We have given this matter further thought here also and remain strongly convinced that there could be very negative political consequences if we fail to invite the Italians. But I will of course await the result of your soundings with great interest." President Ford continued: "I think the idea of a preliminary very private meeting on Sunday morning, June 27, involving only the French, British, German and Americans and focusing on Italy has great merit. In that connection, I wondered if you might be able to arrive in Puerto Rico on Saturday evening so that there would be opportunity for a night's rest and for several hours of discussion before the official meetings begin with luncheon on June 27. If this were feasible for you, I would make similar suggestions to Chancellor Schmidt and Prime Minister Callaghan." (Ibid., Kissinger–Scowcroft West Wing Office Files, Box 11, Economic Summit Conference, 6/76 Index and Items A–G)

On May 31, President Ford spoke with President Giscard by telephone from 9:30 to 9:40 a.m. (Ibid., President's Daily Diary) No complete record of their conversation was found, but at 9:45 a.m., President Ford wrote this note: "*Pres. G.* 1) Chancellor S.—agrees with G. Talked with Italians. *Sentence indicating support for present Govt.* Sending via message today for sentence to be included. 2) Public opinion. International press. '*expectation*' from domestic point of view in U.S.A. *Economy + monetary* problem. *Inflation.* Wed—*announcement.* Canada—OK, as long as no commitment for future meetings. *Not enthusiastic.* Sending him material on agenda. He will arrive in Puerto Rico at about

11:30 AM on Sunday in time for noon luncheon of the 4." (Ibid., National Security Adviser, Presidential Country Files for Europe and Canada, Box 4, France (8)) The French proposal for the summit announcement wording on Italy was conveyed in a May 31 message from Pierre-Brossolette to Scowcroft. (Ibid., Kissinger–Scowcroft West Wing Office Files, Box 11, Economic Summit Conference, 6/76 Index and Items A–G)

On May 31, President Ford sent summit invitations to Canadian Prime Minister Pierre Trudeau, Italian Prime Minister Moro, and Japanese Prime Minister Takeo Miki. (Ibid.)

The participation issue complicated the effort to reach agreement on the wording of the summit announcement. In the case of Italy, the British, French, West Germans, Italians, and Americans sought phrasing that allowed for the difficulties that might arise from the proximity of the summit (June 27–28) to the Italian elections (June 20–21). In the case of Canada, the French and Americans sought phrasing to reconcile the American desire to invite the Canadians and the French desire not to establish a precedent for Canadian inclusion in subsequent summits. (Documentation can be found ibid., 6/76 Table of Contents and Items H–R; ibid., 6/76 Items S–Z; and ibid., Presidential Country Files for Europe and Canada, Box 6, Germany (11)) The President's June 3 announcement of the summit is printed in *Public Papers: Ford, 1976–1977,* Book II, page 1776.

140. Memorandum of Conversation[1]

Washington, June 4, 1976, 11 a.m.–12:10 p.m.

SUBJECT

Economic Summit at Puerto Rico

PARTICIPANTS

State
Secretary Kissinger
Mr. Robinson (arrived late)
Mr. Rogers
Mr. Sonnenfeldt
Mr. Greenwald
Mr. Preeg (Notetaker)

Treasury
Secretary Simon (arrived late)
Mr. Yeo
Mr. Parsky (arrived late)

CEA
Mr. Greenspan

NSC
Mr. Scowcroft
Mr. Hormats

EPB
Mr. Porter

Secretary Kissinger: Where do we stand on the preparations for the Summit? Ed (Yeo), you are going over to meet some others.[2] Have you arranged for the group meeting with Shultz?

Mr. Yeo: Messages have gone out.[3] There will be a meeting with Poehl on Monday,[4] de Larosiere and Brossolette on Sunday and the English tomorrow. The entire group will get together in Munich on

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[1] Source: Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 3, Presidential Subject File, Economic Summits—Puerto Rico (3). Secret; Nodis. Drafted by Preeg and approved on July 2 by Collums. The meeting took place in the Secretary of State's conference room.

[2] According to June 5 messages from President Ford to Prime Minister Callaghan, President Giscard, and Chancellor Schmidt, Yeo was scheduled to meet with his British, French, and West German colleagues on June 8 in Europe. (Ibid., Kissinger–Scowcroft West Wing Office Files, Box 11, Economic Summit Conference, 6/76 Items S–Z)

[3] The June 5 messages from President Ford to Prime Minister Trudeau, Ambassador Volpe, President Giscard, Chancellor Schmidt, Prime Minister Miki, and Prime Minister Callaghan proposing a series of mid-June meetings in Washington of Shultz, U.S. officials, and representatives from the other six participating nations are ibid.

[4] June 7.

Tuesday and Wednesday. The individual meetings will give us a sense of what they want. The French might have some kind of impossible monetary proposition. They are very concerned about sterling and the lira. By the end of Monday we should have a fairly good feel as to what they will want to put on the table. Then we can get to work on Tuesday and Wednesday.

Secretary Kissinger: I assume that the countries will split up the topics as we did last time. Are there any areas where something concrete will come out of the Summit?

Mr. Yeo: We should get a fairly firm commitment on policy goals. The problem is the Italians and the English. The Germans, Japan, U.S. and probably France, will come down on the side of a fairly firm economic statement.

Secretary Kissinger: Miki will agree to anything. He has been agreeing to our proposals before we even make them.

Mr. Yeo: In the monetary area, I estimate we have a four out of ten chance to get agreement on a super tranche.

Secretary Kissinger: When the *Washington Post* asked me if the whole effort wasn't political, I said that even if that were right, the fact that we could get six other nations to help us is an indication of the cohesion of the Alliance and solidarity among the industrialized countries.[5]

Mr. Greenspan: All the press can think of is political motivations. Unless we fail.

Mr. Yeo: On the monetary front, there is a reasonable chance we can develop a super tranche for the industrialized countries, which can be dressed up in the right words, and contain up to $6 billion. The French will be difficult. The UK won't like conditions, but we need this in order to avoid charges of a give-away.

Secretary Kissinger: If the British are smart, it could be in their interest to be pressured into agreement on conditions, so that they can say that the only reason they imposed stringent conditions on the British economy is because of those American SOBs. This is better for Callaghan than having to deal with the unions himself.

Mr. Greenspan: The UK is a more serious economic situation than Italy.

Mr. Yeo: This effort will be clearly in their real interests. The Germans will be SOBs, but with us one step ahead.

(Enter Secretary Simon, Mr. Parsky, and Mr. Robinson.)

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[5] On June 4, *The Washington Post* carried a report on the Kissinger–Simon briefing on the upcoming Puerto Rico summit.

Secretary Kissinger: Sit up here Bill. We give a joint Press Conference and you get all the TV attention. Don't think that this didn't fill me with resentment.

Mr. Yeo: I have been describing possible achievements in the monetary and economic area. On North/South, a State–Treasury group is in the process of putting together a paper, which should be ready today. I understand the IRB will be one of the objectives.

Secretary Kissinger: I am for the IRB, but we don't need to be obsessive. The issue isn't whether we get the IRB, but when we go to a conference where our participation is absolutely necessary, we can't have others refuse even to study a major proposal by us. This is a moral and political question. If we do not have the leverage to have a proposal studied when we are indispensable, we have a major problem.

Secretary Simon: I agree. There is no need for us to fall on our swords over the IRB.

Secretary Kissinger: I'm not a fanatic on this. It is a proposal to help others.

Mr. Robinson: It isn't just the IRB proposal, but the lack of cohesion among the industrialized nations. We must seek ways to strengthen cohesion.

Secretary Kissinger: But we must be more clear what we mean by cohesion. There are three problems. First, each country conducts aid programs with its own criteria and purposes. This makes no sense in economic terms, when there are so many linkages, as in Africa where one must take into account regional relationships. It also makes no political sense when we want to encourage the moderates. The industrialized countries are in a monopoly position for development, and they have no common strategy.

Second, all the industrialized countries use the slogan that they can't be in the last row in an isolated position. How can we be in an isolated position with 80% of the resources? We get caught up in competitive yielding which brings us back to the initial problem of coordination. I will make these points at the OECD.[6] It's better for me to do it than to have the President do it. The competitive bidding and maneuvering is undignified. Nobody benefits. This is a theme I can state as a proposal at the OECD, and then look to some results at Puerto Rico. I will chastise and they will produce the solution.

[6] On June 21, Kissinger gave an address at the OECD Council in Paris entitled "The Cohesion of the Industrial Democracies: The Precondition of Global Progress." For the text of his speech, see Department of State *Bulletin,* July 19, 1976, pp. 73–83.

We will have some leverage over the French, since they will want to promote their African fund. I think this is a good idea as a way to reward the moderates, while having someone else out front.

Similarly, we need a coordinated approach on East-West relations. Whether détente is a one-way street we can argue forever. Now they claim it for the wheat deal, although at first everyone thought it was great, and there was a great struggle over who would make the announcement. We thought the Soviets did us a great favor.

Now if the Soviets go into debt to us of $30 billion, we do not have to be apologetic. This is only a liability if there is competitive bidding among the industrialized countries. We should try to establish a common approach to credits.

Mr. Sonnenfeldt: We have little leverage, since most U.S. credit is commercial credits.

Secretary Kissinger: The basic fact is that a country that can't feed itself, and needs so much credit from abroad, cannot be a big threat in all parts of the world.

Secretary Simon: Playing devil's advocate, I could say your argument is okay for five to ten years, but then what? Remember what happened to the Tsarist bonds, which are still being traded, but will never be repaid.

Secretary Kissinger: Their Tsar didn't default, it was the Communists. If the Communists go, the credit bonds might go down the drain. But if this means the collapse of the system, it might be a cheap price to pay. We could decide at Puerto Rico not to lend to the Soviet Union.

Secretary Simon: Inconceivable.

Secretary Kissinger: At least we could develop some criteria, explicit economic criteria and tacit political criteria.

Secretary Simon: Not with the big group, but perhaps only the smaller group of five heads of government and foreign ministers.

Secretary Kissinger: Certainly not a formal discussion. I took East-West off the agenda. The five finance and foreign ministers should have this subject in mind, however, to discuss privately. Should we include Japan since they leak like sieves?

Mr. Yeo: The financial power is there.

Secretary Kissinger: The Soviets have increased their power position beyond their economic ability.

Secretary Simon: We have already cracked the price of gold and this has hurt the Soviets. If you want to pressure them further we can crack the price of oil. I can go to Teheran.

Mr. Greenspan: They might not let you come back, and we will have to pay a high ransom fee. Henry's point could be done relatively easy.

Secretary Simon: It would not be easy.

Secretary Kissinger: For both sides, military intervention is increasingly risky, and we seek other areas of competition. The Communists use infiltration and subversion. We have massive structural advantages if we know how to organize it.

Mr. Greenspan: It would be technically very difficult to implement. Unless the private institutions are involved, they could undercut it. But this is an interesting issue to look at. One problem is the Swiss.

Mr. Yeo: We have the leverage, but the banks are subtle in their operations. Not caps, but other kinds of restraints. The balance of lending in the East is getting bent and we can force them all to the gold market.

Secretary Kissinger: We would want to do it subtly to avoid government by government confrontation. We should have them come to us to unblock the lending.

Secretary Simon: This is most interesting but what if the gold price should collapse. What would France do?

Mr. Parsky: Look at the great difficulty we have had with the first understanding on export credits.

Secretary Kissinger: But we are in the middle. Congress prevents us from getting involved in credits, leaving it all to others who do not have our strength.

Mr. Yeo: But they have to come to us eventually. There is already a problem with Eastern Europe and Soviet borrowing in Western Europe. The bull is coming our way and we need to think how we are going to handle it.

Secretary Kissinger: I don't have a scheme.

Mr. Greenspan: But potentially there is something here.

Secretary Kissinger: I agree we should not discuss it among the 7, and maybe not even the 5. How about a little group of 3 or 4 in this Government to develop our thinking? Hal can pull together a group with Alan, Joe and Hormats.

I talked to Schmidt, and he is convinced we need to do something. We should not talk to Healey, but only Callaghan among the British.

Mr. Yeo: We may want to limit our discussion to Poehl.

Secretary Kissinger: The UK has their own problems and may not want to get into this.

Mr. Scowcroft: We need to develop our own thinking first.

Secretary Kissinger: Okay. Hal can get a paper ready by our next meeting. Maybe when Schmidt comes in July we can do it more precisely. Schmidt will be here on July 15.

Secretary Simon: You will miss the opening of the World Cup, that I will be going to.

Secretary Kissinger: I will not go to the opening day, but I will go to the closing day. But, seriously, you should be here on July 15 for Schmidt.

Mr. Sonnenfeldt: In fact the World Cup does not begin until the 16th or 17th.

Secretary Kissinger: Is State doing a North/South paper?

Mr. Greenwald: We are doing it jointly with Treasury, and it should be ready at noon today. The trade paper is being done by STR.

Mr. Parsky: On trade we should push to get a statement on intent to liberalize trade.

Secretary Simon: We should push for a long-term commitment for free trade. Fred Dent is against it but we should still push it.

Secretary Kissinger: The French will be against it.

Mr. Greenwald: It will be opposed as an attack on the EC.

Mr. Hormats: We could set a date well into the future—1990 or 2000.

Mr. Parsky: In any event, it should be a post-MTN commitment.

Secretary Kissinger: Of course this would not affect things like countervailing duties and orderly marketing arrangements. We would have no tariffs, but other means to continue to restrain trade.

Secretary Simon: As for OMAs, the steel decision comes up next week.

Mr. Greenwald: Our position is to try for a substantial increase in the quota level.

Secretary Simon: I think we should have one more run to reverse the Presidential decision.[7]

Secretary Kissinger: I agree. Let's do a joint memorandum.

Secretary Simon: We should have a full court press. The least we can end up with is larger quotas. Alan will join us, and perhaps we can reverse the decision. As for augmentation we can cite the response on autos and shoes. Woodcock and Congressman Dent[8] have both sent me positive letters, since they have been getting heat for their earlier stand. We should also cite Allegheny–Ludlow. They announced record earnings right after the President's decision.

Secretary Kissinger: I'm leaving soon and I will sign the memo before I leave.[9]

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[7] See footnote 2, Document 130.

[8] Leonard Woodcock was the President of the United Auto Workers; Representative John H. Dent (D–Pennsylvania).

[9] From June 6 to 13 Kissinger visited the Dominican Republic, Bolivia, Chile, and Mexico.

Mr. Robinson: This is a very important move. There should be no fallback position.

Secretary Simon: Right.

Mr. Hormats: We need the memo today.

Mr. Porter: The President must finalize his decision on the 14th. We will hold it open until we receive your memo.

Mr. Parsky: Somebody should inform Fred Dent. How does NSC comes out?

Mr. Hormats: I will be for it if the arguments are compelling.

Secretary Kissinger: Back to the Summit, how should we proceed? Should the next step be to develop talking points for the President?

Mr. Greenwald: We are doing that and we should have a first very rough draft today.

Secretary Kissinger: I want to look at the first drafts during the trip. Can we meet again a week from Monday.[10]

Mr. Sonnenfeldt: That will be the first day of the preparatory meeting here.

Mr. Parsky: I would like to raise the investment issue. We plan to seek a commitment for a freer system, but there are two other issues. First, bribery.[11] Should we push this for the Summit?

Mr. Greenwald: We have a proposal in our paper.

Secretary Kissinger: Two governments are in political difficulty on this issue. It could help, but we shouldn't browbeat. I'm not sure about the Summit. Those of us who know the Japanese know there is a difference between their formal position and their real position. This could be very dangerous for them.

Secretary Simon: But it is an issue we almost can't avoid.

Mr. Parsky: The President is on the line with the special task force, with a June 1 deadline.[12]

Secretary Simon: It was a big mistake for Commerce to give the June 1 deadline.

Secretary Kissinger: Over the last year our approach has been to lay it on the line and expose ourselves, and in the process we have destroyed our security system and have undermined confidence in our intelligence network. Now we are on a similar kick on bribery. It is a

[10] June 14.

[11] A number of U.S. corporations were under investigation for paying bribes in order to encourage the export of their products. In particular, the Lockheed Aircraft Corporation confessed to bribing Italian and Japanese Government officials.

[12] On March 31, President Ford announced the formation of a cabinet-level task force to investigate "questionable corporate payments abroad." See *Public Papers: Ford, 1976–1977,* Book I, pp. 868–871.

much more complicated issue than we are led to believe. For example, if the Jordanians go ahead and buy Soviet arms defense, it could be [*1½ lines not declassified*]. This is not an issue for us to go balls out for headlines.

Mr. Parsky: But we need to do something to head off legislation, and one way is to say we are looking at it together internationally.

Secretary Kissinger: I don't know about Miki. He will not say anything with 21 people in the room. He will tell me with two people in the room.

Mr. Parsky: But can we say we didn't talk about it?

Secretary Kissinger: We should not discuss this at the preparatory meeting. Perhaps it will come up over breakfast at the Summit. It is the preparations that bother me.

Secretary Simon: We ought to discuss it, but we could just make a statement for the record.

Mr. Greenwald: There are two possibilities. The OECD package has a couple of paragraphs on bribery. The other is to avoid legislation.

Secretary Kissinger: We have been feeding the alligators for a year on the intelligence issue. Why must heads of government now listen to us on this matter? Because of Church and Proxmire?[13]

Secretary Simon: I can see this in a more positive light. We have problems. We have directed finance ministers to look into it.

Secretary Kissinger: But we should not discuss this in the preparatory meetings. We must first decide how we will handle it.

Mr. Greenwald: It is only in the paper at this stage.

Secretary Kissinger: It's okay for a U.S. Government paper. We can discuss it again at Monday's meeting.

Mr. Parsky: We also want a positive statement on MNCs.

Secretary Kissinger: I favor that.

At Rambouillet we had two good things: a monetary accord, and an eloquent communiqué, announced at a joint press conference. We should begin work on a communiqué.

Mr. Hormats: We will start this weekend.

Secretary Simon: No more talk about millions of jobs. I opposed this and it was still put in the President's statement. It was the first question asked of me, and I almost said flatly it was wrong.

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[13] Senator Frank Church (D–Idaho), as the Chairman of the Senate Subcommittee on Multinational Corporations, and Senator William Proxmire (D–Wisconsin), as the Chairman of the Senate Banking, Housing, and Urban Affairs Committee, were involved with the Senate investigation of the Lockheed bribery scandal.

Mr. Scowcroft: Mike Duval[14] said he cleared it with you personally.

Mr. Porter: No, at the breakfast meeting Bill said to take it out.

Secretary Kissinger: We need a rhetorical beginning. Then a portion on the recovery, stressing coordination and consultation. For North/South, we can develop some mechanisms or principles for cooperation.

Mr. Robinson: There are many meetings coming up, and we must get the more radical industrialized countries into line.

Secretary Kissinger: It is not just the small countries but the Germans. Look at Bahr. We will have to draw the line at some point. Are the State people all working with Parsky? I need to leave now to see the Foreign Minister of Guyana.

Mr. Robinson: Guyana is the one Latin American country who voted against the IRB.

Secretary Kissinger: Somebody removed your memo on the IRB from my desk. I would like to see it again.

Are you happy, Bill.

Secretary Simon: I am happy as a clam.

Secretary Kissinger: But no one knows how happy clams really are. (To Ed Yeo) Good luck on your trip.

[14] Michael Raoul-Duval was President Ford's Special Counsel.

141. Backchannel Message From the Under Secretary of the Treasury for Monetary Affairs (Yeo) to Secretary of State Kissinger and Secretary of the Treasury Simon[1]

Munich, June 9, 1976, 1555Z.

Subject: Deputies Meeting—Organization Specifics.

1. Pierre Brossolette is objecting to holding the meeting scheduled for Monday and Tuesday of next week[2] in Washington. He argues that it would be more convenient and equitable to hold these meetings in

[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 11, Economic Summit Conference, 6/76, Items AA–DD. Top Secret; Immediate. Also sent to Scowcroft, Seidman, Hormats, Sonnenfeldt, and Greenspan.

[2] Monday, June 14, and Tuesday, June 15.

Europe. Hormats has been contacted re this matter and I understand is in the process of straightening it out with Pierre Brossolette.[3] No one else in the group is very concerned about this.

2. Concern on the part of the French, German and English regarding the planned meeting of the four countries represented here plus Japan for Monday. The concern expressed by them centers on the improbability of keeping such a meeting quiet relative to the Italians and the Canadians and the injured feelings that could result. There are three possible solutions: (a) Confine the Monday meeting to a representative from each of the five countries. This would have a greater probability of being kept quiet; (b) Have three representatives from each of the seven countries at Monday's meeting; and (c) Have one representative each from the five countries meet Monday morning; have a large meeting of three participants from each of the seven countries late Monday afternoon.

3. Poehl made a strong bid for the Chancellor handling the economic issue at the summit. Giscard, according to de Larosiere, would like to handle North/South issues. While all of this is for later meetings, I indicated to Poehl that it was my understanding that President Ford wished to handle the economic subject and I suggested to de Larosiere that this was not the appropriate time or group to attempt to settle on matters of this sort. Nonetheless, it was recorded that the Italians handled relations with the socialist countries at Rambouillet and the Japanese had international trade.

4. Concern was expressed regarding the ability to keep the pre-summit dinner of the four quiet. I explained that this would be covered by the people who were working on the scheduling and organizational aspects of the meeting.

After a general discussion, we moved into a review of the agenda on a subject-by-subject basis. What follows is a first draft of the economic section of the communiqué. This beginning effort was useful because it revealed a surprising degree of unanimity re the points to be covered in the economic section of the communiqué. For example, the French were totally willing to accept an objective of eliminating inflation and if anything were as tough as the Germans. The English predictably held out for a specific reference to unemployment and the need to reduce it but all agreed that recovery was stronger than had been

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[3] In a June 9 message to Scowcroft, Brossolette suggested that the pre-summit experts meeting should take place in Europe, ideally Paris. In a June 10 message to Brossolette, Scowcroft explained why the meeting would have to be in Washington and expressed the "hope that your officials will join us for the preparatory meetings in Washington." (Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 11, Economic Summit Conference, 6/76, Items AA–DD)

anticipated; all agreed that sustained expansion was the objective and the principal threat to achievement of the objective is inflation.

Paragraph following is the economic section of the communiqué as proposed by the Deputies group: "The objective before us is to fashion, each in our individual ways, policies that will provide the foundation for a period of steady and sustained economic growth. Fears about the economic and financial outlook have been replaced by hope and a rebirth of confidence in the future. Our earlier meeting at Rambouillet established economic recovery as a primary goal and identified underlying economic and financial conditions as the sources of the stability we desire. Out of Rambouillet have come a highly developed spirit of cooperation and mechanisms for consultation which have proven invaluable.

"A strong and balanced economic recovery is underway. Before us is a transition from recovery to expansion and further progress in reducing unemployment. This will require that investment in the tools that men and women work with, the plants and factories and other infrastructure of our modern economies, must be forthcoming.

"Most importantly, one fact, a legacy from the early years of this decade, must be stated unequivocally: sustained economic expansion and the resultant increase in individual well-being cannot be achieved in the context of high rates of inflation. In order to accomplish our stated objective of deliberate, orderly and sustained expansion, we must and do commit ourselves to a companion goal—the elimination of inflation." Section II of this message to follow later.

142. Backchannel Message From the Under Secretary of the Treasury for Monetary Affairs (Yeo) to Secretary of State Kissinger and Secretary of the Treasury Simon[1]

Munich, June 9, 1976, 1555Z.

Subject: Deputies Meeting—Section II.

We had an extensive discussion of the monetary situation. The discussion was confined to our "super tranche" idea and Italy. In the case of the latter, several things became clear:

[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 11, Economic Summit Conference, 6/76, Items AA–DD. Top Secret; Immediate. Also sent to Scowcroft, Seidman, and Hormats.

(1) There has been remarkably little analytical work done by the other governments represented here. This explains why there was only a dim perception on the part of the French and the English re the prospective financing requirements for Italy;

(2) The French have a distinct tactical approach—it involves low-keying any discussion of Italy per se in Puerto Rico or anything that would obliquely relate to Italy. Seemingly they would wait the Italians out in initiating any steps that could be construed as helpful from a financing standpoint until the Italians had formed a government and had produced an acceptable economic and financial stabilization program. This was somewhat surprising since the French had been heavily affected by the depreciation in lira but is characteristically French in approach. We debated whether the French approach is advisable. A number of questions are raised by it. In the wake of the Italian elections, could discussion at Puerto Rico be avoided? Which provides the maximum incentive for the formulation of an economic program—no financing facility or a financing facility tied to the development of an economic program? While our debate on tactics was inconclusive, it was clear that the Germans and the English do not share the French view. In terms of our proposal for super tranche, the French characterized it as ingenious but then attacked it on two counts: the tactical issue as to timing and tactics as mentioned above, and the conflict—real or imagined—with the Financial Support Fund. De Larosiere, quite clearly at Brossolette's instruction, had a grand time working me over on our failure to legislate our Financial Support Fund. Technically, the Financial Support Fund can come into existence after the French administration tenders the necessary documentation to the OECD. *Note,* the French Parliament has ratified the Financial Support Fund and this brings the countries approving above the 60 percent limit which can trigger creation of the Fund. The French don't plan to formally complete the ratification process until, and if, our Congress has acted.

I suspect the French problems with the super tranche are as follows: (a) They do not want to come up with the money that is implicit in the creation of the super tranche—these funds would come out of their reserves and after losing $5 billion in two months and facing a current account deficit, de Larosiere (watchdog of the purse) is feeling poor; (b) MIA [*MFA*?] feeling that in any but a very general sense financing availability should follow formation of an Italian Government and an Italian program; (c) Pique, probably on the part of Brossolette, that initiative for funding a way of dealing with problem of European country had come from us.

The Germans and the English had a generally favorable reaction to the idea of a super tranche. *Note*—the French position on the second day was appreciably easier than on the first. The German concern is that if there were two facilities—super tranche and the Financial Support Fund—they might have to pay out more than if there were only one. Our answer to the Germans' concern centered on the idea of using the super tranche first and the Financial Support Fund only in extreme emergency. This explanation was tentatively accepted by Poehl in part because he and his colleagues have doubts about the financial structure of the Financial Support Fund; specifically, the way in which funds are raised and would like to avoid having to use that mechanism. A summary of our discussions of the monetary section would be as follows: super tranche is technically feasible and attractive in many respects; however, there is some confusion about its relationship to the Financial Support Fund and some anger regarding the lack of progress on the Financial Support Fund by Congress, and a definite lack of consensus as of the close of this meeting re the tatics to be followed in connection with the Italian situation. Finally, there is concern as to how the super tranche for developed countries could be presented to the LDCs without causing LDCs to ask for more.

At the close of the first day we laid down the following paper on the super tranche.

SPECIAL FINANCING NEEDS IN THE PERIOD AHEAD

I. The Problem

Looking ahead, the international payments pattern is likely to be as follows: continued large OPEC surpluses; continuing but sharply reduced LDC deficits; and substantially increased deficits in the developed countries.

For the LDCs the financing needs will be reduced as economic recovery in the industrial world leads to increased inventories and raw material exports move higher in volume and price—a process that is already well underway. While there may be selective individual LDC financing problems, the group of developing countries in general will be able to meet its reduced financing needs through continued use of private credit and the expanded IMF financing available under normal drawing, the liberalized compensatory financing facility, the new extended fund facility, and the 45 percent stretching of tranches agreed at Jamaica.

For the developed countries, the prospects are mixed. Most will be able to handle the deterioration in their payments positions—through a reduction of surpluses (such as the $15 billion turnaround in the U.S. position), attraction of capital into private markets, and use of private credit, supplemented by normal IMF drawing facilities.

There are however some major developed countries which have not yet restored stable conditions to their domestic economies, which thus face large payments deficits, but which will not be able to meet their financing needs solely through these channels. These "special needs" countries have more or less exhausted their ability to borrow in private markets, cannot attract inflows of capital, and have only limited remaining access to official credit from the international institutions.

There is a danger to the international community that when these developed countries run out of money and credit, and reach the limit of their ability to support their currencies, there will be very disorderly adjustments. Such disorderly adjustments could be characterized by sharp depreciation in exchange rates, possibly import and exchange restrictions, and internal and international financial strains which have the potential for inflicting severe damage on the entire international monetary system.

II. A Proposal

Consideration should be given to arrangements for dealing with this problem of the developed countries facing the combined difficulties of domestic economic and financial instability, very large payments deficits, and limited or exhausted financing availabilities.

Specifically, the need is to combine, for such a country, additional official credit, complementing the IMF regular resources and the Financial Support Fund, to be related to a specific set of national policies which will correct in a moderately short time period the underlying domestic economic problems which caused the disequilibrium in the country's international financial position.

One possibility is to build on the provision of the Jamaica Agreement permitting "in special circumstances" drawings from the IMF beyond the normal standards of availability. In this way, a member which had already reached the limit of 245 percent of quota under the IMF's normal facilities could, because of the member's "special circumstances", be provided additional IMF credit tied to a rigorous and detailed program to restore domestic economic stability.

Use of such a "special circumstances" arrangement or "super tranche" could be coupled with activation of the General Arrangements to Borrow, under which the G–10 countries are able to lend to the IMF for drawings from the IMF by G–10 countries. GAB commitments total $6.3 billion at present exchange rates. (The Swiss have parallel bilateral arrangements for simultaneous lending to the IMF.)

Use of the GAB has the advantage that countries are able to make the funds available quickly and without any prior legislative action other than that already on the books. Under the existing agreement GAB loans are to be made to the IMF "when supplementary resources are needed to forestall or cope with an impairment of the international monetary system." The present situation plainly presents such a need—in light of the dangers to the monetary system noted above with respect to those developed countries with "special needs", and in light of the fact that the IMF's usable currencies now total only $7 billion and are being heavily drawn upon by non-members of the GAB.

Repayment of GAB loans by the IMF under the existing agreement is to be made in five years (or less, under some conditions). A GAB claim on the IMF can be shifted by one participant to another in case of need, enabling the claim to be treated as reserves if desired. Interest is paid by the IMF at the rate the IMF earns on the drawings made using GAB funds—thus credit provided under a "super tranche" concept need not be limited to the 4–6 percent charges on normal IMF drawings but could be closer to a market rate.

The limit on drawings from regular IMF facilities of 200 percent (245 percent temporarily) has been strictly observed in the past, and any departure from that limit should be marked by exceptional conditions, both to assure a correction of the disequilibrium causing the need for the special financing and to limit calls on any super tranche to the absolute minimum of critical cases. Financing alone will not solve the problems of these countries and will carry little or no conviction in the exchange markets in the absence of credible domestic programs that will correct, and be seen to correct, the domestic and financial problems causing the payments disequilibria. Accordingly, access to any super tranche facilities might be subject to more detailed and more stringent conditions with respect to domestic fiscal and monetary policy than those applied for access to regular drawings; might be phased with prescribed performance criteria over a period longer than the present one year; and might be subject to higher interest charges than present IMF drawings. The possibility should also be considered that super tranche credit be accompanied by financing from outside the IMF, with such financing also phased with the prescribed performance criteria, in order to give additional leverage for meaningful and internationally acceptable adjustment programs. Section III of this message to follow.

143. Backchannel Message From the Under Secretary of the Treasury for Monetary Affairs (Yeo) to Secretary of State Kissinger and Secretary of the Treasury Simon[1]

Munich, June 9, 1976, 1945Z.

Subject: Deputies Meeting—Section III.

North/South issues: *Summary*—Our discussions were centered in four areas; the need for coordination and consultation of north policy, commodities, debt, and the IRB. In general, the discussion lacked originality and the views expressed were those that had been exposed at UNCTAD. There was a general frustration at the lack of consultation and coordination displayed at UNCTAD. On the part of the Europeans, the frustration focused on the general inability to coordinate with us and the Japanese and on the specific lack of EC coordination. While there seems to be a willingness to entertain ideas to effect greater coordination, there is a skepticism regarding their ability to get their EC colleagues to go along and this concern underlines their reluctance to take the heat if they don't. There is also keen awareness of policy differences in the commodities area, particularly vis à vis the French. Finally, there is a sensitivity on the part of the Europeans that any visible effort at consultations by developed countries would be interpreted by the 77 as the beginning of a confrontation policy on the part of the developed countries.

In the commodities area, the thinking laid down was almost exclusively a function of UNCTAD with the French holding to the position that they had defined at UNCTAD IV and clearly enjoying the discomfort of their three friends and their positions which might be right but which the Germans and the English find very inconvenient. The French formulation of their position was tailored to the audience with a carefully circumscribed and qualified commitment to negotiate on the issue of a common fund. But de Larosiere's elegant obscurities failed to conceal the policy differences although they did tend to convey the idea that in Puerto Rico France might opt to minimize the differences at least in the public sense.

On debt, there was general satisfaction at the UNCTAD IV outcome and little willingness to explore new ideas. The French were not pleased with our suggestion that we should consider sanitizing the Paris Club[2] operation including the development of principles that would apply to individual rescheduling exercises and procedures of a liberal type.

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[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 11, Economic Summit Conference, 6/76, Items AA–DD. Top Secret; Immediate. Also sent to Scowcroft, Seidman, Hormats, Greenspan, and Sonnenfeldt.

[2] The Paris Club, an informal and voluntary consortium of creditor countries that develops coordinated policies towards countries having trouble repaying their debts, first came together in 1956.

There is general support for the idea that the IRB ought to be considered carefully in the months immediately ahead. Indeed there seems to be general support for the idea.

What follows is a description of individuals' comments:

Karl Otto Poehl: He described the Chancellor being embarrassed at the UNCTAD IV outcome and subject to criticism in the newspapers regarding the poor coordination with other developed countries and Germany's isolated position. Poehl described Nairobi as being really disastrous and attempted to revive interest in the old STABEX scheme. The Germans are quite aware of the potential cost of the Common Fund and the fact that they, the U.S. and Japan, would provide the bulk of the financing. In the debt area he was satisfied with results and not terribly receptive to the idea of taking the initiative.

Sir Derek Mitchell: He agreed that the British were appalled at the outcome at Nairobi. He felt that politically the old STABEX scheme and variants were washed out. He described us as being hooked in a number of areas as a result of Nairobi and doubted that we could back down in Puerto Rico. He supported the notion of developing a common line for approach in our dealings with developing countries.

Jacques de Larosiere: He supported the idea of attempting to work out a common understanding with specific attention as to how we follow up Nairobi in the CIEC. He was willing to accept that the statement of principle regarding debt rescheduling would come out of the CIEC Financial Commission and felt that that was the appropriate forum (but that the subject ought not be discussed at the summit). He insisted that their notion of how buffer stocks would work had been misrepresented. He felt that the prices resulting from the operation of buffer stocks facilities should be a faithful reflection of the market and simply avoids "brutal falls and upswings in prices."

Special Items of note: Schmidt and Giscard have been discussing the question of whether Thorn in his capacity as head of the EEC should be invited to Puerto Rico.[3] Schmidt is under heavy pressure from the Dutch to make this concession and is inclined to do so. Giscard reportedly is not in favor of the idea.

De Larosiere is working on the specifics of a special African fund that Giscard plans to put on the table at Puerto Rico. Section IV of this message to follow June 10.[4]

[3] The President of the EC Council, Luxembourg Prime Minister Gaston Thorn, was arguing strongly for EC inclusion in the Puerto Rico summit. Documentation on this request is in the Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 3, Presidential Subject File, Economic Summits—Puerto Rico (3).

[4] Not found.

144. Memorandum of Conversation[1]

Washington, June 14, 1976, 4:30–5:30 p.m.

SUBJECT

Economic Summit at Puerto Rico

PARTICIPANTS

State
Secretary Kissinger
Mr. Robinson
Mr. Rogers
Mr. Sonnenfeldt
Mr. Preeg (Notetaker)

Treasury
Secretary Simon
Mr. Yeo
Mr. Parsky

NSC
Mr. Scowcroft
Mr. Hormats

EPB
Mr. Porter

Secretary Simon: Are we ready to discuss the Declaration of Dorado Beach?[2]

Secretary Kissinger: I hope we can come up with a better phrase than that. How did the EC issue get resolved?

Mr. Sonnenfeldt: We will not know until Wednesday.[3]

Secretary Kissinger: Thorn is becoming impossible on this issue. Doesn't he understand that Luxembourg only became an independent state by mistake when Napoleon screwed up the situation in 1867?

The Communiqué needs more rhetoric at the beginning. Have the others accepted this?

Mr. Yeo: The economic section is agreed with France, Germany, and the UK as a starting point.

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[1] Source: Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 3, Presidential Subject File, Economic Summits—Puerto Rico (3). Secret; Nodis. Drafted by Preeg and approved on July 1 by Collums. The meeting took place in the Secretary of State's conference room. A June 13 briefing memorandum from Sonnenfeldt and Hormats to Kissinger on the subject of this meeting is ibid., Trip Briefing Books and Cables for President Ford, Box 21, June 27–28, 1976—Puerto Rico Economic Summit, General (3).

[2] The economic summit took place at Dorado Beach, Puerto Rico.

[3] June 16.

Mr. Parsky: But this language is a little different than what we gave them.

Secretary Kissinger: But we need more political rhetoric at the beginning. This is the moral foundation for these meetings. We need a page or so on the basic political commitment of the industrialized democracies, with greater elevation. There is not enough economics here to justify a summit meeting. We need two to three pages along the lines of some of the good material developed at Rambouillet. Let's take something out of the Democratic platform.

Mr. Rogers: We haven't finished drafting it yet.

Secretary Kissinger: Bill Rogers is working both sides of the street during the campaign.

Can we rework the Communiqué overnight? We need more moral and political content, which would help us publicly. The leaders of the major industrialized countries have a responsibility to meet regularly and to foresee major upcoming events. The rest of the statement on economic issues is not very earthshaking.

Mr. Hormats: The French have already tabled a separate draft. They want something from us tonight or tomorrow.

Secretary Kissinger: Can't we just add a page of moral commitment by industrialized countries?

Mr. Hormats: This is what we have tried to do in the first paragraph.

Secretary Kissinger: This is what bureaucracies write: two sentences that you have to look for in order to find the point. (To Rogers) Bill, would you help out? Perhaps something along the lines of what we did at ECLA.[4]

Mr. Parsky: The first substantive point we have is on page 2, concerning a commitment to achieve a successful reduction in the rate of inflation. Ed Yeo would prefer "elimination." I understand Alan Greenspan thinks this is going too far, and perhaps we should say "work toward the elimination of inflation."

Mr. Robinson: Is it realistic to speak of elimination of inflation in view of the record of the past 200 years?

Secretary Simon: Yes, it is, since the annual rate of inflation over the past century has been only 1.8%.

Secretary Kissinger: This is like our energy policy. We make a commitment to reduce dependence on imported oil and our dependence continues to rise.

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[4] A reference to Kissinger's June 9 remarks at the United Nations Economic Commission for Latin America headquarters in Santiago, Chile. For the text of his remarks, see Department of State *Bulletin*, July 5, 1976, pp. 23–25.

Mr. Parsky: The next point is about steady and sustained growth. Arthur Burns would like us to add the phrase, "each of us in our own way."

Secretary Kissinger: But only if we convey the point that we are linked together towards common objectives.

Mr. Sonnenfeldt: Perhaps we could say "for all of us."

Mr. Robinson: The phrase "each in our own way" sounds too much.

Mr. Yeo: Arthur is very sensitive about this. He is worried about implications for Central Banks.

Mr. Parsky: There is a difference between coordination of national policies and coordination on North/South issues.

Secretary Kissinger: I don't mind the phrase "each in our own way", but we must also recognize the need for frequent consultation in view of our growing interdependence.

Mr. Parsky: The next point is in the trade paragraph. The phrase "we have been successful in keeping markets open" could be misleading, and we prefer to say "keeping an open trading system."

Secretary Kissinger: That sounds better, but we need to phrase these paragraphs in terms of new pledges rather than simply reaffirmation of what happened earlier.

Mr. Parsky: Beyond the conclusion of the MTN, the last sentence is new, where we call for gradual elimination of tariffs.

Secretary Kissinger: Will the EC countries agree to this? What is a Common Market without a common tariff? Or will they simply substitute quotas and other barriers for tariffs?

Mr. Parsky: The next point at the bottom of the page which calls for "incentives", could be broadened to read "restrictions and incentives". Labor wants this in but the French will oppose it.

Mr. Hormats: We could use the word "distortions."

Secretary Kissinger: The paragraph on the top of page 3 should be stated as something new.

Mr. Parsky: This may be difficult for the EC since, even if Thorn and Ortoli[5] come, they will not have a mandate. Perhaps we can rephrase the sentence toward action by using the world "must." I like the sentence if we can get it in.

On the sentence relating to allocation of resources, we should take out the word "financial."

[5] Francois-Xavier Ortoli was President of the EC Commission.

Mr. Yeo: We don't know yet how others will react to the bribery issue. We need something on bribery and perhaps extortion.

Secretary Kissinger: I think this whole issue is a case of rampant hypocrisy.

Mr. Parsky: I think you could change the phrase to "offering bribes or solicitation" in order to hit the other side as well.

Mr. Yeo: That may not go over well with Hays.[6]

Secretary Kissinger: Compared to others, Wayne Hays always kept his word when dealing with the State Department. Do we really want the bribery issue in this Communiqué? I think it's in bad taste.

Secretary Simon: We lost this one last week. Your people came out for disclosure at the Hearings.

Mr. Robinson: No, that is not correct. We opposed all forms of legislation.

Secretary Kissinger: I am against legislation, as well as the whole campaign. I think what Church has done has been a great disservice to the country.

Secretary Simon: But the President announced today a three-point legislative proposal.[7]

Secretary Kissinger: No country that has a competitive choice will come to U.S. firms if we push ahead on this. If we are to maintain our trade position, we will have to stay far ahead of all others in our competitive position. Moreover, others will think we are putting them on the spot.

Mr. Yeo: We should shrink this section as far as possible.

Mr. Parsky: But we need language repeating our earlier initiatives.

Secretary Kissinger: But take out the rhetoric.

Mr. Robinson: The real threat was Levi[8] in his proposal on criminality.

Secretary Kissinger: Don't start me on our Government. We are not a Government anymore.

Let me get to the North/South issue. I would reverse the country groupings. Development comes from the major countries assembled at Puerto Rico. Therefore, there should be no competition among us. The

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[6] A reference to Representative Wayne Hays (D–Ohio), who had installed his alleged girlfriend, Elizabeth Ray, on the Congressional payroll. (*The New York Times,* June 5, 1976, p. 1)

[7] For President Ford's remarks on the issue of questionable corporate payments abroad and his announcement of new initiatives in this area, see *Public Papers: Ford, 1976–1977,* Book II, pp. 1874–1876.

[8] Attorney General Edward Levi.

LDCs have no other place to go. The point should not be made that crudely. We have an opportunity to build a coherent development strategy. Phrased positively, that should be the theme and the individual points should be sharpened considerably.

Mr. Parsky: But what about LDC responsibility?

Secretary Kissinger: Yes, but put that second. Development will be a long term process, and therefore should not come about by extortion. There should be no waffling talk.

Where is the energy part?

Mr. Parsky: That is in a separate section.

Secretary Kissinger: I will read the monetary section separately and talk later with Ed Yeo about it.

Who will be back here next week to deal with these issues?

Mr. Yeo: I will be back Wednesday through Friday.

Mr. Robinson: I'll be here.

Mr. Rogers: I will be back by Thursday.

Secretary Kissinger: How should we prepare the President?

Mr. Parsky: We have reworked all of the papers and included talking points on each item.

Mr. Porter: The papers should be ready tonight. We have time blocked out for the President Thursday afternoon.[9]

Secretary Kissinger: Chuck, Brent, and Bill can get together next week to maintain a dignified, statesmanslike preparation, with no special angles. Every hotshot in town will be trying to get his own pet idea into the papers. The central theme should be that the industrialized democracies are the engine of the world economy, and that therefore it is essential that the leaders meet regularly.

Can we lay out a scenario for the President? Giscard did it masterfully at Rambouillet.

Mr. Hormats: Alan Greenspan did a piece for the President on the recovery.

Secretary Kissinger: The President shouldn't make the first presentation. He should show more deference, and start with an introduction. That is what Giscard did. He did a ten minute introduction and

[9] On June 17, Ford attended a meeting on the economic summit in the Cabinet Room from 2:12 p.m. until 3:20 p.m. Also in attendance were Simon, Kissinger, Secretary of Labor William Usery, Dent, Greenspan, Burns, Sonnenfeldt, Malkiel, Seidman, Neesen, Assistant Secretary of Commerce for Policy Richard Darman, Yeo, Special Council Michael Raoul-Duval, Deputy Director of the Office of Management and Budget Paul O'Neill, Porder, and Hormats. (Ford Library, President's Daily Diary) No memorandum of conversation from this meeting was found.

then turned it over to someone else for the first subject. Perhaps we can let Giscard make the first presentation this time.

Mr. Yeo: We shouldn't change the lead country topics, but we could shift the order.

Secretary Simon: Perfect.

Secretary Kissinger: Are the meals set up so that we can rotate who sits next to whom? The French had heads of government in the center of the table, but they made sure the same people didn't sit next to each other.

Mr. Sonnenfeldt: I will talk to the advance people.

Secretary Kissinger: It is phenomenally boring to sit next to the same people each time. We should be sure to rotate Miki and Rumor.

Mr. Yeo: We will have a time problem.

Mr. Hormats: We hope to begin at 4 pm and go on to 7, covering the recovery, monetary, and perhaps trade. On the second day, we would hope to go from 9 am to 2 pm with a break. Giscard would like to leave before lunch.

Secretary Kissinger: We need a press conference with heads of government, foreign ministers and finance ministers.

Secretary Simon: Are we having a press conference? The press will be thirty miles away at San Juan and are bitching like hell.

Mr. Sonnenfeldt: There is no room at Dorado Beach.

Secretary Kissinger: That is a long thirty miles. Perhaps we can go to San Juan.

Mr. Hormats: The press should be assembled at Dorado Beach about 45 minutes before Giscard leaves.

Secretary Simon: We could do a separate press conference after the leaders meet the press.

Secretary Kissinger: However, if they play us up compared with the leaders we're in trouble. Maybe we could take a chopper into San Juan Sunday night.[10] Last time Seidman did it but the substance is less concrete this time.

Mr. Hormats: But we will not have time to make the evening news.

Secretary Kissinger: Not on Sunday night but at least it will give them something. Otherwise they'll all be bitching. Perhaps on Sunday night State and Treasury spokesmen could give a read-out, then on Monday afternoon Bill and I could do a wrap-up. But Bill, don't shoulder me away from the lectern again.

[10] June 27, the first day of the summit.

Mr. Sonnenfeldt: The paper on communist countries' indebtedness is a good first cut. I don't think we need to do anything further now. The British will take the lead at Puerto Rico.

Mr. Parsky: Maybe you could include some of it in the OECD speech.

Secretary Kissinger: Have you seen the latest draft of my OECD speech?[11]

Mr. Parsky: No, but I have discussed the basic ideas in it.

Secretary Kissinger: Don't lie to me Parsky. My people can never keep anything from you.

A group should get together now to rewrite the Communiqué. We need more lift in the beginning. It should look more like decisions rather than reaffirmations. We can also sharpen up the specific points.

Mr. Hormats: We'll do this tonight.

[11] See footnote 6, Document 140.

145. Memorandum From the Chairman of the Council of Economic Advisers (Greenspan) and the President's Assistant for National Security Affairs (Scowcroft) to President Ford[1]

Washington, June 16, 1976.

SUBJECT

Preparatory Meeting for Puerto Rico Summit

The Preparatory meeting here at the White House on Tuesday of officials from the UK, Germany, France, Italy, Japan, and Canada, under the chairmanship of George Shultz, made considerable progress in developing a Summit declaration.[2] Shultz worked from an American

[1] Source: Ford Library, National Security Adviser, Trip Briefing Books and Cables for President Ford, Box 21, June 27–28, 1976—Puerto Rico Economic Summit, General (4). Secret. Sent for information. A stamped notation indicates Ford saw the memorandum, which he initialed.

[2] The meeting was held on June 15. A June 10 memorandum from Hormats to Greenspan on a "Game Plan for the Monday and Tuesday Preparatory Meeting for Rambouillet II" is ibid., U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 39, Subject Files, Economic Summit (Puerto Rico) June 1976 (3).

draft text, and a parallel draft submitted by the French. The meeting produced a series of declaration sections which provide a basis for further and more detailed discussion. The results are summarized below:

—Basic agreement was reached on an introductory section (Tab I)[3] putting the Summit in broader political perspective. While this section does not stress the extensive security, political, and economic interdependence among the industrial democracies as much as we would have liked, it does underline the importance of our cooperation. The French objected strongly to any implication that the Summit would undertake a discussion of anything more than specific economic problems, and succeeded in gaining support for avoiding broader language. The French also objected to the entire document being called a declaration (in which paragraphs would begin with "we . . .") and argued instead for a communiqué (with paragraphs beginning with "they . . ."). Although Rambouillet ended with a declaration, they argued this was too "solemn" for the Puerto Rico Summit.

—Discussion of the economic recovery and expansion section (Tab II) produced general agreement on paragraphs which emphasized the need to avoid inflation and to reduce present levels of unemployment.

—The discussion of the monetary and financial issues section (Tab III) focused on the need for a continued effort to follow up on the agreements reached at Rambouillet and the IMF meeting last January in Jamaica, and the prerequisite of stable underlying economic and financial conditions for achievement of stable exchange markets. The US also suggested a paragraph instructing the Ministers to consider, in the context of the IMF, providing additional credit of a transitional nature to countries in extreme need. This would be tied to a program of monetary and fiscal control, designed to restore domestic stability in a reasonable period of time. Discussion of this paragraph—obviously oriented toward Italy—will be left to principals.

—Discussion of the trade and investment section of the communiqué (Tab IV) centered primarily on European efforts to avoid language which implied that they were committed to policies not approved by the European Community. Nonetheless, the section provides some additional impetus to the multilateral trade negotiations and indicates strong resolve to avoid new protectionism. Paragraphs on investment were not discussed pending formal agreement in the OECD on that package next week.

—Discussion of the developing countries section (Tab V) produced sharp debate between the US and French delegations. The French place great emphasis in winning political credit in the developing world,

[3] Tabs I to VI are attached but not printed.

even if it means subscribing to schemes or espousing policies which do not make good economic sense. Our position is to emphasize the requirement that US assistance to the developing nations achieve constructive economic results, and to avoid supporting programs which are economically unsound. As a result, a draft was prepared which does not attempt to resolve disagreements between the two sides but which combines US, French, and British wording. To avoid an acrimonious discussion at Puerto Rico, much work will have to be done in the interim to resolve our differences with the French on this issue.

—Concerning energy (Tab VI), a draft was prepared which combines US and French wording. No insurmountable problems appear likely here, although the French stress cooperation with producers while we stress consumer cooperation to reduce import dependence.

—Most of the foreign officials believed there would be insufficient time at the Summit to discuss adequately the problem of redundant international institutions and wanted it deleted as a subject item. No declaration language was agreed to.

On the whole, the discussion went satisfactorily, notwithstanding a few minor skirmishes between the US and French. However, we will have to work intensively over the next week to narrow or eliminate differences with respect to:

• Whether or not the final document is a "declaration" as opposed to a "communiqué." We continue to strongly favor the former as a stronger document for demonstrating solidarity and giving importance to the results of the meeting.

• Final agreement on a contingency financial package for Italy, which could be used if we find the next Italian government acceptable and if it takes the necessary measures to improve its domestic economic situation.

• Fundamental differences in the north-south section. The foreign principals may turn out to be more supportive of our position than their representatives, so we should not at this point despair of making progress toward our objectives at Ministerial or Presidential level.

• Language on investment, including a paragraph on bribery.

• Reaching agreement on an energy section, which strongly emphasizes consumer cooperation as well as the dialogue with producers.

• Deciding whether we want any discussion on redundancy in international institutions or if we merely want to raise the issue and work out declaration language which underlines the need to address the problem more vigorously in other forums.

146. Memorandum From the Under Secretary of the Treasury for Monetary Affairs (Yeo) to President Ford[1]

Washington, June 24, 1976.

Under the general heading of monetary concerns there are four specific items that might be discussed and on which your views will be of great interest to other leaders.

I. Provision of financial assistance to countries such as Italy which are in structural balance of payments disequilibrium (countries which have a structural deficit in their current accounts): Countries in this category have been borrowing large amounts of money in an effort to finance the adverse gap between what they receive in earnings on exports of goods and services, and what they pay to other countries for imports of goods and services.

Large scale borrowings become necessary because the natural inflow of capital to finance the resultant current account deficits is insufficient. The borrowings have typically been in the form of long term bond issues denominated in dollars; but the British have traditionally used the London money market—to attract short term funds from private concerns—and central banks in order to finance their deficit.

In addition to the UK and Italy, France, Belgium, Denmark, and Sweden are using this technique and thereby are avoiding the depreciation in their exchange rate which would otherwise follow. They want to avoid a lower exchange rate because it would make imports more costly and add to inflationary pressures. Financing operations of this type if carried on for prolonged periods can produce two adverse results:

1. A substantial disparity between the internal value of a country's currency, eroded by inflation, and the external value or exchange rate, propped up artificially by sustained heavy external borrowing.
2. An exhaustion of a country's ability to borrow in the private market place as lenders become afraid to extend additional credit.

The second development acts as a trigger. In the case of Italy, reserves were exhausted, they realized they could borrow no more, and so let the exchange rate go. The drop in the rate, reflecting the pressures that had been concealed from 1969 to late last year by heavy external borrowing (approximately $12 billion), was 20% over a 2-month period. The sharp rate decline does not reflect an inadequacy in the in-

[1] Source: Ford Library, President's Handwriting File, Subject File, Box 49, Trips—Foreign—Economic Summit—1976 (4). No classification marking. A stamped notation on the memorandum indicates the President saw it.

ternational monetary system but rather inadequate Italian economic and financial policies.

In the case of the UK, the overall effect has been similar but the specific trigger different. The short term funds that the UK has attracted over the years have recently tended to move out of sterling because of a feeling that the UK has not embarked on a serious effort to deal with its inflation and thus sterling was destined to continue to decline in value. Funds leaving London resulted in sharp downward pressure on sterling (the rate has dropped from 2.02 to 1.77 in the past six months). This in turn has served to validate the very fears that prompted the initial moves out of sterling. In addition, British residents have attempted to protect themselves by the following phenomenon (leads and lags): UK importers rush to pay as quickly as possible before sterling goes down further and exporters defer payments as long as possible.

There are three policy options in the UK and Italian cases:

1. Do nothing. In the case of Italy refuse to extend credit, in effect insisting on an exclusively internal solution. This would involve some further depreciation of the lira and draconian domestic economic and financial policies. An unwillingness on the part of the Italian people to support a total austerity effort could result in a series of controls on imports and foreign exchange transactions (a seige economy). This probably would not work and if not the result could be the financial collapse of Italy. This in turn could prompt counter measures from other countries.

2. Provide official credit—country to country loans and/or multilateral credit—on a "no conditions" basis. This could involve a need of $3–4 billion every 18–24 months for Italy and a larger amount of $4–5 billion for the UK.

3. Provide official credit but with meaningful conditions—an economic program that gears the extension of credit to the accomplishment on a step by step basis of a program of domestic economic and financial stabilization. This is what was done obliquely with the UK in the recent $5.3 billion support package.[2] The one condition of that package was that if other sources are not available the UK will draw from the IMF (and thus meet the conditions that the Fund will require, including a tighter monetary policy and a material reduction in the budget deficit known as the "Public Sector Borrowing Requirement"). At the present rate the British, who have yet to make the substantive policy changes necessary, will have to borrow from the IMF.

[2] In a June 7 memorandum to President Ford, Simon, asserting that the recent fall in sterling's value "threatened the international monetary system and our open cooperative trading policy," reported that the United States had joined with several other countries to extend $5.3 billion in aid to the United Kingdom. (Ibid., L. William Seidman Papers, Box 319, Foreign Trips File, International Economic Summit, June 27–28, 1976, Memoranda and Statements (3))

This approach has the advantage of tying limited amounts of official financing to corrective policies; it does not run the risks inherent in the "do nothing" option and if successfully supplemented does not involve the almost unlimited amounts implicit in the "provision of official finance without conditionality" approach.

We have, under your direction, focussed our efforts on the last option. There are, however, two obstacles:

1. The reluctance of countries like the UK and Italy to accept this approach, and the sensitivity on the part of others who fear that they could find themselves in similar circumstances. In general, the Germans, Japanese and French should support this approach; the Canadians' attitude is unknown.
2. The availability of money of a conditional nature for Italy is quite limited.

The best institutional arrangement for producing conditional financing is the IMF. It does not involve Congress, does not impact our budget, and cloaks the conditionality in a multinational mantle that dilutes opposition within a borrowing country to conditions imposed by the US or other outsiders. (This last concern has watered down considerably the conditionality re E.C. credit extended to Italy and bilateral gold secured loans made by Germany to Italy.)

Unfortunately, under the rules limiting the amount individual countries can borrow from the IMF, Italy only has $520 million in additional credit available to it. We have developed a way around this constraint which involves activating the General Arrangements to Borrow and taking advantage of the agreement in Jamaica which stipulated that under "special circumstances" the limits that apply to individual country borrowings from the IMF could be exceeded. The GAB would provide the money (we have a continuing appropriation).

Germany, Japan, UK, and France are aware that we have developed this technique, but we have not discussed it with other participants. In general, the ones we have spoken to are receptive although they are concerned, as are we, about the possibility that LDCs would view this as preferential treatment for a developed country and thus escalate their demands for more financing from the IMF (even though the LDCs have received highly preferential treatment themselves, e.g., the Trust Fund and expanded Compensatory Financing Facility, and though the GAB can only be used for the developed countries who are members).

An alternative institution would be the Financial Support Fund but this facility will not come into existence until Congress passes the enabling legislation. The prospects for enactment by the current Congress are not high.

II. It is possible that the French might raise the matter of exchange rate volatility. They could point to the performance of sterling and the lira, and describe how the sharp depreciation in both currencies has adversely impacted French industry's competitive position both at home and in world markets. They might call for "heavy and concerted intervention", a euphemism for involving the US in large purchases of currencies like the lira and sterling. That is tantamount to the US extending large unsecured loans to Italy and the UK. The French could even threaten to retaliate by imposing trade and foreign exchange controls if we refused to participate in such operations.

The understanding at Rambouillet established that the US and others would intervene to counter disorderly market conditions, not to support currencies at artificial levels. The system has worked well, and the sterling and lira crises do not have their origins in the operation of the system but in the legacy of economic management errors that ultimately grew to the point where they could no longer be financed. French participation in an effort to provide conditional official financing to the UK and Italy would strengthen the developed world's capacity to deal with these problems.

III. The British might raise the subject of a "substitution account" for official sterling balances or the funds on deposit in London from foreign central banks. In its approximate form this idea dates back to when Prime Minister Callaghan was Chancellor of the Exchequer.[3] In principle it involves an arrangement whereby other countries or their proxy, the IMF, would in some form guarantee (from an exchange risk standpoint) or take over responsibility for these balances—$12.8 billion in dollar terms.

From a technical standpoint we have examined the various ways this could be done. But from a policy standpoint a substitution account means additional credit, probably of an unconditional nature, for the UK. A proposal or feeler on a substitution account would support the view that the UK still does not appreciate the gravity of its situation and/or lacks the will to deal with it in terms of substantive policies.

IV. The Japanese will be concerned regarding the substantial criticism they have come under in the US press regarding their exchange rate policies. The charge is that they have prevented the yen from rising in price thereby gaining an artificial competitive advantage for Japanese products in world markets. This facilitates the development of an "export led recovery", the principal architect of which is Vice Prime Minister Fukuda. While it was just six months ago that the yen was the subject of downward pressure recently the facts tend to support the overall charge. We have raised this issue with the Japanese in private meetings several times. The most recent was in Anchorage on

[3] Callaghan served as British Chancellor of the Exchequer from 1964 until 1967.

March 27, at which I discussed the situation with Finance Vice Minister Yoshida.[4] While they disavowed manipulative practices, no tangible evidence of a change in policy was forthcoming. In recent weeks various private observers have called attention to their behavior. We have confined ourselves to pointing out that we have permitted our currency to float and that our current account has shifted from a $12 billion surplus in 1975 to a roughly $2 billion deficit in 1976. We have argued that this is necessary if countries like Italy and the UK are going to have the opportunity to move from their structural current account deficits to the surplus which is required if they are to stabilize their situation.

Edwin H. Yeo, III[5]

[4] Apparently a reference to Taroichi Yoshida, Vice Minister at the Japanese Ministry of Finance.

[5] Yeo signed "Ed Yeo" above his typed signature.

147. Memorandum From the Chairman of the Council of Economic Advisers (Greenspan) and the President's Assistant for National Security Affairs (Scowcroft) to President Ford[1]

Washington, June 25, 1976.

SUBJECT

Puerto Rico Summit Overview

The Summit is intended to permit an intimate and serious discussion by the leaders of the industrialized democracies of a number of issues of common concern. It underscores the fundamental interdependence of the industrialized nations, conveying the common desire of their leaders to work together in addressing major problems before them and to approach challenges and opportunities with determination and a sense of shared purpose.

As with Rambouillet, the Summit provides you with an opportunity to exercise constructive American leadership both in focusing at-

[1] Source: Ford Library, President's Handwriting File, Subject File, Box 49, Trips—Foreign—Economic Summit—1976 (4). No classification marking. A stamped notation on the memorandum indicates the President saw it.

tention on key problem areas and in setting positive directions for future cooperation among the industrialized democracies and for future evolution of the international economic system as a whole. Specifically, your leadership can help to focus the meeting on the following priority objectives:

—To reach agreement and a common effort to insure that the transition from recovery to expansion now underway in many industrialized nations will be sustainable, so that efforts of individual nations to reduce the high levels of unemployment and to achieve stable growth in incomes will not be jeopardized by a new wave of inflation. Such stable growth presupposes a shift of resources into investment and away from private and public consumption.

—To stress the need for countries to take the necessary policy measures to reduce payment imbalances—with some countries allowing their surpluses to decrease and others taking domestic corrective measures to their deficits; and to reach agreement to develop a general mechanism in the context of the IMF, which will be able to provide financial assistance to developed countries in special need, preconditioned on special corrective programs to insure a return of sound economic equilibrium. (Here you would be implying possible future support for Italy, but strengthening the internal position of those in Italy favoring major economic discipline by stating that there will be no aid without strong corrective measures.)

—To restore a sense of common purpose in industrialized nations' relations with developing countries, strengthen industrialized country coordination, and both underline, and clarify the essential features of the constructive U.S. approach to the developing nations.

—To secure support for increased momentum in the Multilateral Trade Negotiations for continued resistance to protectionism, and for the longer-term goal of an increasingly open trading order.

—To secure reaffirmation of the importance of a liberal climate for financial and direct investment, and of firm industrialized nation opposition to illegal corporate payments.

—To emphasize the necessity for stronger consumer country actions to reduce dependence on imported oil, and for improved developed country cooperation in the dialogue with oil producers.

—To focus attention on the need for the industrial democracies to examine, and develop a consistent set of broad objectives with respect to, our evolving relations with communist countries.

The meeting will take place against the backdrop of a substantial improvement in the economic activity and lower rates of inflation in most industrialized nations, and a successful post-Rambouillet effort to maintain an open world trading order despite the deepest recession in post-war history (which you can point to as an extraordinary example of mutual restraint and responsibility by the major trading nations). It also follows the January Jamaica agreement to reform the International Monetary Fund, to which the Rambouillet agreement contributed substantially. Despite the generally improved economic outlook, problems of individual countries, especially in the international financial area, have sharpened since Rambouillet. Both Italy and the United Kingdom have had sharp exchange rate depreciations while at the same time increasing their foreign indebtedness to what appear to be their natural limits. France is beginning to move into a precarious financial position, although this has not become overt as yet. In all these countries, inflation rates have been—and are continuing to be—significantly higher than compatible with the goal of reasonable external stability.

In addition, despite the generally improved economic situation in most countries the difficult political circumstances in which many leaders find themselves will cast a shadow over the meeting. The political situation in Italy will take weeks to clarify. The Labour government in the UK governs by a paper-thin majority. The US and Germany face national elections in the fall. Giscard is under attack from both the right and the left. Miki might well be removed from office soon after the Summit. Trudeau's support has weakened considerably in recent months. The assembled leaders will, therefore, all be attempting to make domestic political capital out of the Summit, and will be under pressure from their publics to demonstrate that it was worthwhile rather than simply an electoral ploy.

These circumstances make all the more important our pre-Summit strategy of emphasizing to the public that this meeting should not be characterized as an attempt to produce dramatic results, but as part of an essential and continuing effort by industrialized nations' leaders to address common problems, to improve mutual understanding, to anticipate problems, and to develop approaches which prevent problems from becoming crises. The complexity of our economies and the intensity of our growing interdependence requires that leaders no longer wait for major difficulties to arise, and then, by dramatic meetings, attempt to resolve them. It requires instead that leaders concert their efforts to prevent crises from building in the first place—to shape the future rather than reacting to it.

It is with these objectives in mind that the Summit is being held. Success must be judged in terms of the ability of the assembled leaders to agree on responsible directions for their economies, on areas for improved cooperation among the industrialized democracies and on desirable objectives of such cooperation. Such a success could strengthen the internal political positions of the leaders present, providing each with improved ability to pursue sound and responsible policies at home, and in general indicate to domestic audiences that governments are in control of their economic destinies.

The International Setting for the Summit

Since Rambouillet, the circumstances and concerns of your Summit partners have changed considerably. Now their countries are on the whole considerably stronger economically, but they personally are weaker politically. Last November at Rambouillet economic recovery was the central issue. Today, the assembled leaders are under domestic political pressure from a number of sides. All look to the Summit to improve their standing at home:

—*Giscard's* authority is under major pressures from the Gaullists and from the left. While his own term does not expire until 1981, he is greatly concerned about a left-wing victory in the 1978 parliamentary elections, which could force him to have Socialist leader Mitterrand[2] as Prime Minister. To avoid this, Giscard has increased reliance on the Gaullists, who oppose a number of his more liberal domestic reforms, and who resist too internationalistic a foreign policy, in particular closer cooperation with the U.S.

Giscard will use the Summit, as he did Rambouillet, to project his personal influence on the international stage, to convey his confidence about the future of the French economy, and to stress his country's dedication to a constructive North-South dialogue. Giscard will reiterate his view that greater stability in international financial markets is needed and that this is mainly the responsibility of the United States and Germany. Giscard will also avoid appearing to be locked into common Western positions vis-à-vis the oil producers, the developing countries, or the Socialist countries and will resist any additional commitments on trade and any hint of greater cooperation with the International Energy Agency. Because some of his advisers see this as a "show" to strengthen your electoral position and are skeptical that it will produce major results, Giscard will probably avoid any public enthusiasm for the exercise until he is convinced of its success. If he perceives failure, he may attempt to disassociate himself a bit from the venture.

—*Schmidt's* governing coalition of Social Democrats (SDP) and Free Democrats (FDP) faces a major electoral challenge in October from the opposition Christian Democrats (CDU). The latter have succeeded in eroding support for Schmidt's coalition at the same time that divisions have taken place between the SDP and FDP. The FDP may be tempted to form a coalition with the CDU, if the CDU makes electoral gains in October. Schmidt's position as one of Europe's strongest leaders, his thirst for a major international role, and his expressed desire for stronger Western cooperation make him a natural enthusiast for

[2] François Mitterrand was the leader of the French Socialist Party.

this Summit. Schmidt has campaigned domestically on the platform that "no one in Europe has it better than Germany" in order to underline the success of his leadership. He may use the Summit to continue his urging of other European leaders, whose economies are suffering higher rates of inflation than Germany, to exercise greater economic discipline. He is also likely to press for stronger industrialized country cooperation vis-à-vis the developing countries, and in reducing energy dependence.

—*Miki* is under strong domestic pressure to resign. His popularity level is very low as a result of his secretive way of doing business and general criticisms of poor management of the government. But his "clean" record has convinced many that he should stay for a while longer to clean up the "Lockheed affair."[3] Nonetheless, intensive interparty maneuvering is now taking place among factions in the LDP to select his successor. Miki sees the Summit as a possible hope to improve his domestic stature and thus prolong his term in office.

—*Callaghan* leads a Labour Party which governs by an extremely narrow majority in the parliament, and often must rely on Liberal Party votes to pass legislation. While having succeeded in negotiating a wage restraint pact with the unions, the U.K.'s continued large budget deficit has led many financial analysts to believe that the recent $5.3 billion financial assistance package to support sterling will eventually fail and that the pound will fall dramatically in the near future. If this is the case, Callaghan's position will weaken further in coming weeks. Callaghan sees the Summit as a major opportunity to play an international role, but he will be extremely sensitive about implied criticism of U.K. economic performance.

—*Moro,* five-time Prime Minister of Italy, and now leader of a caretaker government, has just come out of the June 20–21 elections with his party stronger but still in a highly uncertain position. His position will be the weakest of all participants at the Summit. He is likely to play a cautious and low-key role, protecting Italian interests but taking no initiatives.

—*Trudeau's* leadership image has been tarnished by the impact of the recession and by the lack of popularity of his anti-inflation program. While the Canadian economy is picking up, in part as a result of U.S. recovery, Trudeau's policy is still under major assault. Participation at the Summit will strengthen Trudeau's role by giving Canada international recognition as a key economic power, which Canadians believe is their due. At the Summit, Trudeau will probably support a number of U.S. objectives, although Canada is generally closer to the

[3] See footnote 11, Document 140.

developing nations than the U.S., but take care not to be seen as an unquestioning supporter of U.S. positions.

The Europeans attending the Summit face in addition to their domestic problems the destabilizing psychological effects of the recent drift in the EC. Although the EC has been reasonably successful in establishing a customs union, strengthening political cooperation, and solidifying a "European approach" in a number of areas it appears to have lost forward momentum in such areas as establishment of an "Economic and Monetary Union." In addition, economic disparities among member states have increased in recent years with attendant ill effects on economic policy coordination within the EC, in equilibrium in exchange rates and in the EC's ability to work with the U.S. and other nations over the longer term. Some of the smaller EC nations believe that failure of the EC to participate at this Summit will aggravate the present mood of weakness and drift within the Community, a development which they stress would be contrary to the long standing and often reconfirmed interest of the U.S. in the European unification.

Your Participation

As the Chairman you will open the meeting and designate lead speakers for each item. While these have not been "formally" established and will not be announced publicly, there is an understanding on who will "break the ice" on each subject. Unlike Rambouillet, the subjects will be discussed in "clusters"—recovery and expansion together with monetary and financial issues on Sunday evening; trade and investment together with East-West issues; and North-South together with energy issues on Monday.

After your welcoming introduction, you should call on Giscard to "break the ice" on the afternoon's discussion of recovery and expansion, and monetary and financial issues. Miki will "break the ice" on trade and investment; Callaghan on East-West issues; Schmidt on North-South issues; and Trudeau on energy. You and the other participants will have the opportunity to comment at least once on each topic.

Your initial presentation will provide an opportunity to place the Summit in the proper political and economic framework by stressing:

—The central economic, political and security importance of the industrialized countries to one another, and to the world.

—The enormous interdependence among our societies, and the complexity of our problems, which require a strong cooperative commitment to anticipate problems and take the actions required to avoid them becoming major crises, which would disrupt our economic and our broader relationships.

—That because of our interdependence, individual efforts to solve our problems can only have lasting success if supported by common efforts.

—That our problems should be resolved by political will and a spirit of cooperation; differences should be considered in the light of our broader common interests.

—That the industrialized democracies are central to the world economy and especially to the prosperity of the developing countries. Thus we should not be vulnerable to developing country pressures to take positions leading to economically unsound solutions which work to the long term disadvantage of all countries.

With respect to the individual issues, we believe the following scenarios might be followed:

The U.S. economy is clearly leading the way, with Japan, Germany, and France also moving toward vigorous economic expansion. Canada follows, with Britain and Italy now out of recession but projecting less vigorous recoveries.

All leaders will recognize the need to reduce the present rate, and prevent a resurgence, of inflation. But they will also be concerned about reducing unacceptably high levels of unemployment. All participating countries agreed at the just concluded OECD Ministerial meeting on a strategy for sustained economic expansion based on the premise that the steady growth needed to restore full employment and satisfy rising economic and social aspirations will not prove sustainable unless all industrialized nations make further progress towards eradicating inflation. Thus, the Ministers agreed that their governments should direct their policies to greater price stability and lowering unemployment through achievement of an economic expansion which is moderate but sustained.

Your statement emphasizes that achievement of high employment levels depends upon a reduction in budget deficits and a further reduction of inflation rates, which in turn will lead to a more favorable investment climate stimulating the necessary growth in capital stocks to absorb unemployment. It thus stresses that avoidance of a resurgence of inflationary pressures requires sound fiscal and monetary policies, realistic economic growth goals accepted by the public at large and a shift in resources to private investment. While the French do not place as much emphasis on monetary and fiscal restraint as does the U.S., *Giscard's* statement is likely to stress the need to hold down inflation, along with strong emphasis on lowering unemployment.

Schmidt will presumably echo your sentiments and perhaps even point the finger at a few countries who have not, in his view, exercised appropriate monetary and fiscal restraint. Both *Callaghan* and *Moro,* facing high rates of domestic inflation (over 15% consumer price increase over the last 12 months) and high unemployment will probably agree wholeheartedly with the objective of lowering inflation, although neither country now has in place a policy of restraint which gives reasonable prospects of bringing this about. Callaghan may stress his successful wage restraint pact with the trade unions; but his huge budget deficit is seen by analysts as portending a continuation of substantial inflationary pressures, and an ultimate breaking down of the wage restraint pact.

Trudeau last October announced a wage and price restraint program, but this has not been as successful as hoped (7.1% increase in consumer prices over the last 12 months), is strongly resisted by labor, and has proved difficult to administer. *Miki's* government has managed to achieve good results (4.8% growth in consumer prices over the last 12 months) in efforts to control inflation, particularly in holding down wage settlements, and will probably stress this success.

Monetary and Financial Issues

Giscard, leading off, is likely to comment on the performance of the Rambouillet agreements and the subsequent Jamaica IMF agreement. At Rambouillet it was recognized that stability in underlying economic and financial conditions was necessary to achieve international monetary stability. Giscard may comment on the recent erratic movements in some European currencies. He may argue that the depreciation of the pound and lira has improved the competitiveness of the British and Italian exports, making if difficult for other countries to resist pressures for countermeasures to curtail the imports from such countries. He may also point out that more intervention is required to achieve exchange rate stability and to prevent the erosion of currencies of key trading countries. It is unlikely that Giscard will comment on the Italian situation in any detail.

Your presentation stresses the need for industrialized countries in weak external financial positions to implement strong domestic stabilization programs in order to eliminate persistent payments deficits. It also stresses the obligation of surplus countries to accept, and not to counter, market induced reduced current account surpluses or even deficits as their contribution to the elimination of payment imbalances. It also proposes that agreement be reached, in the context of the IMF, on a mechanism to supplement official credit for countries in special need, preconditioned on a vigorous corrective domestic program. *Schmidt* will probably also emphasize the need for firm corrective action in countries facing large payments deficits. He will not agree on the need for surplus countries to take extra-market actions to reduce surpluses or increase deficits.

Moro will probably seek to avoid any undue pressure on Italy to take domestic corrective actions, and certainly would resist the idea that supplemental official credit be tied to a rigorous corrective program. *Callaghan,* recognizing that the U.K. may be forced to apply for supplemental credit from any new mechanism, might take a line similar to Moro's. *Miki* and *Trudeau* are likely to agree with your line of argument but will probably do so in a less forceful way than Schmidt.

Trade and Investment

Miki, leading off, is likely to emphasize the need for increased momentum in the Multilateral Trade Negotiations and the need for reducing trade barriers consistent with the Tokyo Declaration[4] and the Rambouillet commitments of last year. He will further stress the need for resisting new protectionist pressures. *The Europeans* are likely to be very cautious in this area, suggesting little that is new and resisting any initiatives that would imply a commitment by them to positions not already authorized by the total membership of the Community. *Schmidt* could be the exception; he might make a statement which prods the Community along toward a freer trade posture, but he will probably not go too far for fear of treading on Community, and especially French, toes. *Your statement* emphasizes the need to accelerate progress in the MTN, to continue to resist protectionism, and to seek agreement on the long-term goal of maximum reduction in trade barriers. *Trudeau* may take a similar line.

Investment

All leaders are likely to endorse the recently agreed OECD investment package—viz. a Declaration relating to guidelines for multinational corporations, national treatment of foreign investors, international investment incentives and disincentives, and consultations and review of these matters.[5] Some may stress the need for international action to deal with the bribery issue. Moro and Miki may treat the bribery issue a bit carefully given their internal problems in this area; but they will certainly want to appear to be strong in their objections to bribery in order to help "cleanse" their governments back home. *Your statement* stresses the need for liberal treatment for international capital flows, expresses satisfaction at agreement on the OECD investment package, and addresses the need for international agreement dealing with the issue of bribery. *Trudeau* is sensitive on the issue of "national treatment" of foreign investment in Canada, but Canada agreed to the OECD investment package with only minor reservations. *Giscard* may object to a strong public agreement on

[4] See footnote 4, Document 123.

[5] On June 21, OECD member countries adopted a "Declaration on International Investment and Multinational Enterprises." The OECD Council also adopted decisions on three issues: "inter-governmental consultation procedures on the guidelines for multinational enterprises," "national treatment," and "international investment incentives and disincentives." Texts of the declaration and the decisions are in Department of State *Bulletin,* July 19, 1976, pp. 83–88.

liberal treatment for capital flows because the French like to maintain flexibility to control capital movements from time to time.

Energy

Trudeau, leading off, is likely to support the general theme of more intensive efforts by consuming countries to reduce dependence through conservation and increased production, as well as the need for a constructive dialogue with the oil producing countries. (Canada is co-chairman of the Paris Conference on International Economic Cooperation.) The *Europeans* are likely to place substantial emphasis on the consumer/producer dialogue in the Conference on International Economic Cooperation in Paris.[6] *Schmidt* will likely repeat his Rambouillet warning that the industrialized countries have still not addressed the energy issue in a serious enough way nor convinced their peoples of the necessity of acting collectively. *Giscard* is likely to stress the primary importance of an improved dialogue with the oil producing countries. *Callaghan* and *Miki* will be somewhere in between. Italy will probably take a line similar to France. *Your statement* emphasizes the need for a more ambitious and vigorous effort by the industrialized democracies to reduce collective vulnerability through stronger domestic energy programs, agreement on targets to reduce dependence, and long-term consumer country cooperation; it also emphasizes the need for consumer country cooperation in the dialogue with oil producing nations.

Relations Between Developed and Developing Countries

Schmidt, leading off, is likely to point to the disarray among industrialized countries at the recent UNCTAD meeting in Nairobi and stress the need for stronger cooperation among the industrialized nations. He may cite the very strong OECD Ministerial statement calling for close collaboration and strengthened coordination among industrialized nations in the dialogue with the developing nations. He will also underline the importance of policies toward the Third World which meet key development needs in a manner which "efficiently" utilizes available funds and does not distort the market. *Your statement* is likely to be similar to Schmidt's; it will emphasize the need for a coordinated, developed country approach to issues of interest to the developing countries. It will also clarify our position on the commodity issues which provoked so much confrontation at UNCTAD, and emphasize a number of positive elements in our approach to the Third World. *Giscard's* approach will likely concentrate on the importance of a constructive dialogue with

[6] The CIEC met December 16–19 in Paris. See Document 300.

the Third World, avoiding any implication that the industrialized countries would establish a "bloc" or require strong performance conditions by developing nations. The French place great emphasis on winning political credit in the developing world, even if it means at times subscribing to schemes which do not make good economic sense. They do not want to be restrained by a strong commitment to cooperate with such countries as the U.S. and Germany which are more demanding of economic effectiveness in their assistance efforts or by strictures stressing that solutions must be market oriented. *Callaghan* and *Miki* will probably come out somewhere in between you and Giscard. *Trudeau* and *Moro* will likely lean toward the French approach.

148. Memorandum of Conversation[1]

Dorado Beach, Puerto Rico, June 27, 1976.

President Ford: On behalf of myself and my colleagues, and the people of the United States, I welcome you to Puerto Rico. We have a formidable task ahead of us in these next two days—to address major common concerns, and to identify areas in which improved cooperation among us can contribute to the well being of our citizens and to a more secure and prosperous world.

As we all know, meetings of this sort raise anticipations of dramatic results. But the important thing about Rambouillet, and our meeting here today, is that they are part of an essential and continuing bilateral and multilateral effort by the leaders of the key industrialized democracies to address common problems and to improve mutual understanding.

The complexity of our nations' economies, individually and collectively, means that we as leaders cannot afford to allow major difficulties to arise and then, by dramatic meetings, attempt to resolve them.

[1] Source: Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 4, Presidential Subject File, Economic Summits—Puerto Rico (7). Top Secret; Sensitive. The first summit session began at 4:15 and concluded at 7:05 p.m. It took place in the Salon Del Mar at the Dorado Beach Hotel. In attendance were President Ford, Kissinger, and Simon; Canadian Prime Minister Trudeau, MacEachen, and Macdonald; French President Giscard, Sauvagnargues, and Fourcade; West German Chancellor Schmidt, Genscher, and Apel; Italian Prime Minister Moro, Rumor, and Colombo; Japanese Prime Minister Miki, Miyazawa, and Ohira; British Prime Minister Callaghan, Crosland, and Healey. (Ibid., President's Daily Diary)

It requires instead that we concert our efforts to prevent problems from arising in the first place—to shape the future rather than reacting to it. It is with that objective in mind that this Summit is being held.

The central economic, political, and security importance of our countries to one another, and to the world, confers upon us special responsibilities. In the economic area, on which we will focus today and tomorrow, our strong commitment to shape constructive approaches can contribute to our common prosperity, strengthen our broader relationships, and prove highly beneficial to the world at large.

Recent experience has clearly demonstrated that, because of our interdependence, common problems are unlikely to be solved unless we apply our mutual efforts. They have, in addition, shown that our common concerns are far more significant than the differences which arise among us from time to time. We must, therefore, approach our problems with a political will and a spirit of cooperation which takes full account of the need to preserve and strengthen our broad and essential relationships.

The success of this conference will depend on our collective abilities to agree on sound directions for our economies and cooperative efforts in the various areas we will discuss. The vision and sense of shared purpose which results from these meetings will help each of us to pursue constructive policies at home, with respect to one another, and in dealing with global issues.

I am hopeful that the same positive spirit that developed at Rambouillet can extend through our meetings here at Puerto Rico and beyond. Much of the world's future depends on our constructive cooperation.

We have a full agenda and less time than we would like. Thus, I should like to begin by giving the floor to my friend, President Giscard d'Estaing, who will lead off this afternoon's discussion of the issues of recovery and expansion, and financial and monetary matters.

President Giscard: Thank you for calling on me, Mr. President. At the same time let me thank you for being host in this spirit of friendship and good understanding which we find here at this meeting. When we met at Rambouillet, six months ago, it was not clear that the world economy was committed to recovery. Today our economic situation is quite different from Rambouillet. In fact, most of the industrialized nations sitting at this table have experienced strong recovery, as contrasted with the 1975 situation, and even better than our hopes expressed at Rambouillet. I don't have a precise number, but all of us know that the rate of growth of the seven nations here in 1975 was minus 1.6%. When we met in November, the forecast for the seven nations was 4.25% growth for this year. Now the experts' forecast for the seven nations is 5.6% for 1976. This is a strong rate of growth; considerably stronger than expected.

Our problem now is to transform recovery into sustained and lasting expansion. There are two risks: an increase in inflation, and the inverse risk—a lag in recovery following restrictive policies resulting from balance of payments problems or a return to protectionist practices. The present recovery has been characterized by persistent, strong inflation. This is because the recession of 1974 and 1975 was the only one in history which was not accompanied by a price decline. Now, as a consequence, the recovery proceeds from a starting point of high levels of inflation left over from the recession. Now we are also seeing an increase in prices in raw materials, and the remnants of increases left over from support mechanisms used during the time of the recession. This pervasive inflation raises questions about domestic economic policy and international monetary relationships.

That is all I have to say by way of introduction. However, Mr. President, these issues reflect very much on our domestic economic and political situations; they are important issues for all of our countries.

With respect to the policy issues, our actions must center on the fight against inflation and be consistent with our policy of achieving full employment. The problem is that during this recovery in our economies insufficient progress has been made toward a trend to full employment. Inflation is still strong, but nowhere is there any lack of supply, so this is not a classical relationship-of-supply-and-demand problem; and there is also lots of unused capacity. Another problem is that there have been increases in the price of raw materials, wages, and profits, and such cost increases have contributed to inflationary pressures. A third problem is that inflation has been amplified by programs implemented to deal with the recession—efforts to stimulate demand during the recession through deficits.

There are several approaches to dealing with this problem. We must cut down material demand. It is not necessary to follow a policy of cutting down monetary expansion of demand, which would lead to a more restrictive monetary policy and thus affect interest rates. Our Treasuries must be involved in the process of cutting demand. We should reduce demand through public financial measures, and we must cut budget deficits. This will be difficult but we must make the effort. If we can get into balance, this may also lead to constructive action on the trends of wages and prices. But, of course, the picture is different in each country, and this means that each country must use its own policies to achieve this objective. It may not be possible to get back into budget balance in one year for France, but we probably can do it in two years.

But we also need more international cooperation since we live in a world which makes such cooperation necessary. The traditional convergence in economic policies can reduce divergences in inflation and, therefore, exchange rates. The directions of monetary movements are tied to the disparities in inflation rates. Our goal is reducing the disparities in inflation rates in all industrialized countries.

With respect to the trend in 1976, balance of payments will be worse than in 1975. In order to sustain growth under these circumstances, we must find ways to involve the inputs of the oil-producing countries and fight protectionism. We must also consider ways to aid the developing countries. The situation of the developing countries is difficult; there is likely to be a drop in their internal demand.

But economic cooperation also needs to take place with respect to monetary issues. We need consolidation on the international monetary level. What was decided at Rambouillet was a satisfactory level of consolidation of the monetary situation. They key element in this are developments between the dollar and the "snake." We have had, since Rambouillet, a six-month period of relative stability in exchange rate markets sustained by a demonstration of intent to cooperate and the action of the central banks and treasuries, with greater cooperation among them. But today the situation is different. Now the deficit in balance of payments for the OECD would be roughly $20 billion in 1976 against only a few billion in 1975. This calls for a new orientation. Now we must agree to a deterioration in balances. The strongest countries must agree to a reduction in surpluses and must maintain capital exports to the developing countries. We must use the existing mechanisms to finance deficits of the developing countries. Some countries are in special conditions, but some have the ability to finance major deficits. The US has made some earlier suggestions in this area of financing (The Financial Support Fund) and it would be desirable to ratify and implement them. With respect to the IMF, this involves the use of Special Drawing Rights, and we must also use the oil country surpluses, which are roughly $40 billion.

There are a number of technical problems; however, this would not be an appropriate place to discuss them or to make detailed suggestions. But on currency markets there is not much we can do now. We should renew our order for central banks to increase cooperation, to avoid swings and [*in*?] exchange rates among major currencies. We should also consider whether it would be useful to have a small group of specialists examine policies in exchange markets in situations of recovery and inflation. These are my opening comments, Mr. President.

President Ford: I thank you, Mr. President. I now call on Chancellor Schmidt of Germany.

Chancellor Schmidt: Before making observations on what my friend Valery has said, I want to express my gratitude to President Ford for taking the initiative for a second meeting after Rambouillet, and for his generous invitation to be here at Puerto Rico. We all know how useful Rambouillet was. I am convinced it was very helpful in our efforts to achieve recovery.

I subscribe to what was said by President Giscard about progress since Rambouillet. I believe we exercised cooperation in analyzing and combating recession and in creating increasing domestic demand instead of permitting failing [*falling*?] world demand. We used corresponding measures, policies which were compatible. We also avoided restrictive trade measures at the expense of one another. And we exhibited a large measure of solidarity dealing with balance of payments problems. These payments problems will grow in 1976, as Valery said, and inflation is also beginning to grow. It could be bigger in 1977 than in 1976.

Thus, I share the broad impression that the world recession is behind us, although there are exceptions. But I have seven or eight questions, or problems that I would like to point out:

1. Demand is still not rising evenly in all sectors of our economy.
2. The upturn is evident primarily in private consumption and investment in stocks rather than in fixed investment.
3. Fixed investment is still too small, and must increase as a percentage of GNP.
4. Prospects of reducing unemployment are still not adequately insured for all of us.
5. A final victory over inflation is not yet in sight, so recovery could be hurt by new inflationary pressures like in 1972 and 1973.
6. There are differences in degree in inflation rates and the balance of payments of some important countries.
7. New disturbances between North and South cannot be excluded. They may not be of the magnitude of the 1973–74 OPEC price increases, but they could have an important effect on the world economic system.
8. West-East matters will play a greater role in the world economy in the future than in the past. This is not only exports of fixed investment and plans toward the Soviet Union, or wheat. It also applies to the amount of Soviet dependence on Western money markets. This is a matter of very high importance.

Our priority must be to check price increases and to strengthen confidence among investors thereby increasing investment and creating higher levels of employment. If we have an inflationary environment there is less confidence. Increases in inflation increase risk, and make it seem prohibitively expensive to undertake large investments. Expansion requires that prices be held in check. And employment increases are not possible in the face of growing rates of inflation. Each country must choose its own instruments. Each country knows best how to undertake disciplinary measures in its monetary, credit, and budgetary policies. It is particularly important that business exercise restraint in its price policies in order that labor accept improved profits due to higher labor productivity, and it should pass on cost improvements.

The policy mix varies by country. We need to give basic acceptance to economic measures which we consider to be right. There are some intriguing examples. I cite particularly Jim Callaghan's wage deal with the unions in Britain as an example of a process of better understanding among social groups about economic policy.

Only if we narrow differences between various countries' economic performances will we be able to restore exchange rate stability. Finance ministers and central bankers have been successful in working from day to day on problems arising from different velocity of inflation in different countries. We have seen exchange rates in different countries reflect different rates of inflation. There is an overriding necessity to make the economic upturn stable, which will then stabilize exchange rates. We must, therefore, stabilize prices in order to stop erratic movements in exchange rates.

Questions one through eight can also be put into one category—the dangers of further destabilization. That, Mr. President, is my concern.

One more issue, Mr. President. I am confused and worried about the increasing number of conferences which talk about these matters and which pretend to take decisions. I feel reminded of what was pointed out at Rambouillet by Harold Wilson. The facts bore him out. We have had meetings on world economic issues, international systems, and management of the world economy in Paris, Nairobi, Geneva, Washington, and Kingston. It is becoming impossible for leaders to follow what is going on and to give instructions to their representatives. It is important that this type of meeting insure basic common tendencies of thought.

I have dealt with the inflation issue and how we have overcome recession. Now we need to make recovery stable and permanent. If we again lapse into inflation, we could again find ourselves back at square one in less than two years.

President Ford (to Chancellor Schmidt): We have done a great deal of research following Prime Minister Wilson's comments at Rambouillet on the number of international bodies.[2] We found the list very imposing when it is all added up.

Mr. Prime Minister.

Prime Minister Callaghan: Mr. President, in this setting of Puerto Rico, we should recall Harold Wilson's exact phrase at Rambouillet: that there are a number of international beachcombers looking for new committees to set up. (Laughter)

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[2] See Document 124.

Mr. President, we agree with Chancellor Schmidt. We are meeting here in Puerto Rico in an atmosphere different from Rambouillet. At Rambouillet there was a feeling of gloom. There was no real optimism that recovery was underway. Now we are talking about how to stop the recovery from coming to a premature end in six months. I very much hope that cycles are not becoming shorter, that we are not in a period in which business cycles are quickening.

I feel compelled to make three points in respect to this recovery. One, however far the recovery has gone, rates of growth are not exceptional. My second and third points have already been made by Helmut and Valery. I repeat, however, that at this stage in the cycle inflation is too high. My third point is that unemployment is much higher at this stage of the business cycle than at any previous corresponding stage. Both of these things are worrying to us. Clearly it is for individual countries to fashion their own policy to the requirements of each. But, equally, it is difficult for industrialized countries to pursue policies in the long run which differ very much from one another.

In the UK signs of recovery are present, but this is nothing like the position of our neighbors. We certainly agree with the need to contain inflation, and I agree that victory is not in sight. The Chancellor (Healey) says it is, but he has long vision. If our new agreement with the unions sticks—holding wage increases to 4½%—and I believe it will—it received an 18–1 majority in the TUC, and the mood of the UK indicates that support for it will stick—by the end of 1977 we will be able to look you in the eye or very close. We expect these to bring our rate of inflation down to single figures. If not, I will have Denis explain why not.

But we also see unemployment as a major social evil. We place high priority on reducing unemployment. It is not just an economic issue, but a political issue. We should not have policies which allow this excessive rate of unemployment to continue into the 1980s. The OECD growth scenario is a worrying feature in this respect. If this scenario is followed, the UK will have unexceptional [*unacceptable*?] high levels of unemployment; these could lead to political changes, which will be extremely uncomfortable. We remember in the UK the high rates of unemployment in the 1930s. These were very divisive. Therefore, the UK is different from Germany in this respect; we find unemployment much more uncomfortable than high rates of inflation.

Thus, we place as much emphasis on lowering unemployment as Helmut does on reducing inflation.

The main question is, can we find policies to reduce inflation and also reduce unemployment. I believe that the policies which can do this require maximum cooperation between the various social partners—government, employers, and the trade unions. In other countries unions are not as strong as they are in the UK. Therefore, we need social cooperation. Trade union restraint is needed if we are to reduce unemployment. Still we have to adjust our policies every year, and next year will be extremely difficult. We also know we need fiscal and monetary restraint if our other policies are to be successful. Thus, what we need in the UK is a balanced policy among all these elements.

I have questions as to whether further restraint measures are needed to keep inflation in balance. Except in Japan, exceptionally high rates of growth are largely due to a turn-around in stocks. There is no lasting economic stimulus in stocking, and thus rates of growth may moderate. In addition, fiscal and monetary tightening is already in the pipeline—France and the Netherlands already appear to be increasing taxes, thus there will be a public contraction by many countries to eliminate their deficits, as in France. There will also be a tightening as the one-shot public employment programs run out.

In addition, if the OECD's predicted 5.6% rate of increase in GNP turns out to be right, this would be only modest when compared to other cycles. But a plus-5% growth path would still leave high levels of unemployment at the end of the decade. We think the forecast should be higher. For instance, we think the estimate for the UK of 4½% is too low. With respect to the UK, export lead growth is really our salvation. It is now 11% per annum, and we want to keep it up. This would be jeopardized if the stronger economies overreact to inflation. If our exports are jeopardized by overreactions elsewhere, we would be seriously hurt. If inflation continues or worsens, my views on this could certainly change; but for now I am very much concerned about premature tightening up.

I agree with Helmut that central bank cooperation has been a great help to us and the world as a whole. And I agree with President Giscard that we should renew instructions to our central bankers to cooperate to a higher degree. We should not give this too much publicity since that would create uncertainty. I agree with what was told to me many years ago. "Money is like a woman's virtue, the more it is talked about the less secure it is." We should not say much about this afterwards.

President Ford: Thank you. I now call on Prime Minister Moro.

Prime Minister Moro: Economic recovery in most countries is greater than forecasted. But a sustained pace of recovery is necessary. High rates of inflation could reduce expansion, but the risk of putting the brakes on too hard must also be remembered. We must also remember that there are persistently high rates of unemployment in many countries; and in many countries the path of recovery has been delayed, for example, Italy. In addition, some countries are threatened by a re-emergence of balance of payments problems combined with inflation.

We must continue to expand exports to get out of our vicious cycle. Therefore, we need an increase in international growth to allow recovery to spread to all countries over the world. This can help us to cut unemployment and thus to cut the waste of human resources, which is politically bad for the Western democracies. We need this to organize our societies based on progressive labor, and thus we need high employment to do this.

Let me give you some figures on the Italian economy. At Rambouillet, I pointed out the improvement in our balance of trade, employment, and prices. The only negative figure was a decline in production. Unfortunately, although GNP is now increasing, this has hurt our balance of payments, which has also been affected as well by increases in prices, and our inflation has been affected by the drop in the value of the lira.

Our government must make a decisive approach to structural balances which caused the crisis. We have now emerging a short-term program combined with a program for structural change. This will deal with public finance expenditures and tax revenues. It also examines a program which leads to a reduction in excessive wage demands to rates closer to those with our trading partners.

We also need a credit policy to help promote investment and we must cut down on energy imports. The success of our overall program will depend essentially on whether Italy can achieve economic recovery and reduce its high level of unemployment. This is a major political commitment. For this, we need a consensus of Italian social forces, and we need the support of the rest of the world so we can emphasize exports, which are necessary for our economy to make a new start. Unless there is financial solidarity which allows countries such as Italy to face speculative attacks, there will be a problem because we cannot allow our exchange rates to depreciate and thereby cause higher rates of inflation.

President Ford: Thank you, Mr. Prime Minister. I would like now to call on Prime Minister Miki.

Prime Minister Miki: When we assembled at Rambouillet in November, all of our national economies were showing declines. Unemployment was at high levels. Our free economies and democratic governments were on trial. That meeting, and subsequent months, have helped us to attain the self-confidence we needed to stimulate our economies. In the beginning of the year there was a turn for the better in our economies and an increase in trend as well. There was also an increase in confidence in the abilities of our governments to run our economies effectively. But our recovery should not be short-lived. Instead, efforts should be made to stabilize the recovery; that is, to sustain it on a stable basis. Therefore, we need flexibility and broad policies, as well as international agreement and cooperation to expand world trade. We want to find, at this Summit, ways to increase cooperation. The US has been the prime mover in the world economy by virtue of its having recovered first. This is important when the world economy is still in a delicate period, and when cooperation is still needed among us. And we need the cooperation of the LDCs as well.

The GNPs of the countries represented here represent 60% of world GNP, and these countries account for one-half of all world trade. They also base their body politic on the principles of liberal democracy, and defy challenges of the right and left. We as leaders should thus get together frequently.

With regard to the Japanese economy, since last year increases have occurred in demand at home and abroad, and as a result there will be a 6% increase in real growth in 1976. The increases in exports to the outside world have contributed to the economic recovery, but recently domestic increases in demand have been more significant, for instance, private housing. With respect to prices, we have had an 8% increase in the consumer price index and a 5% increase in the wholesale price index. But there is a trend toward stabilization. Recently there has been only a very moderate increase in wages even without an incomes policy.

With respect to monetary policy, much work has taken place on the international monetary system. We welcomed the Jamaica reforms. These are indispensable for the growth of the world economy. We ratified these reforms on June 18. With regard to exchange rates, it is very difficult to maintain an exchange rate through government intervention. We, in principle, leave exchange rates to the forces of supply and demand. We intervene only to frustrate movements toward market disruption. Japan now has a surplus in its foreign trade. We have a large surplus with the US due to the American recovery and to a lag in Japan in imports of raw materials. But our current account could move into deficit soon. On May 31 we ratified the OECD safety net to help in balance of payments cooperation. We hope the US and others will take similar action.

President Ford: Thank you, Mr. Prime Minister. I would like now to call on my friend Prime Minister Trudeau of Canada.

Prime Minister Trudeau: Thank you, Mr. President. Let me begin by reflecting on the state of our economies, and I will try to be brief because much has already been usefully said on this subject.

Canadian economists believe that during the last period of expansion all of our countries reflated at the same time, and we overdid it. The problem was added to by a tripling or quadrupling of oil prices, which caused severe problems for all of us. Then, our corrective actions amplified each other. We overshot our goal. This history should be a warning to all concerned not to do it again. We all should warn ourselves of this danger and the need to establish cooperation here and with our central banks.

Against this background, I have two remarks. We know that cycles have coincided in the past, but they will not necessarily do the same in the future. I know from Mr. Callaghan that he is cautious about restraining growth because of its negative effect on other countries. In fact, our cycles need not be in phase. Maybe it is safer if they are not in phase so that they can pull each other in a moderating direction. If they are not in phase, we could learn from one another; for instance, we can learn from the UK experience in dealing with wage and price controls. We can pool our experiences and learn from one another's successes or failures. The UK experience is helpful in teaching us how to deal with the unions. Germany's experience can be helpful likewise in understanding how to deal with the problems of the labor unions. We should try to be in touch so we can learn from one another and be helpful to one another.

Chancellor Schmidt has spoken of the need for discipline and Prime Minister Callaghan on the need for a proper philosophical outlook. At some point we can help each other on these fronts. Our economists cannot give us a guarantee that we will not have high unemployment and high inflation again. The same type of action as taken in the past could have the same effect. In our democratic society we have today a revolution of rising expectations. Some of us have been successful in containing these; in other cases these have resulted in the danger of inflation. But in all societies we are faced with the problem that people want more for themselves, not in the future but now.

On the monetary and fiscal policy, on which instruments we must rely, we have a danger of making it too restrictive, or of causing inflation if it is not restrictive enough. But the real problem is that we do not do enough to change peoples' expectations. If we have a tough fiscal policy, high taxes, people want to be better off after taxes than before, so wage demands are higher. And, because we want to provide equality of opportunity, we provide welfare payments. But it is hard to make people understand that with old age pensions, health care, etc., they do not need the same real incomes as if they had no paid medical care or old age pensions. Our peoples must understand that need for discipline. This is in part a philosophical problem. We must discuss this problem. We can help ourselves and one another. For instance, perhaps we might be able to help President Giscard sell to his people the capital gains tax by demonstrating that it does help economies.

President Ford: When we met at Rambouillet last November, the discussions centered largely on how to assure a balanced recovery from the deep recession of 1974–75. The US economy was on the path to recovery at that time, but the upturn was not yet as visible.

I am pleased to note that we now meet in an obviously improved economic climate: in a number of countries, including my own, pre-recession levels of output have been regained or even surpassed. Unemployment is beginning to recede, considerable progress has been made in reducing rates of inflation and our own recoveries are also reflected in a significant expansion in world trade, thus contributing to recoveries elsewhere. In many respects, our success in turning the recession around reflects the fact that we were able to refrain—in the face of strong political pressures—from instituting overstimulative measures in our economies and from imposing restrictions on trade. Both these courses would have been short-sighted in nature and would have proved counter-productive.

But, lest we get carried away with our accomplishments, may I suggest a number of sobering thoughts. The main problem that led to the deep recession was the climate of inflation that persisted for a decade, severely exacerbated by the oil price increases of 1973–74. The global inflationary climate resulted in large part because governments overcommitted themselves to ameliorate social inequities at home and abroad and to achieve an ever rising standard of living. These commitments proved to be too ambitious in economic terms both in what they actually attempted to achieve as well as in the expectations they raised among the public. Thus, a major task for the next several years is both economic and political—not only to restore our economies to a sustained growth path, but also to set realistic goals that are accepted by the public at large.

Our task is not an easy one, but I believe we have learned from the experience of the past several years. Perhaps the most important lesson is that inflation, by itself, creates recession and is thereby a major cause of unemployment. Hence, a necessary condition to restoring and maintaining full employment is to eliminate the inflationary tendencies from our economies. I have, in this connection, been heartened by the support our Ministers received at the OECD on a strategy for sustained expansion based on the premise that the steady growth needed to restore full employment will not prove sustainable unless our countries make further progress toward eradicating inflation. Such agreement in diplomatic forums is important, but it is even more important that we in fact put actions behind our language.

Secondly, we must pay greater attention to the state of confidence in our economies. Consumers, in the face of inflation, increased precautionary savings. Business, fearful of the future course of our economies and the unpredictability of our policies, curtailed capital investment—the key element of economic growth and job creation.

For these reasons, a lasting turnaround in price expectations is crucial to the attainment of high employment levels. Furthermore, because of the recent inflationary experience, expectations of renewed inflation may be triggered relatively more quickly than in the past and, once renewed, will prove increasingly hard to erase. Under these conditions, we must be doubly certain that our fiscal and monetary policies in the period ahead avoid undue risks of setting off another round of inflation. It would be more prudent for short-term policies to err on the side of caution rather than on the side of expansion.

Expansionary policies have clearly been politically easier to implement than policies of restraint, especially when our levels of unemployment are still high. Moreover, in the US many Federal expenditures are inflexible and subject to automatic increases. But the underlying growth trend of outlays is in excess of growth in our GNP and in our tax base. Therefore, it is essential that we attempt to constrain the growth in expenditure levels if we are to reduce the budget deficits in this country. We have been unable to maintain short-term fiscal fine tuning on the side of restraint. Therefore, we must recognize that we have exceptionally long lead times on reducing the rate of growth of expenditures and, should it be required, on raising taxes. It is important that we initiate our fiscal policies well in advance to forestall too much of the burden of potential restraint falling on monetary policy. The problems I have just described with respect to the US appear to be common to many industrialized nations.

Appropriate short-term policies are a necessary, but not a sufficient, condition for a return to high employment levels. A return to sustainable, non-inflationary growth presupposes a reordering of priorities and, in particular, a shift of resources toward private investment. The distortions in our economies resulting from inflation and recession, and the needs created by the rise in the relative price of energy, means that we must increase our capital stock if we are to employ our people productively and are once more to achieve rising standards of living. This means that we must create a financial climate that generates sufficient savings flows and channels these into productive investment. In my country, and I suspect also in yours, such a climate cannot be established without a significant and lasting reduction in the financial requirements of the central government and the local authorities.

The policy problems I have mentioned are not easy to solve. But their solution constitutes our main task today if we are to consolidate the current recovery, to restore high-employment levels, and to lay a firm basis for continued stable growth. To achieve this, it is more important than ever that we judge the impact of economic interdependence correctly. The current economic upswing is becoming increasingly widespread. The prompt and substantial strengthening of world trade that is accompanying our recoveries already demonstrates how fast and how strongly changes in internal demand are being transmitted across national borders. The early and strong upturn of commodity prices—at a time when producer stocks are still high and capacity is ample—is a further indication of the possible inflationary impetus that could result from the worldwide recovery. The possibility of the reappearance of bottlenecks early in the upswing and of a resulting regeneration of price and wage pressures cannot be discounted.

Therefore, the lessons from our past experience should not and must not be disregarded. In formulating national policies the strength of worldwide demand must explicitly be taken into account. Thus, we need to strengthen our mutual understanding of changes in the economic parameters affecting the world economy. The mutuality of our policy goals is clear. The main contribution the US can make to the international economic community is to achieve stable conditions at home. In shaping our policies to this effect, their external impact must be taken into account. But such external considerations must not override the overall objective without which neither we, nor the international community, can regain full employment.

President Giscard: We have heard positions here which are very strong anti-inflationary positions, especially from Chancellor Schmidt. And Prime Minister Callaghan has raised an important question—are there policies to fight inflation and also lower rates of unemployment. I fear that if we put too much emphasis on fighting inflation we might have to accept high levels of unemployment. In the present state of our economies we can fight inflation on one hand and increase employment on the other. But there are problems. In Europe, immigrant workers are not adapted to work requirements and pose problems to training. Therefore, there can be an increase for the supply of jobs, but still a high level of unemployment. It is helpful to say we will fight inflation, but it is also necessary to say that we will make structural improvements to increase employment.

A second point, regarding what Prime Minister Callaghan said, is that there are different kinds of measures which can be used in fighting unemployment. He referred to the problem of balance of payments and financing. We should be careful, because growth is not certain. We should not put the brakes on too early, because this would hurt those countries less far along in their recoveries. But I believe that there are some countries which can improve their budgetary circumstances while increasing their growth as well. In France, for instance, we could reduce our budget from 38 billion francs to 15 billion francs. This is compatible with growth. It requires the implementation of certain budgetary and monetary tools, and we should bear in mind our partners in determining how fast to get to equilibrium.

There is also the issue of financing a deficit of $20 billion. There is now a steady growth in foreign trade. This will be difficult to sustain.

We should try to avoid foreign deficits which could cause a stop in growth by forcing countries to put on the brakes.

Chancellor Schmidt: Before coming back to the remarks around the table, I would like to remind you of something else. This forum can help improve the confidence of our peoples on our future economic path. We should interpret this as a necessity for increased confidence by laborers, boards of directors, investors, unions, and the body politic. So far, Rambouillet was a real success. It did add to confidence in our countries. Here in Puerto Rico we should try to add to the growing confidence already developing. This includes countries in different economic situations. I would point for communiqué wording along these lines—to take note of world economic growth after the recession and the fact that we were successful in our joint efforts and we foresee additional success, including for those countries that think of themselves as lagging behind a little. We should not paper-over our differences in the degree of recovery. We should make it clear to the world that we do share a common conviction that we led the world economy out of the deepest recession since the 1930s. Domestic opinion can count on this upward movement, and thus will stay with us in the future.

We can tell our peoples that this does not mean we are entering a dramatic new stage, and it does not mean increased pensions and other nice things. We are not entering heaven on earth. There is nothing to be gained which you do not have to pay for, and this applies whether you are conservative, liberal, or socialist. One last question, could the Prime Minister of Japan tell us whether you meant, in the 60% GNP figure, to include the Soviet Union and China.

Prime Minister Miki: I will examine this and let you know.

Chancellor Schmidt: I would also like to come back to a point on which I dispute Prime Minister Callaghan. This was raised by Prime Minister Trudeau and myself. With respect to the relationship between inflation and unemployment we have bright economists who say you can achieve the right growth path, using fiscal and monetary policy to create domestic stability. Some say this to a limited degree, some to a greater degree. However, in the long run we could overdo it. For instance, the super tranche idea in the IMF was to create additional monetary demand. The world as a whole is not lacking in monetary demand. Iran and Saudi Arabia are rich in capital. Some put this money into sterling and I applaud that. But many spend their money thereby contributing to inflation in our countries. Some of them have a 40% rate of inflation in their own countries. Thus, the expansion of the revenues in Iran and Saudi Arabia have added to world inflation.

They will ask for higher oil prices as soon as they feel the world economy can bear it.

They will argue, in justifying this, that the prices of their imports have gone up, when in fact these countries themselves will have contributed in part to this inflation. In other words, the oil rich countries will add to world inflation because their own domestic demand is too high. And it is impossible for them to spend all their money overnight so they will add to the push of inflation in the world. Also, other developing countries want increases in the price of such exports as copper and sisal, and they will also add to the push of worldwide inflation. I, therefore, fear that inflation will add to the psychological problems described earlier by Prime Minister Trudeau. If we consume now as long as we live we will not save for later, for our children.

This is particularly important because investment is a necessary element to our economies to maintain high levels of employment. If there is not enough fixed investment to create full employment, the only remedy would seem to be investment by the state. In our systems the state can invest in certain things such as railroads and roads, but in our system we also need investment by private enterprises. But they will not invest unless there is a lower rate of inflation. As long as inflation goes up, they will not invest. Thus, over the long run achieving high employment has to do with limiting inflation.

Let me respond also to Jim Callaghan. Germany is not only concerned with high rates of inflation, we are also concerned about unemployment. As you may recall, high levels of unemployment, roughly 7 million people in 1931–32, was the reason Hitler came to power. So we are also, in Germany, concerned by unemployment.

Although I am not an ideologue, I firmly believe that if prices increase by about 10% we cannot get back to full employment. We must, therefore, be able to convince the trade unions to fight inflation and thus to create jobs. If I understand the UK and Italy, I think you are doing the right thing in cooperating with workers with the objective of limiting wage settlements, and thus trying to reduce cost-push inflation. And if I read Denis' goals correctly, they will in the UK have to diminish public expenditures because they are a source of inflation. I believe you cannot get high employment with 10% or more inflation rates. I am not asking Britain and Italy to fight inflation as hard as we in Germany are doing now, but they must keep at it.

Chancellor Healey: The first thing one learns as Chancellor is that economics is a branch of social psychology; you cannot judge the future on the basis of the past. For example, all of us have seen an increase in savings during the recent inflation. But we could probably have imagined that inflation would kill the savings.

Chancellor Schmidt: It may have increased savings but it certainly hampered investment, which was predictable.

Chancellor Healey: That is true. Investors want to know if their return on capital will be sufficient to cover the rate of interest. But another curious thing is the relationship between unemployment and inflation. The two of them have been moving together since 1968—unemployment and inflation worsened together. Prior to 1967 inflation went up by only 2% per year and the rate of employment went up only a bit more. By 1975 we had high rates of inflation and unemployment was higher in all countries. It makes no sense to argue that the only way to get inflation down was to keep employment down. In fact, you cannot get employment up unless you get inflation down. In the last year the change has been striking—inflation has been falling and the rate of increase in unemployment is also falling.

In the US both inflation and unemployment are falling, and the same has been true in Germany in the last few months. I hope they will both be falling in the UK by the end of the year. I fear, however, that inflation is increasing again. Haverkamp[4] says that the CPI for Europe will be 13% for this year, versus 6% in the last six months of last year.

The conclusion I draw from this is that we do not know the precise causes of inflation. Indeed, there is not one single cause. If we want to keep inflation down we need appropriate fiscal and monetary policy, incomes policy, and structural policies, which Giscard talked about, and the correct psychology and philosophy. But different countries experience different conditions. We should not give the impression that there is a uniform policy which all countries should seek. In the UK since last July we have kept the growth of public expenditures below the growth of gross domestic product. We hope the public expenditure will not grow and that GDP will be up 5%. We may be the only country to have public expenditure grow at a rate less than GDP. But then again, we started off worse than most countries with respect to high unemployment, higher rates of inflation, large budget deficits, and a balance of payments deficit.

Our public expenditures average about 9 billion pounds. But we have financed these without printing new money, and we did it outside the banking system. The money supply grew at a rate of only 8% against a very high increase in inflation and GDP. And the monetary supply fell last month.

A key to our efforts is a new type of consensus with our social partners. This depends on the attitude towards income policy. We need to persuade the trade unions to limit wage increases, to increases only one-half as much as price. This is difficult to do for two years running

[4] Apparently a reference to Wilhelm Haferkamp.

because it means they are consistently accepting a drop in real wages. But all of us have had a bitter experience on unemployment and inflation. We all need the proper mix of measures to achieve high employment and low inflation. We should not give the impression that there is one answer. If we do this, it could break the consensus which is so important to us. We should not be pushed into measures which force us to lose this consensus.

President Ford: At Rambouillet, sound progress was made in dealing with issues in the international monetary sphere.

On structural reform of the monetary system, we resolved differences among us that had long appeared insoluble, and we formulated a blueprint for reform that subsequently was adopted by the entire IMF membership in Jamaica.

On the more immediate operational issues, we developed a shared analysis of the existing international monetary situation, and of techniques for dealing with the problems we faced. Also, we agreed to closer cooperation and consultation both among our Treasuries and our central banks, to give us a better understanding of each other's problems and policies.

On both structural reform and the immediate issues, we have agreed to focus on fundamentals. We recognize that we must develop stability in the underlying economic and financial conditions in our own national economies if we are to achieve the international monetary and exchange stability we all seek.

Recognition of our basic problems is only the first step towards solutions. We must make further progress in dealing with and preventing emerging difficulties in the monetary field.

As I see it, for the present and for the months ahead, the international monetary issues on which each of our governments should concentrate fall under four headings:

First, I know we all agree that as a matter of urgency we must *complete the agreed monetary reform package.* We must press ahead with the legislation required to ratify the amendment of the IMF Articles and the increase in IMF quotas.

Second, we must continue to *develop the machinery of consultation agreed at Rambouillet.* That machinery has been operating with great effectiveness and has enabled us to prevent the exchange market problems which have emerged in recent months from becoming even more serious.

Third, we must undertake to *eliminate persistent payments imbalances,* either surpluses or deficits, in any of our countries. This is an important precondition for achieving stable underlying economic and financial conditions. In the present, potentially difficult international financial situation, it is particularly important that we each follow policies to eliminate these persistent payments imbalances.

As we consider these priorities, I think it would be helpful if we discussed the prospects, and the need for adjustment in individual countries—both those which have been recording the largest surpluses and those with the largest deficits. Action to promote and accommodate adjustment is clearly needed on both sides.

The United States, Japan, and Germany have all recorded very strong current account positions in the recent past and are in a position to attract capital in the private markets. It is important that we in these countries and others that are in a similar position, be prepared to accept a significant reduction in current account surpluses or increase in deficits and to utilize our ability to attract capital from abroad.

—In the United States, our current account position has reversed very sharply, from large surplus to modest deficit, a turnaround of about $15 billion. I am not concerned about that shift—in the framework of world payments I have described, it is exactly the kind of change that is needed, and constitutes a move toward a healthier and more stable world payments situation. We acknowledge our responsibility to contribute to the preservation of the system by accepting an important part of the current account deficits which are inevitable in this period; and I pledge to do my best to resist the inevitable domestic pressures for protection and to build public acceptance of a substantial trade and payments deficit. But my colleagues from other large surplus countries will need to do the same.

However, action by the countries in surplus, the United States, Japan, and Germany, and a willingness to see those surpluses decline and vanish, cannot alone bring a stable and sustainable international payments structure. Of perhaps greater importance is the action needed on the part of the large deficit countries—the UK and Italy in particular—to reestablish stable economic conditions.

Fourth, we may need to consider in the IMF the possibility of providing additional IMF credit, where private and official credits have been exhausted, in cases of extreme need having significant implications for the system as a whole. Such credit beyond the normal standards of availability, should be conditional on and in each case tied to a rigorous and detailed program of monetary and fiscal restraint that will restore domestic economic stability in a reasonably short time. This credit cannot substitute for, and should not be provided without, sound domestic corrective action by the recipient; and it presupposes a commitment by the recipient to policies consistent with the fundamental tenets of the political and economic system on which cooperation among the industrial democracies is based. Such financing would complement normal IMF drawings and the proposed Financial Support

Fund, and could be coupled with the activation of the General Arrangements to Borrow. I think such a move would greatly strengthen our defenses against possible disorderly adjustment moves which could damage the fabric of our liberal trade and payments system.

In summary, these four points provide an appropriate program for us to agree to at this meeting to help foster international monetary stability. I would hope we can all agree:

—To proceed to ratify promptly the Jamaica monetary reform package.
—To continue to strengthen our consultative machinery.
—To commit ourselves for the coming period to adopt policies to eliminate persistent payments imbalances, both surplus and deficit.
—To consider, for cases of countries in special need, a mechanism to supplement official credit tied to a rigorous corrective program.

Prime Minister Trudeau: With respect to the communiqué I agree with Chancellor Schmidt that we must emphasize an increase in confidence. We must create a climate of confidence as we are moving toward economic improvement, in order to encourage savings to be invested. But we should also emphasize that inflation can come back if we are not careful. Take President Ford's figures of 7% growth and 7% inflation. It seems to me that he was saying we must keep things in some sort of balance. If we talk only about confidence and not inflation, it will be a problem. The communiqué should state both.

President Ford: What I said, Mr. Prime Minister, was that our growth will probably be on the order of 6–6½ and inflation of 5½–6%. This is most encouraging to us. The decline in inflation should permit an increase in employment thus adding roughly 3,700,000 new jobs. We have 87,700,000 people employed which is an historic high for the US, although we still have the problem with the young and disadvantaged. We have also added a 15–20% increase in jobs available for college graduates. This is encouraging for us. I agree with Denis, that we can have decreased inflation and increased employment.

Minister Colombo: This is a subject which seems to have resulted in a certain separation among the countries here. Inflation and unemployment are both important problems. The countries which raise the issue here do not want to solve the problem of ratios. We do not want to solve the problem of unemployment with inflation. Our experience has taught us a lot. In the process of recovery which has been widely observed, we have seen that it has been accompanied by symptoms of inflation, and a tendency for institution of policies to put on the brakes in countries which have achieved high levels of recovery. This will hurt countries which have not yet been able to achieve high rates of recovery and have stagnating high levels of unemployment. We should reconcile our views on this here. We should insert in the communiqué some idea of fighting inflation to give the idea that we should conduct our policies this way, but we should also need an element of confidence as a psychological tactic. I go along with Chancellor Schmidt. We should confirm that there is a reason for confidence and that we are out of our sickness.

Chancellor Schmidt: I like to go back to a subject President Giscard raised and you referred to. Along with recovery and our now emerging imbalance of payments, there is disequilibrium in the industrialized countries and great surpluses in OPEC, and different conditions for raw material exporters with high prices. The question is how can we finance these deficits. Cooperation this year and in years to come is necessary to cope with balance of payments deficits. We will have a lot of trouble in some cases. The safety net is a good idea to help countries, but we will need to do a lot of thinking on how to finance deficits in balance of payments. We cannot allow balance of payments to be entrusted solely to exchange rates in currencies, i.e., to allow exchange rates to move along the trends of balance of payments. This seems to be an idealist view that all things will be rational. This seems to be an idealist view that all things will be rational. It could lead to an exchange rate process that is out of control. There is a requirement to meeting the need to finance balance of payments deficits.

I agree with what many of you are saying. Thinking about how to finance deficits does not mean giving up domestic policies to reduce imbalances. We must not leave our policies to others. We must do our duty with a great deal of commitment.

Prime Minister Trudeau: I would like to ask how does the suggested IMF credit proposal help countries in extreme need fit into the Jamaica agreement, the increased tranches and the Trust Fund. Also, Canada has a rather special payments position, particularly vis-à-vis the US. And what is the status of the thinking here on the trade negotiations—it is possible to accelerate them?

President Ford: We believe we must bring these negotiations to a conclusion in 1977. Thus we will push to the maximum to achieve this result. We feel that it is an achievable result. With respect to imbalances, we are not talking about bilateral imbalances. We recognize the situation of the US vis-à-vis your country. This is not the issue I was referring to.

Secretary Simon: Mr. Prime Minister, with response to your question on the mechanism for financing countries in special need, we believe that it is a good idea to consider the concept of providing more credit with very stringent conditions. We believe that we can use, in this respect, the GAB of the IMF. We have the Congressional authority already for $2 billion. This is part of the concept of the so-called "super-tranche." It implies very stringent conditionality as a supplement to IMF borrowings.

Chancellor Schmidt: I agree with the stress on the necessity of conditionality. It is in the interest of those who need the money to enable them to receive it but with certain restrictions. We also agree with the idea of renewal of the trade pledge[5] and giving additional impetus to the MTN. I also wish to express our gratitude for the consensus reached since Rambouillet regarding rates of interest and length of repayment time in export credit provided to others.

In the trade area, President Ford, I would like to know if you could give us some information about the probable amount of Soviet foodstuff purchases likely to be made from the US. It seems to me that our approach should be to bring to the consumers of the Soviet Union the understanding that they are no longer an autarkic ideological entity. The Soviet debt thus comes out to roughly $40 billion—some from the Arabs, some from the state banks, and some from private banks. All together it represents an enormous net flow of resources to the Soviet Union. The question is whether we have been politically paid off well so far. One reason, I am convinced, for the Soviet leadership's decision to undertake a policy of détente was to get real resources from the West.

President Ford: In response to your question on food sales, Mr. Chancellor, we have concluded a five-year agreement with the Soviets. They must purchase a minimum of six million tons of grain and a maximum of eight million tons, but that latter figure is flexible depending on conditions in the US. In 1975 they bought six or seven million tons. Thus far in 1976 they have bought three million tons in the current crop year. We have no specific information as to whether they will go to eight or beyond this year. We do understand that they do not have a very successful winter wheat crop, although planting looks good for the spring crop. If conditions are good for the spring crop, there will be less demand. If the season is highly successful, they could have a good year but they will buy six million tons in any case. Henry.

Secretary Kissinger: The basic problem is that the only way we can get political benefit is to interrupt the market system. Under market rules, if we want to benefit politically, we must interrupt the market mechanism in order to exact political terms. Otherwise, this is just theory—they come in and take what they can get. The President paid a heavy political price for the perceived interruption of the market for four months last year. Now we have some leverage in that they have to come to us for negotiations if they want to purchase about eight million tons. This is an aspect to which not sufficient attention has been paid.

[5] See Document 209.

Chancellor Schmidt: Roughly one-half of the East European countries' debt is covered by state guarantees. Many deals would never have been struck without the support of governments. The USSR's greatest difficulty is in feeding its people. They have slaughtered great numbers of pigs and cattle. They are facing difficult times. In Poland, they are having difficulties similar to those in 1972 which led to the coming of power of Gierek.[6] These problems posed great difficulties for Communist leaders. Poland now faces worse problems than the Soviet Union, but the Soviet leadership is in similar difficulties as those of the Polish leaders. If we help them, we improve the stability of their political system. If we do not help them, we do not know who the next leaders might be.

But it is certain that their role in the world is ever increasing. Prospects are that the Soviet share will increase even more. I ask myself how much transfer of resources will be devoted to East-West relations and how much to North-South. Will North-South relations not necessitate neglect of transfers to the East?

We might be able to divert the Soviets from production of weapons or at least the sale of weapons to the Southern hemisphere. A number of countries say we give the LDCs too many weapons. We must be concerned that the USSR is gaining influence in the developing countries by supplying arms and by attacking us in the UN and in Nairobi. We must combine aspects of trade, monetary, and credit relations in our dealings with the Soviet Union and examine their political aspects.

This is not the place to talk about Southern Africa, but we appreciate its implications. Public opinion is not going to permit us to help the developing countries and then be kicked in the backsides in the UN and elsewhere as the Soviets gain influence by supplying weapons and propaganda. Our relationship with the Soviet Union on credit and trade ought to be appraised.

President Ford: Mr. Chancellor, with respect to Soviet debt, do you think they might ask for rescheduling?

Chancellor Schmidt: I would not be surprised at that.

Prime Minister Callaghan: I will talk about this tomorrow in detail. But the credit record of repayment of the Soviet Union and its satellites is second to none. In our judgment, and we have consulted the City of London, there may be a possibility perhaps of a slight roll-over. But they are not going to default; they simply won't do it.

President Giscard: Again addressing the issue of monetary and financial problems, I should like to raise the issue of aid to Italy. We are all well aware of the problem of Italy and concerned about it. But we

[6] Schmidt is presumably referring to events that took place in 1970. Edward Gierek assumed the office of Secretary-General of the Polish Communist Party in December 1970 amid widespread unrest occasioned by a large proposed food price increase.

should not now make the difficult judgment on aid to Italy. It is apparent that Italy will need aid above the ceiling established in the IMF, but we should not use the IMF for this purpose and thus create a precedent which other countries would invoke. We should not provide aid of this kind to the LDCs. I approve the principle of providing aid if necessary, but this would be an industrialized country assistance effort; thus we should fix the technique. We should not create an IMF precedent.

On trade, I can only comment on issues which are in conformity with decisions taken by the EC. The trade pledge is in conformity with this. It calls for agreement to avoid protectionist measures. We had to do this for fear at the time that the UK would implement protectionist measures, and now it doesn't need to serve that purpose anymore. On the other hand, US measures to restrict imports have been felt rather keenly in Europe. The pledge could be applied to such practices.

Prime Minister Miki: I will discuss the trade issue in greater detail tomorrow.

President Ford: We adjourn then until tomorrow at 9 a.m. The session will then be informal in dress. We will be having dinner in about an hour—that also will be highly informal.

Prime Minister Miki: Excuse me, Mr. President. If I can make one additional statement—I have seen the draft communiqué, but I wonder if it could be made shorter than the present 15 pages.

President Ford: I will take note of this request, Mr. Prime Minister. Our officials should be contacting your delegations to set up a further meeting on the communiqué, although I gather much work has already been done on this. In addition, I can give you at dinner a suggested list of speaking assignments for tomorrow's meetings.

149. Memorandum of Conversation[1]

Dorado Beach, Puerto Rico, June 28, 1976.

Second Session of Summit Meeting (Monday, June 28, 9:00 a.m.)

President Ford: Today we have before us four issues: trade, East-West relations, North-South relations, and energy. Prime Minister Miki will break the ice on trade.

Prime Minister Miki: In discussing trade at Rambouillet, I emphasized the following three points: Each nation should take policies which insure economic recovery; while pursuing recovery, nations should refrain from import restrictions; and we should all recognize the need for concluding the MTN in 1977.[2] We reached a consensus on all three of these objectives. Since then the economies of the world have turned around for the better. And we should congratulate ourselves on this happy turn of events. But we must continue to make efforts to expand our trade and not kowtow to protectionism. If the recovery is to be sustained, we must continue to expand trade under a free trade banner. In the MTN, developments are far from satisfactory. Points of disagreement still remain on fundamental issues. It is the responsibility of the seven nations here to insure success. The future destiny of the MTN lies within our initiative. Failure would disrupt the free trade movement in the world. Now there is recovery and free trade is expanding. It will be constructive to bring the MTN to fruition in 1977.

Investment by private enterprise is another important ingredient in stabilizing economic development, leading to a more rational distribution of resources. It supplements the process of providing funds, job creation and technology transfer, the multinational corporations have contributed a great deal to the development of the world economy. We need to frustrate illegal corporate activities. Profit-seeking enterprises might well be a problem from time to time. I endorse the recently agreed to OECD code.[3] This code represents a further step to a resolution to the problem. We should also pay attention to the ECOSOC and the U.S. Ministerial Task Force.[4] I wish to emphasize the impor-

[1] Source: Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 4, Presidential Subject File, Economic Summits—Puerto Rico (7). Top Secret; Sensitive. The summit session took place in the Salon Del Mar at the Dorado Beach Hotel. The second session concluded at 11:30 a.m. (Ibid., President's Daily Diary) For a list of participants, see footnote 1, Document 148.

[2] See Document 123.

[3] On June 21, OECD Ministers approved a non-binding code of conduct for multinational corporations.

[4] See footnote 12, Document 140.

tance of this for investing countries. We should also emphasize the importance of host countries protecting investment and providing a good investment climate.

President Ford: At Rambouillet, agreement was reached to complete the multilateral trade negotiations in 1977. We must redouble our efforts to achieve this important goal. I am convinced that these negotiations are essential to the establishment of a firmer economic partnership among our countries and a sounder relationship with the developing countries.

We have achieved a number of notable successes in keeping an open trading system. We shall be facing continuing problems in the trade area as the recovery surfaces disparities and weaknesses in our several economies. Constructive progress in the multilateral trade negotiations can help us to manage these problems.

We in the United States are concerned by the slow pace of the trade talks now underway in Geneva. We cannot and should not allow short term considerations to impede the efforts of our trade negotiators during 1976. A considerable amount of preparatory work must be completed this year, if we are to conclude the negotiations in 1977.

The United States has shown that it is prepared to take the lead in the work in Geneva. We have put forward a number of important negotiating proposals and would welcome proposals from others.

The proposals we have made have been fully discussed with our private advisory groups and the Congress, and their comments have helped to fashion these proposals. Trade is not now an issue in our election campaign, and we do not expect it to become one. Our trade policy is strongly supported by both parties.

A key to progress in the current stage of the negotiations is for us to reach prompt agreement on a tariff cutting formula. My negotiators have put a realistic proposal on the table in Geneva. It calls for a tariff cut greater than that achieved in the Kennedy Round. It was designed to take account of the diverse views of our negotiating partners.

We hope that you will agree to achieve negotiated cuts no less substantial than achieved in the Kennedy Round. Until agreement is reached on a tariff cutting formula, negotiations could be stalled. We must also agree to accelerate progress in reducing non-tariff barriers.

The multilateral trade negotiations offer us an exceptional opportunity to improve the institutional structure of the world trading system. We must undertake efforts to strengthen the GATT, particularly in the resolution of disputes.

Multilateral efforts will be effective only if the countries represented here exercise joint leadership. The OECD and less formal arrangements provide useful means for achieving such cooperation.

We must also seek to assure that the multilateral trade negotiations make an important contribution to improving trading relationships between the developed and developing countries. Constructive participation of the developing countries in these negotiations is important and highly desirable.

Our negotiators must find ways to implement our commitments to provide special and differential rules and treatment to the developing countries. At the same time, they should explore how the developing countries can gradually assume fully the responsibilities of membership in the world trading system.

In sum, our challenge is to build a global trading system that will both strengthen the institutional basis for our own economic partnership and establish a framework for cooperation with the developing countries. The major industrial democracies must make every effort to resolve our differences to foster the further development of a more open world trading system.

To maintain the momentum generated at Rambouillet and to achieve an agreed objective of concluding the negotiations in 1977, ministerial level input will be required. I therefore propose that we agree on a ministerial level meeting early next year of all the participants in the Geneva negotiations.

We should also direct our ministers to coordinate a study of international trade in services, and develop appropriate proposals for improving international cooperation with respect to trade in services.

We need to intensify our cooperation in all aspects of trade to meet the challenge now and after successful conclusion of the MTN. Following the MTN, we should consider ways to strengthen relations among the major trading areas to permit maximum reductions in trade barriers in an increasingly open system.

Prime Minister Moro: A realistic approach to the problem of trade and to the solution of trade problems must begin with the objective of the development of a world economy linked to the liberalization of trade, which is in turn linked to a removal of restrictions. This can make a contribution to prosperity and to a broader, more adequate distribution of resources. This is particularly significant now in a period marked by an increase in the volume of world trade after a period of difficulties in national economies. The increase in trade should lessen pressures for protectionist measures. Avoidance of protectionism will also lead to steady non-inflation growth and recovery, whereas protectionism might well reduce the ability of certain countries to restore their balance of trade. I am aware that there are strong domestic internal pressures in this area and it is not always easy to make general international interests pervail; but countries must continue to do their best.

With respect to Italy, we developed means to stop the fall of the lira and to reduce internal liquidity while avoiding a distortion of the market, along with a renewed commitment against trade barriers. We bear in mind the necessity that the economic policies in countries controlling recovery can help countries in difficulty and there is need for support to re-establish the economic balance.

We also need to generate more progress in the Geneva MTN. There has been significant progress in some areas, for example, on tropical products, but further developments are hindered by differences. We must try to achieve progress toward some overall objective with an equal distribution of burdens and opportunities. We should not allow our efforts to fall short. We should bear in mind, also, the medium and short-term needs of the developing countries.

President Ford: Within the last ten days, I have submitted to the Congress proposals for legislation on what we call disclosure to deal with the bribery issue.[5] It will probably be approved during this session. However, there are those in Congress who want to go beyond this to legislation calling for criminal action. At the moment, we do not think it necessary to go that far. We shall see what happens before Congress adjourns.

With respect to the specific issue of investment, I have the following comments.

In the General Agreement on Tariffs and Trade (GATT) we have long accepted that restrictions on trade should be avoided and that we need to cooperate to maintain an open system that serves us all. We should now give comparable attention to supporting a liberal climate for international investment in the face of pressure for increased restrictions. There is a need not only to avoid new unilateral actions but also to eliminate existing restrictions and incentives which distort international capital flows and might lead to a deterioration of the international investment climate. We have all benefitted from and have a continuing stake in the success of an open world market economy.

A healthy investment climate requires that we dispel the impression that multinational enterprises are harmful to the interest of home and host countries. Although capital flows often require short-term adjustments, international direct investment should be welcome because of the positive overall contribution it makes to economic prosperity. In that regard, the three-part investment package on international direct investment—adopted by the Council of Ministers of the OECD last week—is an important initiative.[6]

[5] See footnote 7, Document 144.

[6] See footnote 5, Document 147.

In the broader context of international investment, I believe we should encourage liberal treatment for international capital flows. We should take steps to review, and eliminate, government actions which restrict or distort international capital flows and seek relaxation of such restrictions or distortions.

Finally, we must address a very difficult problem. Recent revelations of bribery in international commerce have undermined confidence in the investment climate internationally. Bribery is not only ethically abhorrent, but it also threatens the free market system. The United States has made specific proposals under the auspices of the U.N. Economic and Social Council to give prompt attention to the establishment of an international agreement to deal with this problem. I believe it appropriate and important for us to indicate our collective support for the early development and adoption of such an agreement.

Prime Minister Trudeau: Mr. President, I listened with interest to your points on corruption practices. I praise and support this bold step by the U.S. against corrupt practices. This is indeed a bold step, and one which we would like to take with you. But I have a question—how effective can this be made if there is no corresponding interest or legislation in countries which need investment and which indulge in corrupt practices? This is almost tantamount to exporting one's morality to another country. It is difficult to impose one's morality in one's own country. In other countries there is no metaphysical basis for such ethics. This is a step you are taking which we would like to support, but do you have cause to believe that it will work? Do the LDCs welcome your initiative?

In my view, some developing countries say you will treat us with greater dignity if you impose such rules. Others say these are century-old practices which cannot be changed. We also realize that industrialized countries use bribes as well as developing countries. If you do this, are you not excluding your firms from some markets? The question is, if you proceed and no one follows, what then? You go to heaven, but you go broke.

President Ford: We in the U.S. have two problems. There is a drive in the U.S. to cleanse all peoples and all organs of government. This is driven by sincere motivations, but it has serious ramifications in the international field. If all nations in good faith take the actions we support, the effects in the developing countries would be significant.

In this respect the Congress reflects the public's view. It may be short-sighted in a competitive world, but it cannot be ignored. There is a conflict between practicality and idealism. That view will require action by the SEC on any legislative initiatives. Disclosure can be a deterrent, but you are right that the impact on competition can be significant.

The views of this group here could have a beneficial impact—they would have a practical impact on the developing countries.

Prime Minister Trudeau: I agree that we must be moral ourselves. We must have an ideology which holds us together as industrialized democracies. But it is hard to compete with idealism and idealizers—either Marxist or Socialist. Excuse me, I am sorry about the Socialist part, Jim. Either Marxist, Leninist, or Maoist. Thus, we have to have some ideology to hold us together and we must act in concert if we want to sell our system to the developing countries. Thus, morality should not be absent from our discussions.

One further point on the issue of liberalized investment climate in the world. This is not a point of morality but a point of economics. I agree that such an investment climate would bring greater prosperity if the world were open to investment to go where the returns are greatest. But this is not a realistic position either, because of the fact that many countries want to control their own domestic economic environment.

We in Canada began to control investment in the last three years. We have the highest foreign control per capita of any country. Canadian nationalism is just catching up to what others have been doing for a long while. Every country wants to control its own political environment; others want to control their own economic environment. The idea of a liberal investment climate is not accepted by two-thirds of the world. No government will accept this.

I do not want to undermine your valid economic statements. But it is not true in Canada. We do not allow uncontrolled investments in Canada, and the LDCs certainly do not. So I believe you are setting an unfulfillable dream.

President Ford: If the developing countries do not have such a policy, they will not have the expansion they want and we will not invest there.

Prime Minister Trudeau: There is still investment in such countries, but less. You make sharing agreements. You will discuss and negotiate with them. In Canada, we have multinational enterprises which are being nationalized. If we treat these firms like everyone else, it is o.k. The developing countries in this process may realize they are making themselves poorer as a result of this, but this is their decision. People are frequently prepared to pay something in terms of a lower standard of living to be more independent.

Secretary Simon: Chancellor Schmidt earlier discussed the need for worldwide investment. There is enormous competition and a need to strengthen the policies of investment. There will be $4½ trillion over the last [*next*?] 10 years. We have regulations in the U.S. to protect our national security. We will review impediments to borrowing and to allowing foreign investments to come in. Every country will require large amounts of capital to attain goals. And international business will make 51–49 type deals. I will suggest there will not be many countries threatening to expropriate, because capital will flow where opportunities are greatest. This is our number one challenge.

Prime Minister Miki: Earlier I said 60% of world GNP was represented in the seven countries assembled here, and 50% of world trade. There is some small bit of conjecture with respect to the Soviet Union, but that figure is factored in so that we have 60% of total world GNP. Thus, our countries have a vital role in world affairs.

Prime Minister Trudeau discussed restrictions on multinational corporations, but it is more important and broader than this one issue, since the free economic system is being challenged. We believe that the multinationals should operate based on a code of ethics and that they should respect the legal systems of the hosts. Admittedly, there is a divergence in legal systems; but the rule is never to interfere with or impinge upon the legal operations of a host. No country regards bribery as a standard conduct of ethics.

President Ford: If no one has additional remarks on this issue, I suggest we turn to the item of East-West relations. Jim, you are icebreaker on this subject.

Prime Minister Callaghan: Thank you Mr. President. Mr. President, Helmut began an interesting discussion of this issue yesterday. My observations are based on a number of his comments. Since we met at Rambouillet we have had the 25th Congress of the CPSU.[7] As this demonstrated, we are not alone in our troubles. They have deep concerns with their economic problems. Indeed, it is clear from the specifics given there that many of their targets were not met. They have had, for instance, two disastrous harvests. And, I expect they are bound to have continuing food shortages as long as their agricultural system continues to be organized as it is. Brezhnev also indicated that consumers interests were clearly relegated to second place. He also stressed the difficulties of increasing costs of raw material extraction as well as the high cost of infrastructure and the slow rate of growth in the Soviet labor force. The conclusion one must draw is that growth in the Soviet Union will slow down in the next few years. It is, therefore, clear that they have troubles too.

With respect to debt, we expect that their debt will be roughly $40 billion at the end of 1976. Our experts, however, would put the figure

[7] The 25th Congress of the Communist Party of the Soviet Union was held in Moscow from February 24 to March 5.

a little lower. But whatever the figure, we can see clearly the enormous increase—from $2.5 billion in 1973 to either $30 or $40 billion by the end of 1976. This is an increase of a significant order of magnitude. We believe that it is caused in part by the impact of the recession on the exports of Eastern Europe, the large scale capital goods imports by the Soviets and Eastern Europe and by attractive credit terms in the West. This has led German, U.S., French, and U.K. banks to be heavily involved in extending credits to the East. For German banks this has in part been political, as one dimension of Ostpolitik. For other country banks such as in the U.S. and U.K. it is primarily a commercial consideration.

We need a fresh resolve to make a success of the gentlemen's agreement.[8] As things stand now the Soviet Union can play us one against the other in order to bargain us down on credit terms. We have been tempted and fallen. They chisel ⅛ of a point here and there. All of us have said yes at one time. Now all of us have the opportunity to come into line with one another. We do no good at all by competing with one another in the way we have been doing.

Many Western banks think the terms we extend to the Soviet Union are unrealistically low. Some banks, which are traditional leaders, are just about at their prudent limits. And with the IMF gold sales lowering the gold price the Soviet Union must increase demand for credit. In our view, while the debt of East European countries requires careful watching there appears to be no severe problem with Soviet credit. For the Eastern Europeans we may need to have some limits on credit. But the record of these countries is second to none. There may need to be some rollover by some banks, but I do not think there will be defaults.

But as Helmut points out, we must emphasize the need to keep this debt situation under review because it is an increase of an extraordinary nature. The problem does have a bearing on our interest in stability. When Eastern political leaders meet they will look at their budgets. If they cannot borrow, they cannot meet some of their needs or purchase equipment and technology. The question which is raised is should we try to get some political advantage in this area; is there an opportunity to influence Soviet economic policy?

I am not optimistic that we can succeed in this. I think that any attempt to curtail economic relations would simply arouse Soviet hostility and force them to withdraw without bringing them to a more constructive frame to mind. The Soviet leadership cannot be pressed because to do so would drive them to a more inward looking position.

[8] See footnote 8, Document 123.

But economic relations can involve the Soviet Union in a more stable and mutually beneficial relationship with the West. It can lead to a consolidation of détente in the interests of the West and in the interest of the Soviet Union. Growing involvement means that they cannot cause damage to the West without causing more damage to themselves. They damage themselves more if they pull back.

Strangely, I do not think the Soviets see or admit any contradiction between their détente policy in Europe and their support for revolutionary movements in such places as Angola. Most of the time the Soviet policy is pragmatic in such respects. But we should not allow the Soviets to practice détente selectively. They should not be able to pursue détente only in Western Europe but not for the rest of the world. To get the Soviets to behave with restraint we need political and security measures. I do not believe we could use economic weapons to insure the proper global balances. We must do so by maintaining a proper military force.

I think the policy with the Soviet Union needs careful and continuing scrutiny. We have been competing on credits, but now we need more coordination. However, because we cannot influence the Soviets to a great degree with economic policy, we need to use the proper political and military balance to influence them.

President Ford: We have done studies which indicate that the Soviet Union has increased its investment in its military, but achieved no greater military capability as a result. This is due to the inefficiency of their military operation. In the U.S., people have raised political questions about this large scale Soviet military investment. It was for this reason that we produced this analysis of what investment did to maintain Soviet military capability. In fact, we found that it did very little.

Chancellor Schmidt: Jim, in response to your points, I did not mean to imply that we should curtail credits to the Soviets. I merely wanted to draw attention to two facts. It is not a matter of a debt of $30–$40 billion, as you pointed out. You were right in saying that so far these countries have been reliable debtors. But countries like Romania and Poland are now in serious trouble. They need additional agricultural imports from the West. For instance, Poland agreed to allow out of the country another 130,000 people of German origin in order to get an additional $1 billion from the Federal Republic, one-half of which was credits. They will need additional help in meeting capital needs. You have seen in recent days economic and political problems in Poland. Others are also in desperate situations. In the long run it is possible they will have to ask for renegotiation of their debts—they may have no choice.

We must ask ourselves whether this will mean that they will have to draw back into a closer relationship with the USSR. I wanted to draw attention to this possible development—not draw conclusions from it as yet. One might think of harmonizing our priorities and policies on official credits to these countries, or harmonizing conditions. These credits are a net outflow of real resources from West to East, which we provide these countries. They in turn are able to spend a large percentage of their GNP for arms. The Soviets, for instance, spend 11–12% of their GNP for arms and they would not be able to set this aside if they had to finance investment in other sectors by themselves.

I am not proposing a squeeze. We must determine how far we go in giving real resources to both the Soviets and the East. We will talk about North-South issues later on; but all of our discussions in that area relate to a transfer of real resources. I believe we are compelled to bring about a transfer of real resources to the developing countries. For moral and political reasons we have decided to give assistance to the developing countries. We are doing our share. But how much burden can we put on the shoulders of our consumers or taxpayers to help out the peoples of the developing countries and the East.

The Soviets make cynical remarks about our Western investment policy toward them, indicating that we are competing among ourselves. We should consider ways of curtailing competition among us. If we have extended credit of such a large increase in the last five years, what about the next five? How much do we want our citizens to work to help the consumers of Leningrad?

We will want to step up our exports to the Soviet Union because this helps our labor force and exports. But what do we do over the long run? What happens if there is competition between developing countries and Eastern Europeans for resources from the West? What are the strategic implications of this? I am under the impression that although our employment goals and détente made us engage in broad efforts to sell our goods to the East, it has not paid up too well for us in some respects.

I am not making a proposal here, but let's think about it.

President Giscard: Trade between West and the East has increased from $15 billion in 1960 to $52 billion in 1975. Also the nature of the trade has changed. Germany is the largest trader with Eastern Europe, then Japan, France, Britain, and Italy. The U.S. places a lower priority in this area, and food accounts for a large part of it.

Western trade with the Soviets and the East is now structurally a deficit for the Eastern countries. We recently met with the Soviet leaders on these subjects. Kosygin[9] as early as 1963 said that the Soviet Union would not accept a trade deficit. Now the Soviet deficit has in-

[9] Alexei Kosygin, Chairman of the Soviet Council of Ministers from 1964 until 1980.

creased from 1.7 billion in 1969 to 6.5 billion in 1973, 7.3 billion in 1974 and still larger in 1975.

Large deficits are not much of a problem for the Soviet Union but are more of a problem for Eastern Europe. The Soviets have a $40 billion debt to pay and they are able to pay it through gold exports and other things. But for Eastern Europe the problem is really serious. The Romanians are covering up the situation. Poland is desperately looking for financing these things and this has economic and political significance; we must consider what attitude to take.

The question is important for all of us. In my view, the growth in trade to the USSR is to the West's advantage. It has created a kind of semi-dependence on our technology by the Soviet Union. For Eastern Europe, however, the problem is more complex. It could lead to a crisis or bankruptcy in Poland, for instance. To have excessive debt and a crisis situation involves certain dangers. Coordination among us is certainly necessary.

We will try to restructure our balance of trade with Eastern Europe. We should be chary in relation to their commercial position. We should decide whether we want to stay in the situation in which we give capital to the socialist countries, and in which we give to the developing countries but the socialist countries do not. We put up with this, but I do not know why. Eastern countries should contribute to international economic development.

Obviously we need coordination in areas of credit. The gap is not so big. Psychologically and technically credit competition is really artificial. We would be ready to work on some coordination.

Secretary Kissinger: There are two aspects to the issues of East-West trade: (1) economic, or commercial, cooperation; and (2) political cooperation.

There are a number of economic considerations which must be made in dealing with East-West issues which Helmut alluded to earlier. For instance, to what degree do we tax our populations to make life easier in Eastern Europe; what priority do we attach to East-West versus North-South issues; can we recognize the futility of competition among ourselves in extending credits to the East.

On the political side, our Administration has fought in the Congress for greater latitude on East-West trade. It has been prevented from having sufficient latitude by Congressional amendments. The problem was that Congress tried to influence domestic policy through the use of trade. But we must draw a clear distinction between attempting to influence domestic policies and attempting to influence foreign policies. No country will allow another to dictate domestic policies. But we cannot apply the same principle to foreign policy. Foreign policy decisions always involve external pressures. All decisions are based on taking account of the consequences of these actions with respect to others.

Several years ago this Administration developed the concept of linkage—to keep economic advances toward the East in step with foreign policy considerations. We did it in ways which were not necessarily linked to specific action—nothing like holding out a certain credit in return for a specific action—but in such things as the speed of processing credit applications and the ease of negotiations. In other words, our credit availability was related to the forthcomingness of Soviet foreign policy. There was no open-ended credit, and credit was tied to specific projects. In this way we could have some influence on the shape of Soviet decisions and could monitor performance.

We are convinced that the Jackson Amendment deprived us of this sort of leverage.[10] For instance, when the Soviet Union had to decide on what to do in Angola in 1975, they might have made a different decision if there had been some incentive, or some potential economic cost, in intervening. As it was, they risked little because their foreign policy conduct was no longer linked to certain economic benefits. I cannot prove this, but I believe it is true.

We should try to persuade the Soviets that the economic climate is not unaffected by their foreign policy conduct, and get this through to them. We should get them to understand that there is a relationship between détente and economic issues—or shall I say, "peace through strength" and economic issues. I am not suggesting anything so crude as cutting off credit to achieve a specific objective. If they know what we want, we can relate the economic atmosphere to the political atmosphere.

For instance, Helmut pointed out we have to make decisions on priorities between North and South, and East and West. How we put these priorities can be structured in such a way that it is related to Soviet performance but is not seen as blackmail in the Soviet Union.

During the time that we practiced linkage, the Soviets complained about it but played the game very well. They understood what was expected of them. We should discuss how to relate the economic climate to the political climate. There should be no free ride in the economic field, and we should not finance irresponsible Soviet political activities. It is these things that we need to discuss further and in greater detail.

Prime Minister Moro: With respect to debt of Eastern Europe, it is growing very quickly vis-à-vis the West. Italy has provided $4.7 billion. We must establish a priority for our objectives given the relative

[10] The Jackson–Vanik amendment to the 1974 Trade Act linked the granting of most favored nation status to the emigration policies of the intended recipient country.

shortage of currency available to Eastern Europe to finance their development. We ought to examine how to reconcile our objective of growth in trade with growth in indebtedness of Eastern Europe. There is also the problem of multilateral financial instruments, i.e., the mobilizing of accumulated credits. We should also take notice of the recent achievements with respect to export credits. This is a positive achievement among our economies. We should also attempt to avoid actions which could lead to an imbalance of East-West trade.

Prime Minister Miki: I have listened with great interest to the discussion on East-West trade. East-West cooperation is required for a more stable world economy and political system. Japan does not have serious debt problems with Eastern Europe. It has $7.6 billion worth of credit outstanding to Eastern Europe and China, which represents 7.7% of trade. The Soviet debt is only $1.2 billion this year. However, the Soviet Union has a large surplus in bilateral trade with Japan. Since these imports serve as collateral, we are not too worried about the Soviet debt to Japan. It is not of urgent proportions. But as Prime Minister Callaghan said, we in the West should refrain from engaging in a credit scramble to provide credits to the East. We in the West should exchange information more closely and intensively amongst ourselves. We should recognize the need for a close exchange of information. We presently lack this in relation to Eastern countries. This would reduce the friction among ourselves.

Chancellor Schmidt: I would like to respond to President Giscard. You are correct, Valerie, when you said that my country in its exports to the Soviet Union and its credit relationships has the political relationship playing a predominant role. This started because of the vulnerability of Berlin and our desire for détente. That is our desire to insure that the Soviets pursue a policy of détente. I am aware of the strategic problems to the world as a whole. I would be interested to make the Soviet Union understand that we are aware of the strategic relationship in this area.

For this reason, I would like to add in the communiqué two sentences which would express that the Soviet Union and COMECON countries in the last five years have risen to an important role in taking credit and buying investment goods, technology, and foods. And that we recognize that to the extent to which they have to their advantage participated in the world economic system we expect them to contribute to the burdens of the system with regard to aid to the developing countries.

It is time that Eastern Europe and the Soviet Union got this message in public. This would also be helpful to Poland and Romania, etc.

Prime Minister Callaghan: At present relations with the East are most fragile and we should do nothing to worsen relations with them.

We might be jumping a bit fast if we published Helmut's two sentences. I am not sure that it is a good thing for the Soviets to operate in the developing countries. Now the Soviets' standing is very low in the LDCs. If we introduce this idea, there could be room for a great deal of mischief. I feel we need more work before we express this idea publicly.

I do agree with Helmut, however, that we should call attention to the attitude of the Soviet Union and its trading partners on technology, food, and credits, and the proper conclusions ought to be drawn from this.

In addition to exploring Helmut's question, we should examine the consequences of trade and indebtedness of Eastern Europe and the Soviet Union. We have agreed that in the end the Soviet Union will bail out Eastern Europe or impose discipline.

President Ford: I subscribe to the concepts of Chancellor Schmidt. We need certain sentences in that part of the communiqué. Let us see if we can structure the communiqué in this regard.

Chancellor Schmidt: After hearing Jim Callaghan, I withdraw the second sentence as long as we retain the first.

Secretary Kissinger: We could call attention to the list of issues raised by the Chancellor and ask for a joint examination at another meeting of representatives of these countries.

Chancellor Schmidt: I agree with Henry's idea of an examination of these issues at the OECD. His speech was a kind of balance sheet which was not overly tough on the political side.[11] That will be a proper ground on which to base a discussion of this issue.

President Trudeau: Chancellor Schmidt's strategy is a very basic one. Frankly, Jim Callaghan is right, we should not move too far. At UNCTAD, the LDCs raised the issue of Soviet assistance themselves. It is better that this point come from them rather than from us. Thus, there should be nothing in the communiqué on this area.

If we have to make a choice on the allocation of resources, we should help the LDCs rather than the Soviet Union. With respect to Secretary Kissinger's OECD statement, which is one worth keeping in mind, we must recognize that the Eastern bloc has other forms of resources which can help us meet our needs. Western Europe for instance is getting Soviet goods. Interdependence is a positive thing. It is a more positive than negative thing. If Prime Minister Callaghan is right, the Soviet Union is having trouble financing its military budgets. President Ford also spoke of this. If this is true, we should in reality be making more progress in SALT and MBFR. Anything we could do in contain-

[11] See footnote 6, Document 140.

ing their military would be good for our countries, because this too involves a high demand for capital. If there were less capital spent on military, it could be used for other productive things.

President Giscard: With respect to the communiqué, we should not include too many multifarious conclusions. Our main focus is on progress in the world economy. If we put a lively political direction in the communiqué, it will distract us from this objective. We should not make these East-West issues explicit in the communiqué as Chancellor Schmidt suggests. We should talk about these issues but not put them in the communiqué.

President Ford: Everyone is in agreement. Now I think we should turn to the issue of North-South relations. Chancellor Schmidt will be the icebreaker on this issue.

Chancellor Schmidt: Thank you, Mr. President. It seems to me that the key to meaningful development of the world economic order is in the hands of the West, of the developed countries. And whatever solution we come up with must be practicable and feasible. Industrialized countries will have to approach these issues jointly. So far we have had a procedural consensus, but not a consensus of substance. I doubt if we have analyzed the problem in depth. If we did so, there would probably be less conflict than there has been, at least in my impression, so far. Up to now we have argued from points of interest which were not all the result of deep enough analysis. I will ask questions this morning and not try to give answers.

There are a number of ways in which disagreement among us can be overcome. I would, therefore like to see emphasis on overcoming the dangers to the world economy through long-term cooperation, minimizing distortions of the market, insuring the adaptability and flexibility of the world economy, and having the developed countries, when possible, work out common approaches to the developing countries.

The specific problems involved here are the transfer of resources, debt, and commodities policy. With respect to resource transfer, I would like to increase the transfer of resources, and I am also willing to devote greater attention to debt. The number of our decisions point the way for further work, especially in the developing countries. With respect to commodities, these were given substance in the Nairobi declaration[12] and can be followed up in the CIEC.

We ought to focus on the program of the Group of 77, particularly the large number of commodity agreements they have proposed and their Common Fund. My Government has already made an examination of commodities with respect to their suitability for commodity

[12] See Document 305.

agreements. We have concluded that commodity agreements would produce losers as well as winners—it is not certain that LDCs would always be winners.

For instance, with respect to copper, the winners would be the U.S. and the Soviet Union, and the losers would be the non-copper producing LDCs and the importers of processed products. With respect to rubber, only Sri Lanka exports over 5% of its total exports in rubber. It would benefit, but a commodity agreement in natural rubber would speed up the shift to synthetic rubber. In general, on commodities, India, Sri Lanka, and Bangladesh would be on the side of the losers and not the winners. Moreover, there would be a high windfall profit for a few industrialized countries. Many developing countries would be on the loser's side, as they were as a result of the OPEC price increase.

We could, of course, have commodity agreements to stabilize some elements of the world economy, but the results could be more imbalance. It would hurt the developing countries and thus make it hard to settle the problem. For instance, so far we have found no way to cope with the oil windfall profits. If other windfall profits occur, they will also be hard to deal with.

In my view, the various conceptual paths put forth can be combined. We support the U.S. desire to provide credit through the IRB. This could be combined with a facility to reduce mono-structures in LDC exports, countries which export only one major product. It could also include the stabilization of LDC export earnings. I consider this the best way to stabilize the earnings of LDC commodity exporters. We must make a distinction between commodity agreements which stabilize prices and earnings stabilization programs to stabilize export earnings. In the latter, the interplay of price and supply is unaffected.

With respect to commodity agreements, with buffer stocks, some buffer stock funds could be linked in clearing arrangements. This would be like the U.S. proposal. In my view, we should approach this issue positively and set up a special task force to establish our proposals. This could be done in the shadow of the CIEC in Paris. We could invite other developed countries, especially others in the European Community.

Again on the issue of commodity agreements and buffer stocks, in the near future I am not afraid of an increase in the price of other commodities as was done in the case of oil. But we should make efforts to avoid disruptions. If commodity prices go up, it will raise questions for governments. How will commodity prices affect governments? And we must look to the financing of commodity agreements, since they will impose burdens on government budgets or the buyers of commodities.

We have done some analysis using 1972 figures—pre-oil price figures. France, for instance, imported $2 billion worth of products from the Nairobi list of the Group of 77. If we assume that to stabilize prices the costs would be 10% of the import cost, it would be $200 million which would have to be financed by the buyer, not only by the federal budget. Thus, there is an additional burden on the consumer, since he bears the additional burden of the price increase.

I stress what I said at the beginning. I am only raising questions, not giving answers. For instance, look at Page 2 of this paper. (German official distributes paper.)[13] If we consider commodity agreements on all 17 commodities, Angola would be benefitted as much as India, with a population of 600 million people. And Brazil would be benefitted by commodity agreements, with its 100 million people, as much as Malaysia with 11 million people. High on the list of beneficiaries would be Cuba and the Philippines. The poorest countries are not at all high on the list.

Also a number of developed countries benefit including Australia, South Africa, Canada and New Zealand, while a number are losers such as Belgium, Luxembourg, France, Italy, Germany, the U.S. and Japan. I do not have any figures for the Communist countries, but as a whole they would have been net losers in 1972; this is not true of the Soviet Union, but the other Communist countries.

This is only a small abstract of the detailed analysis we have done in Bonn. We have examined and analyzed the 17 commodities, one by one, and their impact on 140 countries in the world. My proposal is that we do such studies in common between us. We will see if our interests are homogeneous or not. This will help us, with a common point of view.

Secretary Kissinger: If you do this individually you could help those countries you want to benefit the most. In other words, you could forecast the effect on a case-by-case basis and respond on a selective basis.

Chancellor Schmidt: I agree. But even if we are successful in stabilizing prices that does not mean we will meet the demands of the developing countries. We worked very hard on the details on this. We call it the "Gymnich Encyclical." It is an enormous document. It took three days of Cabinet meetings to go over.

President Giscard: Is the conclusion of this study that with respect to organization of the market the objective ought to be price stabilization? In my view prices should be stabilized at neither the highest nor the lowest levels but at an intermediate level which is consistent with

[13] Not found.

production costs. The goal of organizing commodity markets is to reduce fluctuations. I do not think these figures are negative answers to the proposals we have been making.

Chancellor Schmidt: I agree, but the figures show that even if we are successful in stabilizing prices that does not mean much to the developing countries.

President Ford: But we can help certain countries on a commodity by commodity basis if we wanted.

Chancellor Schmidt: We could do that in some cases.

Foreign Minister Rumor: Following up UNCTAD and other similar meetings at Ministerial level, we did not hear any programs which would reduce the gap between developed and developing countries. In fact, there has been an increase in the gap and a process of deterioration in backwards societies. The developing countries are convinced that on the basis of a rational view of the distribution of world resources they can diversify their economies to increase industrialization. Western aid should aim at making such diversification easier. We need guidelines, such as those in Nairobi, which go in the direction of the NIEO.

Relations with the Third World ought to represent an interplay with the broad and diversified interests between the First and Third Worlds. This must be based on the objective of increased interdependence between the First and the Third Worlds.

Our goals should be to avoid sharp oscillation in the price of raw materials and problems of general interests, to help to ease the pain of economic crisis, to ease production of raw materials which require increases in production and to insure technology transfer not only for the benefit of backwards societies, but for the world economy as a whole. UNCTAD, on commodities, spoke of a Common Fund for encouraging investment and diversification in the developing countries. The problem of a Common Fund requires a lot of thinking and consultation.

Also we must examine very carefully the guidelines involving technical transfers to the Third World and therefore related directly to the responses for development and economic and political stability. It is essential to the well-being of all nations to take care to see that relations with the Third World are not based on policies which could lead to conflict.

President Ford: Our posture with respect to internationally traded commodities will continue to be a key issue in our relations with the developing world. The United States' policy objectives in this area are to reduce excessive price fluctuations, improve market access for processed products of developing nations, ensure security of supply for consumers, and increase investment for resource development.

Our differences with developing countries are in *how* the above objectives should be reached. It is neither our policy nor our intention to supplant market mechanisms or enter into price-fixing or production-limiting commodity agreements. Although we agreed at Nairobi to engage in a program of consultations on individual commodities, we are not committed to any particular outcome of these consultations. While we agreed to discuss the concept of a common fund for buffer stock financing in an exploratory meeting, early next year, we have made no commitment to participate in eventual negotiation of such a fund. We continue to believe the need for a common fund has not been demonstrated. Specifically we continue to object to the Common Fund for buffer stocks as proposed by the Group of 77.

The resolution on commodities adopted at UNCTAD by consensus failed to address the need to increase private investment for resource production. It is to meet this need that we put forward our proposal for an International Resources Bank. The Bank would not be a direct lender but instead would reduce the non-commercial, or political, risks of foreign investment in developing nations. In this way, it enables them to diversify and expand their export base. We regret that a resolution to study our proposal was not adopted at the Nairobi UNCTAD meeting, although we appreciate the support by OECD and other nations. We propose to advance the idea in other appropriate international forums including the CIEC. We will cooperate closely with the major industrialized nations in this regard.

Prime Minister Callaghan: Helmut's figures are graphic, but isn't it misleading to select only one year, for example one year Zambia could benefit because copper is high, in another year copper prices drop.

Chancellor Schmidt: Yes, but these were done assuming a stabilization period of five years, not one.

Prime Minister Callaghan: We must go back to first principles and not forget where we started from with respect to the developing countries. The problem is, as we said two years ago, a certain number of developing countries have mono-industries, that is they are heavily dependent on only one export crop—copper or sisal, etc. Problems in exporting this one crop can lead to political instability. What we intended to do was to examine the economic position of countries with one industry and help them avoid swings from good to bad years. This must be an overriding world objective. We should not lose sight of the limited objectives which we can really achieve. Our objectives should not be to break up the Group of 77. We should examine commodities on a case-by-case basis and link them to countries which are affected. And let us do this on an earnings stabilization basis which enables us to get back to first principles. I do not think there is any difference between us on this. As for techniques, I believe we can find ways of financing this without endangering our position.

President Ford: (to Prime Minister Callaghan) Thank you Jim. I think this morning's discussion was very useful. We will now adjourn for a brief lunch and return here at 1:30 for our final session, which will finish up with relations between developed and developing nations and then turn briefly to energy, after that we can discuss the communiqué.

Third Session: 1:30 p.m.[14]

Foreign Minister MacEachon: One of our problems is, in reading the Manila Declaration,[15] that the developed countries do not really have enough new or creative ideas, or concrete proposals for meeting the needs of the developing countries. There are some exceptions, some notable exceptions, for instance Henry's proposals in the U.N. and UNCTAD, including an International Resources Bank, and Minister Fourcade's ideas on a common fund. We ought to try to identify at an early stage some areas for early progress at the year's end. We will need to do this in the fall because there is going to be a Ministerial meeting in December;[16] this will be a high profile political meeting with the Ministers of the 27 CIEC member countries present. We should prepare early for this highly visible political event, which will be an important step in the ongoing dialogue. We should project this Summit as high level consultations at which we were concerned as to how to work together to insure success in this dialogue.

Prime Minister Miki: At Rambouillet we agreed on North-South cooperation. Since then we have had the beginning of the dialogue and UNCTAD. It is time we came up with ways to make the North-South dialogue a success. Our discussion so far has been focused on analysis, but the dialogue takes on new difficulties as it approaches an action oriented stage. The North-South dialogue remains the greatest challenge for all of our countries. There is a divergence of views and directions, but success is vital to peace and prosperity in the world. The United States has made excellent concrete proposals, especially Secretary Kissinger's IRB. We in Japan support these excellent pro-

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[14] The third summit session began at 1:30 and concluded at 3 p.m. It took place in the Salon Del Mar at the Dorado Beach Hotel. (Ford Library, President's Daily Diary) For a list of participants, see footnote 1, Document 148.

[15] Meeting in the Philippines from February 2 to 7, G–77 representatives agreed on a unified position for the UNCTAD session to take place from May 5 to 31 in Nairobi, Kenya. At the end of their meeting, the G–77 representatives issued the Manila Declaration, as well as a program of action, laying out a strategy for their relationship with the developed world and the improvement of their economic situation.

[16] The December 1976 CIEC Ministerial meeting was postponed.

posals. But some have failed to achieve the full understanding of many other countries. I therefore suggest that when we prepare to put forward new ideas we put our heads together in order to have a full exchange of views.

Our objective now should be to take account of the views of the developing countries to the greatest possible extent. The developing countries want the maximum stabilization of exports. The question is whether these arrangements will function well or will excessively distort the market. We in Japan advocate proposals which can provide benefits to growers of primary products. On a commodity by commodity basis we believe we can find techniques for dealing with individual commodities.

The efforts of the developing countries themselves are important but not sufficient. We should step up aid, but we need to give aid to the non-oil exporting developing countries, and to provide assistance to help developing countries overcome their food problems. We in Japan emphasize the production of food stuffs and agriculture in general. We in Japan will also pay more attention to the Asian nations needing external help. For instance, we need further help from our colleagues here in supporting the Asian Development Bank. We have strong desires to play a constructive role in this area.

Finally, let me add another point. We have now been to two summit meetings—one held at Rambouillet, in France, and now this meeting in San Juan in the Western Hemisphere. We think this is an important idea and enables us to work closely with our European and North American colleagues. If there is a consensus that another meeting be held we would like to hold the third conference in Japan—in Asia. We are not asking for a consensus on this here, but only that you keep our strong desire in mind.

President Ford: Thank you Mr. Prime Minister. We will do that. We have still some time to discuss energy. Prime Minister Trudeau will "break the ice."

Prime Minister Trudeau: In a symbolic way, your use of the words "break the ice" leads me to remark that a large part of our populations will soon have to "break ice" if we cannot find answers to our energy problems in a reasonably short period of time. In a few words, the crisis of 1973 showed us how vulnerable we were to certain forms of economic pressures on the supply and resource side. But significantly, despite the five fold increase in the price of oil, which did significantly add to inflation, the dire predictions of doom did not fulfill themselves. Our economies, and our democratic market system, have proved to be resilient.

In addition, we have discovered that OPEC itself is also vulnerable. It is not able to put its earnings to good use without the developed countries. And it has learned that there are limits to its interests in imposing its will on us, since the recession also hurt it. The whole world is now wiser since we have all recognized the meaning of interdependence. In fact, there was no price increase at the OPEC meeting in Bali,[17] and after the very significant increase of 1973 and early 1974 there has been no real increase in the oil price, with a nominal increase of only about 20%. In fact OPEC has realized the limits to the degree to which it can push up the price in its own self interest. We all recognize of course that if there is renewed conflict in the Middle East we could still be targets of various forms of boycott by Middle East nations. This underscores the need for peace in the Middle East.

There is also a greater realization that we have to make greater efforts to achieve self reliance in the energy field. Self reliance is better than, and distinguished from, self sufficiency or interdependence. It says that we should mainly rely on ourselves but not exclusively. In reducing dependence we should look to other sources of energy, like coal. I therefore support the U.S. proposed efforts in the IEA to help us in dealing with complex elements of the new energy technology.

In the area of conservation, I believe our governments are ahead of our electorates. I do not have a good knowledge of other countries, but in the U.S. and Canada, in spite of increased prices on oil and gas, our experience is that people buy as many big cars as before, which brings home recognition of the problem that we are apparently not getting through to our people. This Conference can help our people to understand the need for conservation.

A second point is that there are some dangers in nuclear energy. But we believe nuclear is important. If we did not have nuclear facilities to bridge the gap through to new technology in the future there would be a danger that OPEC's control would be greater. If we did not have nuclear, there would be nothing between the short and medium term alternatives when supplies of oil were cut off. It is useful for us to understand the dangers of nuclear power and to deal with them in four areas: nuclear war, proliferation, accidential mishandling and terrorism.

In all these areas of the energy problem we can only move as far as we can get our populations to move with us. It is necessary to inform our citizens in order to create the views and beliefs and behavior which we believe to be right.

Prime Minister Miki: Mr. President, to us in Japan the problem of energy is urgent. We depend heavily on the international oil market

[17] OPEC met at the Ministerial level in Bali, Indonesia, from May 27 to 28.

since we have none domestically. In the past dependence on OPEC countries has been 3.1 million barrels per day, now it is 2.7 million barrels per day. Nonetheless, the economic recession which has decreased consumption is now over, and there will now be an increase in oil consumption. As a result demand will reach 1973 levels in 1977. Thus, we are concerned about the Middle East, which is still unstable. We are also concerned about the problem of oil supply and price, and an increase in the price cannot, of course, be ruled out. We therefore look to the oil situation with caution and care. We should continue dealing with the oil producing countries which will enable us to have checks on their ability to increase prices. We need a dialogue, and we cannot have confrontation.

We also strive toward cooperation with the developed countries within the IEA. We need greater efforts so that our cooperation will increase by leaps and bounds. Particularly, we need further cooperation on research and development. We need to fulfill the R and D potential of industrialized countries which is very great. Some steps have been made, but it is important to improve R and D in this area.

Prime Minister Moro: There have been encouraging signs since Rambouillet in the energy area, especially with respect to the OPEC price decision. The important thing is to persuade OPEC that price increases also hurt them.

Prime Minister Callaghan: I think we can all agree that we are better off to have faced the oil crisis now, but we still have a long way to go with dealing with this problem. We must look to newer fuels as well as relying on those we have at present. With respect to U.K., our oil development is precisely on target. Production will be 20 million tons from the North Sea in 1976. By 1980 we will have self-sufficiency. At that point there will be no demands on anybody since this will be very helpful in supporting our balance of payments.

President Ford: President Ford discussed details of the U.S. energy policy, explaining what progress the U.S. had made.

There ensued a discussion of the final declaration.[18]

[18] The text of the final joint declaration issued on June 28 is printed in *Public Papers: Ford, 1976–1977*, Book II, pp. 1922–1926. President Ford's remarks at the conclusion of the summit are ibid., pp. 1920–1922.

150. Memorandum of Conversation[1]

Washington, June 29, 1976.

PARTICIPANTS

President Ford
The Cabinet
Brent Scowcroft, Assistant to the President for National Security Affairs

SUBJECT

Puerto Rico Economic Summit

President: I want to express my appreciation for the fine staff work that was done in preparation for the Puerto Rico meeting. The two meetings we've had—at Rambouillet and at Puerto Rico—clearly indicate to me there is an interdependence among the industrial powers in the economic, political and security areas. Here we were meeting to avert a crisis, not to cope with one. At Rambouillet, we had been in the midst of a recession. I think this is the way for the heads of government to meet.

We covered the major areas: economic recovery and expansion [some description]; and the monetary and financial areas. We agreed each country should try to avoid imbalances and help with any temporary imbalance in conjunction with a firm program to correct the situation. On North-South relations we agreed we had to have a cooperative—not a competitive—approach. On trade and investment, we agreed to try to complete the Multilateral Trade Negotiations by the end of 1977. In the area of East-West trade, we need to monitor it to insure that trade enhances Western objectives. There has been a massive increase.

In conclusion, I am convinced this nation has the leadership among the industrial democracies. We clearly are in a position of leadership—across the board. Henry, do you want to add anything?

Kissinger: The most important part is that the solidarity of the Western democracies is the best guarantee of peace. The industrial democracies have 60% of the world GNP. The press has commented

[1] Source: Ford Library, National Security Adviser, NSC International Economic Affairs Staff Files, Box 4, Presidential Subject File, Economic Summits—Puerto Rico (8). No classification marking. All brackets are in the original. The meeting was held in the Cabinet Room. The meeting began at 11:37 a.m. and concluded at 12:44 p.m. (Ibid., President's Daily Diary) President Ford's talking points for the meeting, contained in a June 28 memorandum from Scowcroft with a notation that the President had seen the talking points, are ibid., National Security Adviser, Trip Briefing Books and Cables for President Ford, Box 22, June 27–28, 1976—Puerto Rico Economic Summit, General (11).

on the meeting being political. But for whatever reason it was done, for six heads of state to set aside two-to-three days at the call of the President—that in itself is a testimony to the President's leadership.

Second, the level of the discussion was most impressive. There was a level of discussion one usually doesn't find—there were no canned speeches. On East-West trade there was a great discussion between the economic and political motivations of the trade—a discussion which would have been unthinkable a year ago. We should not expect great pronouncements from these meetings. If there were every six months, it could be a sign something was wrong. On East-West trade, we just wanted to raise the issue, but we got all the countries to agree that this trade had to be looked at in more than commercial terms—rather in terms of overall relationships and in a coordinated way among us.

The same with North-South relations. Virtually all North-South aid comes from these states or their close association. So the developed democracies need not be defensive at international conferences—or act competitively with each other. We made a great contribution in this direction on this subject.

Not since the early 50's has there been such a spirit of cooperation among the allies. All this talk about the Soviet bloc being on the offensive and the democracies on the decline just isn't true. These leaders are dynamic and the West under this sort of coordinated action can handle all the problems before us easily.

President: Bill?

Simon: The key aspect was the informality of the meeting and the frankness and honesty of the dialogue. The President was impressive and clearly gave the others confidence in him as a leader of the western world.

[Discussed the super tranche idea.]

I found the East-West trade discussion the most stimulating and I think this is one of the most challenging areas before us. We have had an explosion of credit to the East. On commodities, Schmidt gave a pitch which sounded like Treasury arguing with State. All in all, I can only agree that the depth which these subjects were discussed was most impressive.

Greenspan: It was an extraordinary meeting, especially in the context of other meetings I have attended. There was a real intellectual grappling with major philosophical issues.

[Rambling discussion]

We may have developed a new form of international institution. We have broken down the formality and protocol of summit meetings so that true dialogue can take place.

President: One of the big changes between this and Rambouillet was the discussion about competition to extend credit to the Soviet

Union. There was no discussion of the magnitude of the credit. At Puerto Rico, Henry pointed out that this credit gave us leverage which could skillfully be utilized and there was general agreement with that concept. [Discussion about Eastern debt, possibility of default, etc.] We discussed the situation of Poland, which announced a price increase and then had to rescind it.

Kissinger: This was a remarkable phenomenon. To imagine that these monolithic dictatorships are so weak they can't impose this kind of decision—which makes economic sense and has profound political implications.

Further, the idea that the Soviet Union might have to reschedule its debts is also of profound political significance. The idea that the Soviet Union, which claims to have the most advanced economic system in the world, would have to show this kind of economic bankruptcy, is really of great political significance.

Richardson: [Suggested an NSC study of the political and economic relationship of East-West trade.]

151. Memorandum From the President's Assistant for National Security Affairs (Scowcroft) to President Ford[1]

Washington, October 9, 1976.

SUBJECT

Secretary Simon's Meetings with Finance Ministers of France, Germany, and the UK

Bill Simon's memorandum (Tab A) reports on his secret discussions on September 15 in Paris with his counterparts from France, Germany, and the UK.[2] The major subjects were:

—*Economic and financial conditions in the four countries.* French Prime Minister/Finance Minister Barre outlined his stabilization program to deal with inflation. He described France's rate of recovery as satisfactory, but described inflation, led by wage increases, as too high and past monetary policy as too expansionary. Healey described the UK's efforts to stabilize its economy—efforts which Bill feels have been inadequate as reflected by the UK decision to negotiate a standby agreement with the IMF in order to repay swap loans extended this summer by the US and others.[3]

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[1] Source: Ford Library, National Security Adviser, Presidential Agency Files, Box 18, Treasury Department, 5/24/76–10/27/76. Secret. A stamped notation indicates the President saw the memorandum, which he initialed. Sent under cover of an October 1 memorandum to Scowcroft from Hormats in which he notes: "The discussions reveal a number of significant problems facing the world economy, especially the massive debt positions of a number of nations and the still uncertain outlook for the current recovery. Both problems have come to worry me considerably over the last several months as the data on inflation, levels of unemployment, and debt of the industrialized democracies and major non-OPEC developing countries begins to come in. I am in the process of preparing a more detailed memo for you on this issue—but you should be aware of the very real risk that the international economy is in for a very rough period in coming months."

[2] Attached but not printed is an undated memorandum from Simon to Ford enclosing Simon's summary of the discussions, which took place at Barre's residence in Versailles on September 15 from 2 until 11 p.m.

[3] See footnote 2, Document 146. On September 29, the British Government announced its intention to seek a $3.9 billion standby loan from the IMF.

—*The overall pattern of world payments.*[4] The Ministers agreed that because of the magnitude and persistence of payments deficits in the non-OPEC world, and the continued high price of oil, more emphasis must be placed on domestic corrective actions to reduce payments imbalances.

—*Transitory financing for countries in the process of adjusting.* The Ministers reiterated the Puerto Rico agreement that transitory financing could best be provided by the IMF and that this might require supplementing the IMF's resources by activating the General Arrangements to Borrow (GAB), though they agreed not to make any announcement at this stage.[5]

—*North-South problems.* The Ministers agreed that generalized debt rescheduling is unwise and would probably be damaging to most developing countries; Simon and the German Finance Minister also reaffirmed their objection to the idea of a common fund for the financing of commodities but agreed to examine ways of dealing with the commodity problem in a way that would be satisfactory to the major industrialized countries, drawing those now in favor of a common fund away from that position.[6]

Simon's meetings proved to be an opportunity for an extremely useful discussion of national problems, problems affecting the industrialized world, and North-South relations. While serious difficulties

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[4] In the summary of the discussions, Simon wrote: "I expressed my deep concern about the size of the prospective '77 deficit in the non-OPEC world. We are back to '74 oil crisis levels and the financing of this deficit is made difficult by the year after year large increments in debt of the developed countries as well as developing world. I don't believe that this is a tenable situation and indicated as such. Raymond Barre agreed fully, Apel tentatively, and Healey, for understandable reasons, reluctantly."

[5] In the summary of the discussions, Simon wrote: "We agreed, given the prospects for heavy drawings (as outlined above [by the United Kingdom, Italy, and Mexico]) that we would activate the General Arrangements to Borrow (GAB), but not until after the IMF–World Bank meetings in Manila in early October." Simon noted that they also "agreed to avoid emphasizing at Manila the extreme nature of the payments, debt, and adjustment problems. The fear, pressed hard by Apel, was that an aggressive description of our misgivings would serve at this stage for a sharp escalation in developing country demands for financial assistance—help that the IMF is not in a position to provide even if it were advisable."

[6] In the summary of the discussions, Simon wrote on the issue of commodities: "Barre reviewed the French position and did so in a way designed to open the door for an effort to develop areas of agreement. This was greeted by Apel with an affirmation of the U.S.-German opposition to the idea of a common fund for financing of commodities." Commenting on the overall discussion of North-South issues, Simon continued: "In a sense it was an incomplete conversation, and yet I believe I discerned a willingness on the part of the French to compromise, to move away from their position, if we could agree on a list of commodities that would be satisfactory for the establishment of buffer stocks. The French proposed that such an examination be conducted among the four, (U.S., FRG, UK, France) and we agreed."

continue to confront individual nations and the world economy, high-level discussions of this type hold the greatest promise of ensuring a common industrialized nation attitude and firm cooperation consistent with the political impetus given such cooperation by the Rambouillet and Puerto Rico Summits.

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152. Memorandum From the President's Assistant for National Security Affairs (Scowcroft) to President Ford[1]

Washington, January 7, 1977.

SUBJECT

Letter from French President Giscard d'Estaing on New Economic Summit

President Valery Giscard d'Estaing has written (Tab A)[2] on the subject of his proposal for another economic summit of the industrialized democracies. He writes that the meeting, which he called for publicly on the occasion of his talks with Prime Minister Andreotti in December,[3] would be of value, taking into account:

—the fact that economic recovery and the more favorable growth for 1977 anticipated at the time of the Puerto Rican summit has not been as sustained as earlier hoped for;
—the new meeting would permit consideration of joint actions that might be taken in light of current, less favorable developments; and
—it would permit an exchange of views on the prospects for the Conference on International Economic Cooperation (CIEC).

President Giscard d'Estaing informs you that he has also proposed the meeting to President-elect Carter.[4] In closing, the French President expresses his personal appreciation for the contribution you have made to improve US-French relations.

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 141, Geopolitical File, France, Chronological File, Oct. 1976–Jan. 1977, n.d. Confidential. Sent for information. A stamped notation indicates Ford saw the memorandum, which he initialed.

[2] Tab A, President Giscard's December 20, 1976, letter to President Ford, is attached but not printed.

[3] President Giscard publicly proposed the convening of a third economic summit on December 2, 1976.

[4] On November 2, 1976, James Earl Carter, Jr., was elected the 39th President of the United States.

In his proposal to the President-elect, Giscard d'Estaing suggested "the first part of the second quarter of 1977" as a good time for such a meeting, to be held in Europe. President-elect Carter has publicly endorsed the idea of a new economic summit. In his response, through State channels, to Giscard d'Estaing,[5] he suggested that perhaps "the end of the second quarter of 1977" to be a better time for the meeting, stressing his desire to have adequate preparations, noting that he would be giving his early attention to the U.S. and international economic situation upon taking office and suggesting that arrangements should be made for experts of the countries involved to consider preparatory meetings for the summit.

This memorandum is for your information. I will staff separately messages to selected Heads of State including Giscard, which will present an opportunity to acknowledge his words of support as you leave office. No action is required at this time.

[5] President-elect Carter's response to President Giscard was transmitted in telegram 581 to Paris, January 4, 1977. (National Archives, RG 59, Central Foreign Policy Files)

Trade Policy

153. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to Secretary of the Treasury Shultz[1]

Washington, January 3, 1973.

SUBJECT

"Why Trade Legislation"

1973 has been characterized as "The Year of Europe." Clearly international economic problems are one of the major open points of discussion between the US and Europe. At the time of the Smithsonian Agreement in December 1971[2] the European Community and Japan, at our urging, agreed that multilateral trade negotiations should begin in 1973. At the World Bank and Fund Meeting in September of 1972 the US again called for trade negotiations.[3] At the EC Summit in October of 1972 "the Nine" restated their readiness to negotiate, and the President welcomed their statement.[4] As a result of these actions, formal negotiations are slated to be launched in GATT late this year, with preparatory talks currently underway. Unless some authority is requested of the Congress there will be broad disbelief in the degree of US interest in these negotiations.

The specific arguments in favor of Trade Legislation in 1973 are that it is necessary:

—to sustain the impetus of the international economic reform process launched by the President on August 15, 1971;[5]

—to maximize our chances of breaking down *existing* tariffs and non-tariff obstacles to expansion of our industrial and agricultural exports;

—to neutralize *new* discriminatory tariffs *before* they are fully in effect in Europe, with their trade distorting and adverse investment effects;

[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS Trade—Volumes I & II 1973/74. No classification marking.

[2] See footnote 4, Document 3.

[3] See Document 1.

[4] For President Nixon's October 27 remarks, see *Public Papers: Nixon, 1972*, p. 1049.

[5] See footnote 9, Document 3.

—to arm ourselves to act unilaterally, if necessary, to correct inequities, prevent market disruption, and protect our balance of payments;

—to support our political and security negotiations in Europe and the Far East by at best maximizing our leverage and at worst containing in a negotiating forum the politically damaging impact of competitive trade disputes;

—to offer in Congress a constructive Administration alternative to the extreme protectionism of Burke–Hartke;[6]

—to maintain foreign policy credibility by fulfilling the President's commitment to seek generalized preferences for developing countries and MFN for Romania and the USSR.

The underlying arguments for trade legislation leading to negotiations are some even more basic considerations:

—The national security of the United States requires us to play a leading world role, but our economic capacity to do so is being constrained by the present imbalance in the world monetary and trading system;

—While domestic prosperity is less heavily dependent on trade than most other countries, we have an immense political, security, banking, investment, and trading stake in the international environment as well as growing reliance on imported raw materials;

—We could not slip into protectionist economic policies and long avoid a relapse into an isolationist foreign policy.

Thus, *the true choice before Congress* will not be a narrow one concerning trade policy, but *a basic issue of national direction for the United States.* The task for the Administration is to cast trade legislation in the broad context of the President's foreign policy. The legislative question is what response will be forthcoming from Congress to an initiative put in this global context by a President who has won an overwhelming mandate from our citizens. It is argued that Congress—despite its generally protectionist bias and the AFL–CIO defection from liberal trade—can most readily be persuaded when the economy is strong, unemployment is declining, inflation is held in check, the trend of the trade accounts is reversed, and peace is achieved in Vietnam. Early 1973 should see this unique set of conditions prevail.

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[6] Representative James Burke (D–Massachusetts) and Senator Vance Hartke (D–Indiana) had introduced legislation calling for import quotas and tax law changes designed to reduce the appeal of U.S. investment abroad.

To be successful, the Trade Bill must be seen as meeting real problems and not just as a warmed-over Kennedy Round.[7] It must provide authority for aggressive action to protect our position if need be. This will also provide negotiating leverage to the President who most of all needs flexibility, up and down, if he and his team are to succeed.

Such a bill would contain needed and important trade policy management provisions, but would be distinguished from past trade legislation in four major respects:

1) *Boldness and flexibility for both trade liberalization and restriction,* by:

—Authority to *reduce* tariffs, if others do likewise, or to *raise* tariffs as needed to achieve equity;

—Authority to negotiate non-tariff barriers, including agriculture,[8] subject to Congressional veto of results;

—Eased access to safeguard procedures and strengthened Presidential authority for dealing with problems, including market disruption.

—Authority to act, protectively or liberally, depending on circumstances, for balance of payments reasons.

2) *Geographic coverage beyond principal trading partners,* by:

—New authority to negotiate and implement trade agreements with Communist countries, including the PRC, citing the Soviet agreement as a model;

—Temporary generalized tariff preferences for LDCs designed both to improve LDC earnings (within the limits of a tight competitive need formula and an exclusion list, e.g., textiles) while putting pressure on to break down the European Community system of reverse and special preferences.

3) *Extending scope of bill beyond traditional trade problems* by:

—Authority to negotiate on international investment rules and business practices to assure a fairer system for United States business abroad;

—Possibly tax reforms to reduce somewhat incentives for overseas investment and operations;

—Possibly some relaxation of anti-trust laws on overseas business and exports;

—Limited authority to suspend protection for anti-inflation purposes.

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[7] The Kennedy Round GATT multilateral trade negotiations was held in Geneva from 1964 to 1967.

[8] We might also seek authority for implementing negotiated changes in domestic agricultural policies in the 1973 Farm Bill. [Footnote is in the original.]

4) *Reform of out-dated statutes* relating to unfair business practices [(Section 337),[9] Antidumping, and countervailing] to clarify policies and to strengthen our hand in negotiating fairer international rules.

To win needed labor or labor influenced votes, the bill would provide improved employment upgrading mechanisms compatible with present and prospective Administration manpower policies, as well as limited tax reforms and strengthened safeguards.

The main thrust of the bill would be to provide the Administration the tools needed to fashion a more equitable and—if others agree—a more open world economic system.

The Congressional debate will be hard. Enactment will require a major Presidential commitment, high priority, and all-out Administration support.

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[9] Section 337 of the 1930 Tariff Act deals with "Investigations of Unfair Practices in Import Trade." Brackets are in the original.

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154. Paper Prepared in the Office of the Special Representative for Trade Negotiations[1]

Washington, undated.

A Proposed Design and Outline of a Comprehensive Trade Bill

Trade legislation over the years has been primarily focused on authority to participate in international multilateral negotiations and to lower tariffs. In the late '60s pressures developed for major legislative proposals to restrict imports into the United States in various ways. Most of these were related to the concept of "orderly marketing" or orderly growth of imports in "sensitive" markets for domestic industries. In the same period, international nontariff barriers increased, tariffs were lowered in industrial areas, but discriminatory tariff schemes were introduced, and protection was either not lowered or in fact in-

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[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS Trade—Volumes I & II 1973/74. No classification marking. An attached January 3 memorandum from Eberle to Shultz reads: "Attached, for your information, are copies of the material on the proposed Trade Bill which I mentioned to you last week." According to an attached note from Shultz's Executive Assistant, Ronald Brooks, the material was forwarded to Shultz on January 18.

creased in the agricultural area. Consequently, we should focus any proposed legislation in 1973 in a way that recognizes the change in times, and the specific domestic concerns in the United States, but at the same time take into account the interdependent relations we have with our trading partners.

New legislation should be designed to distinguish it in both appearance and substance from the past traditional legislative proposals made by the Executive. The substantive features should emphasize equally (1) the control and management of trade issues by the United States domestically, and, (2) provision for authority to negotiate a more open and fairer trading market and system in the world.

Such a bill could be entitled the Trade Reform and Expansion Act of 1973. The first title of the bill would revamp present authorities for the day-to-day management of trade issues. This would grant the necessary authority to manage a domestic safeguard program. Such a program would include the following: (1) provision for broader import relief and its application; (2) provision for adjustment assistance; (3) authorization on a very limited basis to negotiate minor agreements supplementary to GATT, to withdraw tariff concessions, to conclude minor agreements on particular products, and to provide for the payment of compensation where required; (4) expanding the President's authority to retaliate against foreign import restrictions; (5) provisions for safeguarding the national security; (6) authorizing the President to impose import restrictions in a serious balance of payments emergency; (7) providing a coordinated system for handling unfair competition—antidumping, countervailing duties, and Section 337 of the Tariff Act and (8) organizational provisions, such as clarification of the STR interagency functions.

These provisions would become effective *immediately* upon passage of the bill, and provide alternative answers to many proposals raised by labor and represented by the Burke–Hartke Bill (except limitations on investment, licensing and tax provisions).

Title II would include the authority for new negotiations on nontariff and tariff barriers. Tariff reductions would become effective only upon agreement with our trading partners after at least two or three years of negotiations and would be phased in over some lengthy period of time. The Congress should also provide strong encouragement or authority to negotiate new rules for nontariff barriers. This would allow us to seek elimination of nontariff distortions to trade, or at least develop new, equitable rules based on common commitments. The lowering of trade barriers and development of new codes or rules, in conjunction with new methods of management of our domestic programs should facilitate the evolution of what we can describe as a more open and a more fair system.

Such a more open and fairer system can only be achieved by managing both (1) the domestic trade problems by a domestic safeguard system, i.e., prevent abrupt market disruptions and acting affirmatively on matters which affect our exports, and (2) by negotiating a better multilateral system and lowering trade barriers; i.e., more equitable rules, lowering tariffs to reduce preference, reducing nontariff barriers to increase our export possibilities (agriculture, etc.), and to stop more barriers on exports.

Other titles of the bill could include such matters as (1) trade relations with Communist countries, (2) generalized preferences, (3) authorization for GATT appropriations; (4) Congressional participation; (5) requirements concerning negotiations involving independent agencies (Tariff Commission, etc.); (6) amendments to Automotive Products Trade Act; and (7) various technical matters.

Attached is an outline of a bill[2] which ties together such a concept of domestic safeguards, lowering of trade barriers and unfair practices in a way that should allow the negotiators to work toward a system of a more open world for American exporters, while offering possibilities for avoiding abrupt market disruption domestically while such negotiations are going on.

This approach would also be consistent with negotiations taking place in other economic and political arenas, by providing for managing the trade issues by both positive actions and negotiations.

[2] Attached but not printed.

155. Memorandum for the Files by the President's Assistant for International Economic Affairs (Flanigan)[1]

Washington, January 4, 1973.

RE

1/4/73 Meeting with Wilbur Mills

1. Mills apparently had no specific agenda other than his concerns regarding the President's order allowing 25 million pounds of non-fat dried milk imported into the country. However, we did have a long and general conversation which did elicit some information regarding trade.

2. Mills said that he believed that trade legislation will be the hardest piece of legislation to pass that will come before his committee in 1973. However, he did believe that the committee would be able to report out a bill after six weeks of hearings and that such a bill could be passed.

3. Regarding implementing authority for the Executive, he felt strongly that it was important that the Bill request from Congress authority to implement tariff reductions and certain specific changes in non-tariff barriers. He feels it would be a mistake (and perhaps even unconstitutional) to "give the Congress a string" on negotiated agreements in this area. By that he meant that the Bill should not propose bringing a whole trade agreement back to Congress for approval.

4. Regarding adjustment assistance, Mills feels that any adjustment assistance package that doesn't carry a price tag of at least $.5 billion would be useless in gaining labor union support. He believes this would be much too large a number to justify economically. In a discussion of the "Shultz alternative" to traditional adjustment assistance, he seemed to warm up to that idea.

5. Mills strongly suggested that the Bill should not undertake to "whack the multinationals." He feels that the multinationals are a positive factor in our economy, and that nobody, including labor unions, has either a reason or a method for dealing with them.

6. Mills feels that if any tax proposals which would be helpful to the Trade Bill are to be made, they should be made either prior to or simultaneous with the Bill itself. In other words, we should not hold

[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS Flanigan, Peter M., 1974. No classification marking. A copy was sent to Shultz and a stamped notation at the top of the memorandum reads: "Noted: GPS."

tax proposals that would be helpful for a Trade Bill but that might be submitted after the Trade Bill.

156. Memorandum From the Deputy Secretary of the Treasury (Simon) to Secretary of the Treasury Shultz[1]

Washington, January 25, 1973.

The Administration has been proceeding on the assumption that trade legislation should be sent to the Hill early this year. I believe this assumption bears close re-examination.

Admittedly, there are persuasive reasons for proposing legislation, principally the fact that the failure to submit a bill would leave a vacuum which the protectionists would be certain to exploit. It is the old story of not being able to beat something with nothing.

At this moment, however, it is difficult to determine what kind of bill to send up. A bill which fails to deal strongly with legitimate concerns in the trade area would tend to weaken the Administration's goal of heading off restrictionist trade legislation. If enacted, such a bill would also fail to provide the authority the President would need to shape a genuinely equitable trading system in the coming years. On the other hand, too strong a bill would feed "red meat" to the protectionists. It would, in effect, lend legitimacy to their position and thus might lead in the end to the enactment of an unacceptably restrictive bill.

These problems aside, there are other, more basic reasons for reconsidering our position. The conflict with the European Community and Japan over trade issues is rapidly taking on an important political dimension. Increasingly, trade issues are affecting the political relations between ourselves and our trading partners and, in turn, the economic climate is being affected by political developments.

We have probably passed the point, if it ever existed, where the outstanding trade issues could be successfully dealt with in an economic forum apart from a broad consideration of political/military is-

[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS Trade—Volumes I & II 1973/74. No classification marking. Simon did not initial the memorandum, but a handwritten note at the top of the memorandum reads: "Orig ret'd to Simon 2–12–73." Another handwritten notation appears to be a "G" written in Shultz's hand.

sues. A successful resolution of economic issues would most likely be achieved if it were possible to offer acceptable trade-offs in the political/military area.

A striking example of the link between economic and political developments is the action taken by Japan to reopen economic relations with China following the President's actions of August 1971 and his trip to China last May.[2] In Europe the enlargement of the EC and its effort to create a massive preferential trading system is only in part economically motivated. To a significant degree, the EC is seeking greater foreign policy independence from the United States. With respect to the preferential system, members of the European Commission have often stated their objectives of designing the system, in part, to relieve the United States of its foreign policy "burden" in the Mediterranean and Africa.[3] Even in the United States, our weakening international economic position is seen as diminishing our prestige and our ability to influence events in the world.

If it is true that the trade conflict has a larger meaning than the domestic "meat and potato" issues usually cited, then our efforts to settle them on this basis is likely to lead to frustration. Our relations with our trading partners are likely to grow more embittered, threatening achievement of the President's major goals in the political/military area.

The experience of the past several years would seem to bear out this proposition. For the most part, we have been conducting trade negotiations with the EC at a relatively low level of representation and largely on a technical basis. Whatever progress has been made has been slight. It has served to paper over underlying differences rather than to resolve them. As for the future, serious doubts exist about the willingness of the EC to make meaningful concessions at the new round of trade talks scheduled to begin this fall—not to speak of their interest in having talks at all.

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[2] On July 15, 1971, President Nixon announced that he would travel to the People's Republic of China in the first half of 1972 "to seek the normalization of relations between [the United States and the People's Republic of China] and also to exchange views on questions of concern to the two sides." The full text of the President's announcement is in *Public Papers: Nixon, 1971*, pp. 819–820. A month later, on August 15, Nixon announced his New Economic Policy. Both announcements came as great shocks to the Japanese Government. President Nixon visited the People's Republic of China from February 21 to 28, 1972; from May 22 to 30, 1972, he visited the Soviet Union. In referring to Nixon's May trip to China, Simon has confused the President's trips to the two leading Communist countries.

[3] The EC concluded a number of preferential trading arrangements with non-EC countries, such as Spain, as well as with LDCs from all over the world, including those in Africa.

With the EC in particular we seem to be on a collision course with both sides digging in for a confrontation which in the end can only be mutually damaging.

Our goal is clear enough: to avoid damaging restrictive legislation while giving the President the time and the means to deal constructively with the very real issues that do exist.

With 1973 to be "the year of Europe," what better way to begin than for the President to visit the European capitals early this year. From the point of view of the dilemma facing us on trade, such a trip could offer substantial advantages:

—Having begun the process of "normalizing" relations with the Communist powers and with the Vietnam war behind him, the President has a rare opportunity to make significant gains in Europe.

—Economic and trade issues could be discussed at the highest level and in the context of major political/military issues of mutual concern.

—The protectionists in the U.S. could be held at bay while such talks were in preparation and underway.

—The Administration could defer sending up trade legislation which might reduce the President's flexibility in the event he goes to Europe this year.

—A decision on trade legislation—whether to send up a bill and, if so, what kind of bill—could be made against the background of any breakthroughs or understandings which the President might achieve. A significant gain on agriculture, for example, would have a dramatic impact on the Hill and substantially improve chances of getting constructive legislation.

—A trade bill sent to the Hill following a European summit would stand a far greater chance of passage if the President were able to say that it was a necessary part of mutually beneficial agreements or understandings of a broad foreign policy nature.

—A trade bill would stand a better chance of enactment if considered later in the year after unemployment had fallen even further in response to the economic upturn now underway.

This approach offers potentially important advantages and relatively modest risk. I believe it should be given careful consideration as an alternative to sending up a trade bill in the near future. A "Nixon round" on trade talks would be far more likely to succeed than under the current conditions.

157. Memorandum for the President's File by Secretary of the Treasury Shultz[1]

Washington, February 7, 1973.

SUBJECT

Meeting of Wednesday, February 7, 1973, 3:30 p.m. with the President, Congressman Wilbur D. Mills and Secretary Shultz

1) The President explored Mills' interest in having the President appear some time at Hendrix College (Mills' alma mater) and Mills assured him he would be welcome at any time. Mills noted the interest at the college in training people for careers involving work abroad.

2) The President outlined to Mills his hope for a personal relationship that would be characterized by candid discussion between the two of them. The President expressed his desire to explore problems in advance (tax proposals for example) so that the President's proposals would be in the ballpark.

3) The following points on the trade bill were made:

a) Mills notes MFN problem with Russia and suggests that the President use Congressional attitudes as a bargaining lever.

b) Mills expressed view that protectionist pressures are strong and therefore we must be wary in introducing a trade bill.

c) Mills suggests the President impose a surcharge to stop the flood of imports, with a declining percentage over three years: 15 percent–10 percent–5 percent.

d) Mills commented on pension legislation allied to the trade bill and suggested provision for a pooling arrangement among contractors in an area.

e) The President expressed the view that Generalized Preferences should be drawn in a manner that favors Latin America and Mills agreed.

f) Mills welcomed the consultation but said the President must do what he thinks is right than seek endlessly for a consensus.

4) The following points were made on taxes:

a) The President stated his commitment to relief of the property tax on the elderly and of the burden of tuition to private education. Mills agreed.

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[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, Box 91, President's Meeting File, Memoranda for the President's File, Beginning Feb 4 (1973). No classification marking. The meeting took place in the Oval Office. The President met with Shultz and Ehrlichman from 3:15 to 3:44 p.m., at which time Mills entered the room and Ehrlichman left. The President then met with Shultz and Mills from 3:44 to 5:11 p.m. (Ibid., White House Central Files, President's Daily Diary)

b) Mills expressed his desire to get the Government out of the position where it takes more than 50 percent of any person's income and allied this to his desire to block conversion of income into capital gains. He would also apply his 50 percent rule to estate and gift taxes. His proposed method of achieving these goals seemed obscure to me.

5) The meeting was most cordial in tone.

George P. Shultz

158. Memorandum From Secretary of the Treasury Shultz to President Nixon[1]

Washington, February 14, 1973.

Bill Rogers and I had two lengthy sessions with George Meany[2] and his key aides,[3] discussing trade legislation. We went over your ideas in some detail, and left them with an outline of possible proposals. The discussions went well.

Meany's reaction to your trade proposals was good. "Tell the President I like the way he is approaching this. I like the idea of giving him negotiating levers he can use to get a better deal." Of course, he wants to consider the matter further and in more detail before any decision or statement is made by him.

He is worried about Congressional attitudes right now, especially their willingness to put more power into the hands of the President. He thinks it will be a tough fight.

On the other hand, he says that trade problems are now the number one concern of union membership and there will, therefore, be strong pressure to take action, perhaps stronger than we would like.

I believe we have better than a 50–50 chance of getting implicit agreement by Meany to our approach.

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[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, President's Handwriting, Box 20, Feb 1–15, 1973. A stamped notation on the memorandum indicates the President saw it.

[2] George Meany became President of the newly merged AFL–CIO in 1955, a position he held until 1979.

[3] Lane Kirkland, Secretary-Treasurer; Andy Biemiller, Legislative Liaison; Nat Goldfinger, Economist. [Footnote is in the original.]

During our golf game, he raised quietly, but strongly, with me the importance of doing something to improve equity in the tax system. "Saying it won't raise much money misses the point. The point is that everyone pays a fair share."

Meany hopes and expects that you will come to the Executive Council meeting,[4] and suggests you talk about trade.

George P. Shultz

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[4] On February 19, President Nixon met with the AFL–CIO Executive Council in Bal Harbour, Florida. For his remarks after the meeting, see *Public Papers: Nixon, 1973,* pp. 105, 106–107.

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159. Memorandum for the President's File by the President's Assistant for International Economic Affairs (Flanigan)[1]

Washington, February 16, 1973.

SUBJECT

Meeting with Sir Christopher Soames, February 16, 1973, 9:35 a.m.

On Friday, February 16 the President met in the Oval Office with Sir Christopher Soames, Vice President of the European Community Commission for external trade relations. Helmut Sonnenfeldt of the NSC and Peter Flanigan also attended the meeting.

The President opened the meeting by reaffirming his belief that 1973 is "the year of Europe"—not to the exclusion of the PRC, but as he had said to Prime Minister Heath, "in this year we must work with Europe more than we have in the past."[2]

He pointed out that there is a strong strain of isolationism growing in the United States, with the old internationalists becoming the new isolationists. These people do not feel the U.S. should maintain its strength. One basis for this position is the belief that the Soviet Union

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[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, Box 91, President's Meeting File, Memoranda for the President's File, Beginning Feb 11 (1973). No classification marking. The meeting lasted from 9:46 until 10:32 a.m. (Ibid., White House Central Files, President's Daily Diary)

[2] Heath visited the United States February 1–2.

is no longer a threat to the free world. Those who believe in international cooperation will be fighting an uphill battle, both the U.S. and Europe, to maintain NATO strength and to cooperate on trade. Nevertheless he stated his belief that the U.S. *cannot* turn inward; in that event the Europeans and Japanese would be neutralized.

Sir Christopher replied by noting the remarkable change in the world, thanks to the President's initiatives. He pointed out that Europe's only single voice at this time relates to trade, and that trade was his responsibility in the European Commission. The current time is propitious for trade negotiations because Europe has to find its place in the "unfrozen world" which the President created. However, the current time is also unfortunate because our trade deficit has created a malaise regarding cooperation on both sides of the Atlantic. Sir Christopher pointed out his belief that negotiations on trade can bring some benefits, but the real benefits to be gained lie in the political arena.

With regard to specifics, Sir Christopher indicated his concern, based on conversations the previous day, that the United States believed it could benefit from GATT negotiations on (1) EC enlargement, (2) EC arrangements with the EFTA countries, and (3) multinational trade. He agreed that there may be some "give" with regard to negotiations on EC enlargement, but felt that the "door is closed" on negotiations regarding EC's arrangement with EFTA countries. He stated that Europe is convinced there is no legal or moral obligation for compensation. On the major trade negotiations to begin in the Fall, the U.S. should recognize the problems that Europe has with agriculture and also recognize the growth it has enjoyed in agricultural exports to the EC.

Regarding negotiations on industrial tariffs, Sir Christopher indicated some possibility of success, subject to the connection between these negotiations and the problem of Japanese exports.

Soames indicated that by the end of March he must put before his Council of Ministers a politically realistic trade proposal. In designing such a proposal he is concerned that the Europeans will be loath to enter negotiations if too strong positions are taken in advance by the U.S. because of its internal situation. He is disturbed by the implication that it is the responsibility of Europe to help the U.S. "put its deficit right," rather than the responsibility of the U.S. to work harder on exporting.

The President pointed out that agriculture is not only important as an export to the U.S., but also that given the make-up of our Senate it must provide the necessary votes to pass a trade bill. In addition, our position on trade must effectively replace the Burke–Hartke bill which would be economically disastrous both for us and our trading partners. The Europeans should recognize that Burke–Hartke has wide support in this country, although the Administration has been outspoken in its opposition. The President stressed that our alternate to Burke–Hartke must reassure reasonable Americans that our products have a fair shake in world trade. Finally, the President noted that while Japan is the major part of the problem, many Americans regret the formation of the EC.

The President agreed with Sir Christopher that the two dangers of the upcoming negotiations are that the Europeans and the United States get into an ugly confrontation on economic matters, and that Japan becomes a "wild card" and is left out of the trading arrangements. Sir Christopher expressed the opinion that the only solution to Japan is to have it break down its barriers and accept Europe and the U.S. in their market.

Sir Christopher remarked that he had heard the previous day considerable complaint regarding the preferential rights given to other countries by the Community. He pointed out that these preferential rights reflect responsibilities to former Commonwealth countries and to the Mediterranean countries in which Europe must take an interest. The President replied that he would instruct the Administration to take a "hard look" at the Mediterranean preference problem. He pointed out that our own proposed system of generalized preferences might well be particularly attractive to Latin America. He also recognized that it is in the interest of the security of the free world that Europe maintain its ties to its former colonies. He agreed that politically it is not in the U.S. interest to "dabble in every country in Africa." He commented, however, that while perhaps one should not get excited about an individual product like citrus, we cannot ignore the real political complications this causes us.

The President and Sir Christopher discussed energy briefly and agreed that we should stay in touch.

At the close of the meeting the President indicated his hope that President Ortoli would visit him in Washington at an acceptable date to be mutually agreed upon.

160. Memorandum of Conversation[1]

Washington, February 16, 1973.

PARTICIPANTS

President Nixon
Vice President Agnew
Christopher Soames, EC Commissioner
William P. Rogers, Secretary of State
George P. Shultz, Secretary of the Treasury
Roy L. Ash, Director, Office of Management and Budget
Elliot L. Richardson, Secretary of Defense
James T. Lynn, Secretary of Housing and Urban Development
Peter M. Flanigan, Assistant to the President
Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

SUBJECT

Cabinet Meeting: Vice President's Briefing; Trade Relations; Aid to North Vietnam and Amnesty

[Omitted here is discussion unrelated to trade policy.]

Soames: The upcoming negotiations are enormously important, especially from the political standpoint.

The important thing is if this leads to a political confrontation, no trade gains can counterbalance the damage that is done.

Here I have the impression the United States expects unrequited concessions because of its adverse trade balance. The British had an adverse balance for a long time. We didn't take this position, but we got on our hind legs and fought for markets.

It would be a great pity if the undoubted difficulties with Japan—and we have them also; they are moving into Europe—continue. They take sections of the market in different countries. We can't let this go on, but we can't gang up on Japan—but we have to open up the Japanese market. That is the only solution.

In presentation of your trade bill—

—I hope it is a trade liberalization bill. Of course you need safeguards, but the bill should be liberal with safeguards, not vice versa.

—With respect to Europe, look for doors which could be opened; don't think of locking doors.

[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 1. Secret; Nodis. The meeting took place in the Cabinet Room. The President began the meeting with his Cabinet at 9:39 a.m.; at 9:44 he and Soames went to the Oval Office to meet separately (see Document 159). The President returned to the Cabinet Room with Soames, Flanigan, and Sonnenfeldt at 10:33 a.m. Soames and Sonnenfeldt left the meeting at 10:42 a.m. (National Archives, Nixon Presidential Materials, White House Central Files, President's Daily Diary)

The President: It is important for all to know that there is a strong isolationist sentiment both here and in Europe. We will not give in to that, and we don't want a confrontation—with Europe or Japan.

As world tensions abate, we must realize this couldn't have happened if US-European relationship had not been strong.

Nothing could be more harmful than if we let economic competition offset our political and security relationships.

[Soames and the President left at 10:44. The President returned at 10:45.][2]

[Omitted here is discussion unrelated to trade policy.]

The President: What did you think of Soames?

Rogers: He's good, but I told him if we call a bill a liberalization measure, it will never get through Congress.

The President: Yes, I told him that Agriculture would dominate Congressional action, and if they don't give on agriculture, there'll be no bill.

Rogers: Soames is a good man and it's good to have a single voice for Europe to speak with.

Shultz: It's isn't true that our problem is just with Japan, our balance of trade with Europe has deteriorated more recently than with Japan.

He says we shouldn't lock doors. Most of the locked doors are theirs—in agriculture, computers, etc. They have to unlock the doors.

Economic factors mean a relentless push, and unless they are handled they will push everything aside. We're reaching the point where aid recipients won't take aid in US dollars anymore. Rich as we are, if we don't have foreign exchange, we can't give it away, so there is a big stake for us in the economic and trade aspects.

The President: Soames has a point. Because the American market is so rich, our companies have *not* pushed foreign trade adequately.[3]

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[2] Brackets are in the original.

[3] On January 18, Flanigan wrote President Nixon that Ambassador to Japan Ingersoll had recently suggested to him "that U.S. trade suffers as much from a lack of desire to export on the part of American businessmen as it does from other countries' barriers to U.S. exports. Ingersoll feels that such a desire needs to be stimulated at the highest level through the creation of an organization similar to the National Alliance of Businessmen." Flanigan had also "discussed the problem of stimulating the export efforts of U.S. business, including Administration involvement," with Carl Gerstacker, Chairman of the Board, Dow Chemical Company; David Packard, Chairman of the Board, Hewlett-Packard Company; and Dent and they had agreed to formulate a plan either to improve the National Export Expansion Council "or to create a new organization to invigorate U.S. exports." Nixon wrote on the bottom of Flanigan's memorandum: "Pete: Good—get Kendall + some of the business people with *guts + patriotism involved.*" (National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, President's Handwriting, Box 20, Jan 1973)

American companies set up too many multinational companies, instead of manufacturing in the US and exporting, so we don't export jobs.

In the end, the fundamental issue is whether or not we have competitive companies and costs in the world. Devaluation, etc. are symptoms, not the cause. This is the cause and we must get at it.

The Japanese have controlled the economy and they can pick off various markets with loss leaders.

We will probably have Tanaka here, and the Emperor, but Japan is not being a good partner. And Europe. We must find a way to get at this.

Ash: There are things we can do, but it will be a tough fight.

The President: George is the biggest free trader but for me, but we have to make our economy competitive.

Rogers: How do we give the American industry incentive to export, when the market here is so easy?

Ash: That's a good point, and it's especially difficult with smaller companies.

Rogers: Labor says the multinational companies export jobs and the product still comes into the US.

Ash: That's true, but the alternative is to have foreign-owned companies send those same products into the US. This way, we at least have the investment, if not the labor. If we are to lose markets, it's better to retain half.

Technology is no longer exclusive to the US. It's knowledge, and it's equalizing around the world.

The President: While our exports are only 4% of our GNP, that can be the cream of our profits.

Flanigan: Over 19% of our production is for export and that is *large.*

The President: I want DOD to look hard at this. Where small countries are going to buy arms anyway, let's not let them be French, British, etc., but American.

What tipped the balance in Indonesia was the Indonesian military. We had resisted stopping military aid in Indonesia just because of Sukarno, and this was important.

When people like Peru want an aircraft, they want the most sophisticated. Smaller countries need different arms programs from what we need ourselves.

Even for us, but mostly for allies, we are pushing too exotic weapons. I applaud the development of AX, for example.

Richardson: I am investigating Congressional restrictions on these sales. We should approach the Congress on a balance of payment basis.

These countries will buy anyway, and they should be ours.

The President: Have the Navy look into the Styx missile and its little boat. Why sell battleships when this would do?

The highest priority for CIEP is to find how to make American industry be competitive in the world.

If the US turns inward, the world will be in a mess, because the Soviets and Chinese still look outward.

George, go ahead.

Shultz: We have had a basic plan for revising the system.

We closed the gold window last August. We then achieved the Smithsonian agreement.

We must talk not only about deficits, but also surpluses. We must talk not only of the monetary system, but security, aid, and everything. The monetary system can't carry the load by itself.

We should try to get away from controls on capital.

We tried to put our philosophy into operation to meet this crisis. We had a group—Roy, Schlesinger, Flanigan, Burns. These are the possibilities:

—A joint float by Europe.
—Unilateral action by US. We preferred this but would accept either.

We couldn't be hurt because the gold window was closed. Europe and Japan had to bite the bullet. With Japan it was a 35–40% change in exchange rates. With Europe it was a 20–25% change in exchange rates. The real change in the rate is not this big, but it is still substantial.

We have to worry now about domestic prices. Devaluation tends to raise the price level.

The President: What is a safeguard system?

Shultz: Protection against inundation by a particular product.

A natural increase is okay, but not a precipitate one. The Hill must have a procedure for determining when this is excessive and give the President authority to act swiftly. The President could declare an emergency and either apply a general surcharge or a particular one.

Also, we may change the present authority to retaliate—to broaden it.

The President: We want bargaining chips to help us in our negotiations. These negotiations differ from the Kennedy Round in that this time we can go up as well as down on tariffs. We want freer trade, but we won't jeopardize American jobs and business.

Lynn: We must reorganize that, once we have Presidential authority. The pressure from individual companies for increases will be tremendous.

The President: We can't save really non-competitive industries. Just those which are basically sound.[4]

[Omitted here is discussion unrelated to trade policy.]

[4] Haldeman described this meeting in his February 16 diary entry, noting: "There was considerable discussion then on the international economic situation. The P[resident] made an aside to Richardson as it was going on, 'Isn't this a fascinating discussion?'" (*Haldeman Diaries: Multimedia Edition*)

161. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to President Nixon[1]

Washington, February 26, 1973.

RE

Saturday, February 24 Visit in Arkansas with Wilbur Mills

The initial purpose of the visit was to consult with Mills on the Administration's Trade Bill. Knowing that other subjects would come up, including the Mills proposal for a 15% surcharge for imports,[2] Dick Cook accompanied me. At the beginning of the meeting Mills appeared sedated and less perceptive than usual. He informed us that he was taking drugs morning and evening to relieve his back, and that after doing so he felt that he "could hardly coordinate."

Regarding the 15% surcharge, Mills claimed to have the support for his proposal of Connally, Greenspan, Rinfret, Burns, Heller and Okun.[3] Without debating his contention, I pointed out that my discussions with Burns and Greenspan, and Shultz' discussions with Rinfret, had not indicated their belief that we should impose a selective surcharge at this time. Rather they indicated that it was a weapon worth

[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS White House. No classification marking. Attached to a March 2 memorandum from Brooks to Kehrli that reads: "Secretary Shultz reviewed the attached memorandum before it was sent to the White House."

[2] On February 16, Mills proposed that all imports be subject to a 15 percent surcharge, which would, he suggested, encourage foreign confidence in the value of the dollar. (*The New York Times,* February 17, 1973, p. 1)

[3] Pierre Rinfret of Rinfret-Boston Associates frequently advised the Nixon administration on economic issues. Walter Heller served as Chairman of the Council of Economic Advisers under Presidents John F. Kennedy and Lyndon B. Johnson. Arthur Okun served as Chairman of the Council of Economic Advisers under President Johnson.

having and I pointed out that that was exactly what we proposed in the upcoming Trade Bill.

Mills dismissed any suggestion that the President lacked authority to impose a surcharge across the board or selectively, claiming that it was inherent in the Constitution which gives the President authority to protect the US. In fact, he claimed it was the same authority which allows the impoundment of funds, and he had never questioned the President's right to do this. Mills went on to say that he believed the President was correct in restricting expenditures, and only differed in that he felt even a $19 billion increase in the 74 Budget was too high. He went on to say that, with the exception of expenditures relating to veterans, he (Mills) would join Gerry Ford in preventing an override of any Presidential veto of mandatory expenditures.

Mills was exceedingly critical of all our trading partners and said the US had to get a great deal tougher than it has to date. Regarding the proposed Trade Bill, Mills, after considerable discussion, generally agreed with the Administration's proposals. On timing he initially said that he could not get to the Trade Bill until June. After considerable urging, Mills agreed to take the Trade Bill up on the completion of his announced schedule of hearings on taxes, which schedule terminates April 6. He asked that the Trade Bill not be sent up more than a couple of weeks before that time in order that he not be put in the position of having to comment on the Administration's proposals and in order that the opposition not be given too much time to snipe at the Bill prior to hearing.

As I have reported to George Shultz, Mills was outspoken in his belief that Shultz' advice on balance of payments matters had not been sufficiently aggressive. I pointed out the success of the Shultz recommendations to you on monetary affairs and also the potential wallop in the trade recommendations which had been prepared together with Secretary Shultz. Nevertheless, Mills was disturbingly critical.

I think it is important that we nail down the Mills commitment to begin hearings on trade in April if we want to have a chance for some action on the Bill before the Summer recess. To this end, a short phone call from you thanking him for agreeing to this date would be most helpful.

162. Paper Prepared in the Department of Agriculture[1]

Washington, undated.

Agriculture in Multilateral Trade Negotiations

Introduction

The Department of Agriculture favors freer trade for all sectors of the international economy. The Department believes that trade in farm products as well as trade in nonagricultural goods should be carried on under conditions where competition, market orientation, and comparative advantage prevail. A world in which all trade moves freely would mean more effective international allocation of agricultural resources—which would benefit American farmers by allowing increased utilization of the unique natural, technological, and organizational assets which this country possesses. Furthermore, liberalization of agricultural trade would reduce underemployment in rural areas, decrease living costs for domestic and foreign consumers, and produce sorely needed U.S. balance of trade benefits.

In looking forward to trade negotiations, we assume that a free trade philosophy will guide Administration programs and policies. We assume that the Administration will continue to seek market oriented programs in the new farm bill,[2] while taking action to reduce direct government outlays for farm price stabilization. We will work hard, beginning now, to persuade other exporting areas, especially the European Community, to eliminate their export subsidies now that we have terminated all of our own direct U.S. subsidy programs, except barter. We assume that there will be continued expansion of agricultural production, as necessary, to meet increasing domestic and foreign requirements.

As for trade legislation, we assume that agriculture and industry will be treated alike—that each will be subject to the same tariff cuts, the same ad referendum authority to negotiate nontariff barriers, and

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[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS Flanigan, Peter M., 1974. For Official Use Only. Sent to Rogers, Shultz, Dent, Brennan, Kissinger, Stein, Ash, and Eberle under cover of a March 5 memorandum from Flanigan that explained that Assistant Secretary of Agriculture for International Affairs and Commodity Programs Carroll Brunthaver had sent him the paper "with the statement that it 'represents the position of the U.S. Department of Agriculture.'" Flangian requested agency concurrences or comments by March 12.

[2] On February 15, President Nixon proposed legislation, to be known as the Agriculture and Consumer Protection Act of 1973, that would revamp Federal agricultural production controls and the Federal subsidy support system for American farmers; see *Public Papers: Nixon, 1973,* pp. 94–103.

the same mechanism for dealing with import relief. We assume that the Administration will not buy the kind of protectionism that is exemplified by the Burke–Hartke bill. Rather, we assume that the Administration will put tremendously increased pressures on our trade surplus partners, such as Japan, to import more U.S. goods—a vastly better way of correcting trade imbalances than would be the setting up of protective walls against imports—a course that would inevitably lead to ruinous retaliation. In short, we assume that the United States, in both industry and agriculture, will be going as far as is possible to deal with those major roadblocks that inhibit trade expansion, but in ways that are harmonious with the direction of our own domestic programs.

In moving more and more to a market oriented agriculture with a minimum of government intervention, it is of utmost importance to the United States that real progress be made as soon as possible in reducing agricultural protectionism around the world—particularly in Western Europe where substantial expansion of trade is possible and where the level of border protection is the most absolute. Access to such markets that are measurable and dependable will be crucial to the success of our domestic policy of greater freedom for farmers to produce, with less dependence on government for income, relying more and more on markets for prices and profits. There is the very real danger of protectionism stagnating world demand, thus drying up the basic support for a U.S. market oriented farm policy.

Negotiating Principles

To bring about desired results, we believe, basically, that multilateral trade negotiations must be directed at the substantial reduction of tariffs and the complete elimination of all other forms of border protection and export subsidies. This thrust is consistent with GATT rules, which are based on the principle that the only protection at the border should be tariffs, that these tariffs should be nondiscriminatory, and that they should be as low as possible. Stubborn adherence to this principle is the necessary condition for achieving complete removal of artificial barriers that hamper the movement of goods and prevent the economic response of supply and demand to price. When governments find that they cannot dump surpluses on foreign markets at low prices or cannot prevent price competition at home, countries will automatically be forced to bear directly the costs of whatever domestic support programs they deem necessary without transferring these costs abroad. We believe that cost considerations alone would force major producing countries to reduce production incentives if surpluses got out of hand and prices fell very low. Under these circumstances we believe that negotiations on the specifics of international support measures would be unnecessary.

We recognize that there are some who believe that there cannot be real trade benefits without renegotiation on internal measures as well as on border protection. But what forces changes in domestic programs? Clearly, the thrust of much that we are doing domestically in agriculture—the releasing of stocks, the easing of import barriers, the ending of export subsidies, and larger plantings for 1973—originate not only because of expanding exports but for domestic reasons as well.

The same kind of inflationary pressures that in part led to our actions are heavily present in all of Western Europe today and are certainly present in the food sector in Japan. Prime Minister Heath is under strong attack because of the rise in beef prices in his country and the prospect of further rises once the full effect of Common Market membership takes hold. In Western Europe the Common Market is again in a heavy surplus situation on dairy products which adds to the strong demands already present in the Community to hold down food prices. Also, as a result of higher prices for imported raw materials, earnings from levies in Europe should be sharply reduced as time goes by. All these factors make it extremely unlikely that either Europe or Japan will continue to pay the high cost of supporting surplus production for very long.

From a negotiating standpoint, we could make the point that farm programs themselves are the cause of all the trade problems and try to remedy the farm programs in international negotiations. But to do so, we would have to ask our Congress for authority to negotiate away our farm legislation at the very time we are seeking its extension. We do not believe such a course of action is wise or politically possible of attainment. Furthermore, Western Europe has been telling us for years that the Common Agricultural Policy is sacred, that it cannot be negotiated. If we say at the outset that we want to negotiate away the price support programs which are the heart of the CAP, we believe we will fail.

The EC may still argue that *fixing* the protective level of variable levies, as we would wish to do, will affect the income of Community producers adversely. That is not necessarily true, because every country retains the right to support prices and incomes to its farmers if it wants to pay the bill through its national treasury rather than through prices maintained at artificial levels by overt import protection. Our approach to negotiations is a "back door" one whereby we will attempt to negotiate down and hopefully negotiate away the instruments of protection and relief at the border which hide the true costs of uneconomic farm programs—anticipating that other countries will not choose to continue paying that cost for very long if they must bear it directly.

Negotiating on this basis means that we as well as others must be willing to give up our rights to subsidize exports and protect uneconomic domestic farm programs through import quotas. The notion of reciprocity involved is one which would bring all countries equally near the goal of minimum interference with the flow of world trade. If all parties to the negotiation sought to achieve this goal, the trade and economic benefits resulting from liberalization in both agriculture and industry would be reciprocal. We believe it is this idea, and not any technical formula for measuring the value of concessions granted in exchange for concessions received (formulas which are bound to be obsolete by the time staged concessions have taken full effect), which should govern U.S. views toward reciprocity in the proposed multilateral trade negotiations.

We must make it abundantly clear at the outset that we will not be diverted during the course of the negotiations by proposals to use multilateral commodity arrangements that seek to deal with prices. Experience has proved beyond the shadow of a doubt that international arrangements dealing with prices—and that do not and cannot deal with production and trade policies affecting exports and imports—are bound to fail, because these policies are the primary determinants of price. The price ranges of agreements often have proved to be inconsistent with the underlying supply and demand situation, therefore they could not accommodate to sudden changes in the supply-demand picture.

For example, weaknesses in the 1967 International Grains Arrangement eventually led to its abandonment as a means of organizing world wheat markets. The schedule of minimum prices, expressed at export positions on our Gulf of Mexico and Pacific Coasts, proved in the end to be disadvantageous to the United States because (1) our competitors could make special arrangements resulting in actual freight costs lower than those used in calculating the minimums, (2) the basing point system distorted competitive conditions in certain markets when prices were at the minimum, and (3) the basic Gulf position price relationships, which attempted to make allowance for normal differences in market values among types and qualities of wheat, did not necessarily reflect actual conditions at any particular time or in any particular market. Also, consultation procedures provided for in the Arrangement proved to be ineffective. But the fatal flaw was in the existence of very large world supplies of wheat, which put strong downward pressure on prices. Before long, all major exporters—bowing to realities—had made varying price adjustments which brought the general level of world prices to a point substantially below the Arrangement minimums. This, of course, ended the effectiveness of the trade part of the Agreement to all intents and purposes.

The current International Wheat Agreement, negotiated in 1971 as a successor to the International Grains Arrangement, contains no price provisions and imposes no commitments on either exporters or importers. The usefulness of the IWA consists largely of maintaining the

International Wheat Council as a forum for discussing current problems in wheat trade, for collecting data, and for seeking understandings leading to greater discipline in the international buying and selling of wheat.

So let us be firm in our resolve not to go through another "agreement" exercise aimed at organizing world trade in wheat and possible other commodities along rigid lines. As we have learned, agreements are not the answer to trade problems. The real answer lies in giving exporting countries a maximum opportunity to sell their efficiently produced commodities at world prices. That is the answer we must insist on finding in any new trade negotiations.

Negotiating Objectives

Our negotiating objectives, consistent with the basic purpose of freeing up trade, can be outlined as follows:

A. *A traditional tariff-cutting exercise limited only by the extent and degree of the authority granted in the trade legislation.* For this purpose, any of the authorities now under consideration would be suitable, namely an unlimited authority to reduce, increase, or eliminate tariffs; an authority to reduce or increase tariffs by 50 percent and to eliminate low or nuisance rates; and an authority to reduce the general incidence of tariffs by 50 percent. Because of the greater degree of flexibility they allow, we prefer the first and the third to the second.

B. *Elimination of all preferences, whatever their nature.* With a flexible tariff authority, it may be possible to accomplish this objective within the context of negotiations on other tariff and nontariff barriers to trade. If necessary, however, the doing away with preferences should be sought as an end in itself.

C. *Conversion of variable levies and all other pricing devices usable for protection at the border to fixed duties* and movement of these duties up or down to an agreed upon maximum level of protection for all commodities now subject to nontariff barriers.

D. *Phased increase and eventual elimination of all quotas*, regardless of whether or not they are consistent with GATT. Replacement of these quotas with fixed duties at not more than an agreed upon maximum level of protection for all commodities now subject to nontariff barriers.

E. *Phased elimination of export subsidies,* defined as any price-related measure which results in the sale of a product in a foreign market more cheaply than at home.

F. *Elimination of mixing regulation, monopolies, and restrictive licensing and prior deposit practices.*

G. *Negotiation of codes on technical barriers such as valuation and standards.*

H. *Negotiation of multilateral safeguards* consistent with whatever new domestic safeguard procedure is enacted, covering both agriculture and industry.

The most important of these objectives is to fix and reduce the unlimited protection afforded by variable levies in the EC. If we cannot obtain at least the benefit of the consumption response for variable levy commodities like grain, we have no real opportunity to solve the basic problems inhibiting the growth of world agricultural trade.

The EC stands to gain by fixing and reducing the unlimited protection of the variable levies. By moving to do away with export subsidies and seeking agreement from other countries to do likewise, we have already undercut the EC argument that a variable levy system is needed to counteract the distortion of world prices caused by export subsidies. Furthermore, we would be offering in negotiations to replace our import quotas with tariff protection at a level not exceeding 25 percent ad valorem, a far more liberal form of border protection than absolute quotas. In terms of the concept of reciprocity discussed earlier, our request on variable levies would be just as feasible as the removal of our own Section 22 quotas[3] or a Canadian commitment to give up the Wheat Board's monopoly right to regular imports of most grains.

All three of the proposed tariff authorities are flexible enough to allow for the negotiation of tariffs resulting from the conversion procedures proposed for variable levies and quotas. The unlimited and 50-percent cut in general tariff incidence authorities are flexible enough in themselves, and the 50-percent authority as now proposed contains a clause allowing for greater increases or reductions in special circumstances which could be used if needed. Our negotiating partner, particularly the EC, may, however, point to our authority as the limit of what they would be prepared to do. Thus, the 50-percent authority might be cited by them as a reason for not bringing down the ad valorem equivalent of existing nontariff border devices by more than 50 percent, even though substantially greater reductions would be needed in many cases for them to reach a 25-percent maximum.

Negotiating Procedures

Most important barriers to trade are applied by a country against both agricultural and industrial products. Quantitative restrictions, export subsidies, restrictive trade practices, and technical codes and procedures are all used along with tariffs to protect both agricultural and manufacturing industries against foreign competition. The only technique used exclusively to restrict agricultural trade is the variable levy,

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[3] Reference is to Section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624), which governs the imposition of quotas or fees on imports found to impede or interfere with U.S. agricultural programs.

and even this technique is one with possible applicability to industry as well (e.g., the American Selling Price system of customs valuation).

For this reason, Agriculture supports a line-by-line approach to trade negotiations, without distinction between agriculture and industry, or between tariffs and nontariff barriers. Each participating country would be expected to table a request list showing by individual BTN[4] number what tariff and nontariff concessions it wishes to obtain and a list showing by individual BTN number what commodities on which it is willing to negotiate reductions in its border protection. Both the U.S. requests and the U.S. offers would be drawn up so as to conform with the negotiating objectives outlined earlier. Negotiations could then proceed on each line item until the objectives of all participating countries on the line had been achieved or until a satisfactory compromise had been reached. Trade-offs could take place from any line to any other line and from one kind of barrier to another.

The advantages of an integrated line-by-line approach to negotiations are several. We believe that for both agriculture and industry this approach will encourage effective coordination of negotiations on commodities and products affected by more than one kind of trade barrier; that it will help to prevent the deterioration of negotiations into a tariff exercise for industry and a nontariff exercise for agriculture; that it will afford the United States the best possibility for obtaining meaningful concessions in exchange for those it is willing to offer; and that it will allow us to focus on border devices affecting commodities of major importance to us without being deflected from our free trade goal, as would happen if we accepted the EC's commodity agreements approach.

Although recognizing that trade-offs are an essential part of the negotiating procedure, we would not necessarily expect the final negotiating package to be fully balanced in this sense. Beyond meeting the arithmetic requirement of any tariff-cutting formula that may finally be agreed upon, we believe, as already stated, that reciprocity should be assessed only in terms of the extent to which countries are conforming to basic GATT principles and the distance they need to go to arrive at complete conformity. Countries with a substantial degree of border protection still remaining would be expected to give more than countries which are already quite liberal in their trade policies.

The United States has just devalued the dollar another 10 percent. It must be recognized that this action was necessary because of a substantial balance of payments deficit that in large measure is a result of

[4] The Brussels Tariff Nomenclature was a customs classification system for traded goods.

a large U.S. trade deficit. In order for currency realignments to work over time to correct such imbalances, the types of border protection that negate its effect on trade (e.g., variable levies and quota restrictions) must be ameliorated. Thus, reciprocity has relevance only in an overall context embracing both trade and monetary negotiations with the two tied closely together.

An indication of the degree to which the United States and three of its most important agricultural trading partners—the EC, Japan, and Canada—protect their markets against imports and subsidize their exports is given below.

Characterization of U.S. Agricultural Tariffs, Quotas, and Export Subsidies

The United States maintains high tariffs (above 15 percent ad valorem) for only a few major categories of agricultural imports, namely dairy products, fresh and preserved fruits and vegetables, certain milled grain products, wines and leaf tobacco (see list attached).[5] The United States maintains seasonal duties on certain fresh fruits and vegetables. The United States accords preferences to the Philippines which are scheduled to expire on July 3, 1974. The EC and Japan would both have indirect interests in tariff reductions by the United States.

A description of quotas maintained by the United States is attached—these include Section 22 quotas on cotton, wheat, peanuts, and dairy products, and Sugar Act quotas on raw sugar and confectionery. A list comparing the relative values of subsidies maintained by the United States and the EC in 1970–71 is likewise attached. Although the United States has now suspended all direct export subsidies, our subsidy practices could still be a subject for negotiation along with those of the EC and other countries. Both the provisions of Section 32[6] and of statutes governing the operations of the Commodity Credit Corporation allow the United States to subsidize exports under certain sets of circumstances. According to some definitions, U.S. exports under P.L. 480 could also be classified as subsidized exports. It is conceivable that agricultural exports could become eligible at some point for DISC benefits. If so, such benefits might also be classified as export subsidies.

U.S. offers consistent with the negotiating objectives outlined above would involve only two really serious problem areas—horticulture and dairy. In horticulture we have a problem because our high tar-

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[5] None of the attachments is printed.

[6] Reference is to Section 32 of the Act of August 24, 1935 (7 U.S.C. 612c), which sets aside 30% of all U.S. tariff receipts for the Department of Agriculture to use "to encourage exportation and domestic consumption of agricultural products."

iffs for these items protect U.S. growers against Mexican produce which is available at competitive prices because of a wage scale that produces a very low standard of living for the poorly paid Mexican laborers who do most of the real work involved in growing and harvesting vegetables and fruits for export. Also, we have fruit and vegetable marketing order agreements with Mexico which would not be consistent with the objectives we are proposing, but which have helped us keep the horticultural market in the United States stable until now.

In dairy, removal of Section 22 quotas may mean some decline in prices for manufactured products, more imports, a slow down in domestic production and perhaps adjustment problems for some farmers shifting to alternative lines of output. However, the effect of liberalizing dairy import protection should be much less troublesome to the United States than has been generally feared. Changes would be phased in over a period of years. We would still retain tariff protection of up to 25 percent. Border protection on dairy products would also be lowered and liberalized in Europe, Japan, Canada, etc. Export subsidies on products from Europe and elsewhere would be eliminated. Taking this into consideration, the pressure of imports on our dairy industry would be much less than if we simply took unilateral action.

Removal of quotas on peanuts could also be a problem. Except for Japan, virtually none of the developed industrialized countries grow peanuts. This means that in liberalizing our import protection on peanuts a heavy burden of additional exportable supplies from other producing countries will likely come to the United States. With this in prospect, we would no doubt have to change our domestic peanut program to make it more in line with what we have done on wheat and cotton.

Removal of quotas on cotton and wheat will pose no problems. There is a question as to whether the processors' certificates on wheat are consistent with our negotiating philosophy. Because the certificates are not applicable to imported flour, which under our proposal would no longer be subject to quota, continuing to require the certificates from domestic processors would create an artificial price disparity between domestic and imported flour. For this reason, the full burden of paying for the wheat support program should probably be shifted to the general Treasury.

Sugar could be a problem, but we expect that other producers will not want the issue raised because most of them benefit more from the existing high price structure for their quota sales in the United States than they would from free trade. Sugar production and trade is highly controlled by almost all developed country producers and importers, and the U.S. program by comparison is not unduly restrictive. The EC, which is self-sufficient in sugar and does not want to take on all of the

U.K.'s past commitments to import sugar from Commonwealth countries will almost certainly prefer that the United States expand its quotas rather than eliminate them.

To help us deal with whatever problems may come up, we support inclusion in the trade bill of a safeguards procedure which would be just as applicable to agriculture as to industry. Emergency import relief provisions to cover cases of undue market disruption caused by imports will be essential. We can accept any kind of measure—tariffs, quotas, orderly marketing agreements—so long as it is available promptly. This is necessary if the provisions are to be of any help to agriculture. In industries like horticulture and dairy, unless relief is available promptly, it will come too late. We assume that the relief afforded by such provisions would be only temporary. But if the time allowed for adjustment is sufficient, we believe such provisions will provide adequate protection for agriculture.

Characterization of Tariffs and Nontariff Practices in the EC, Japan, and Canada

The principal protective device employed by the EC is the variable levy. The only items on which high tariffs act as restraints on trade are certain fresh and processed fruits and vegetables, margarine, and unmanufactured tobacco. Japan and Canada also maintain high tariffs on a variety of items (see lists attached).

Discriminatory tariff practices, nontariff charges, quotas, export subsidies, and monopolies in the EC, Japan, and Canada are as follows:

EC

Seasonal duties apply to certain fresh fruits.

Preferences discriminate against a wide variety of U.S. agricultural exports.

Variable levies (see attached list).

Reference prices are used to control the imports of fresh fruits and vegetables, seed corn, and wine.

Compensatory taxes are applicable in the fats and oils sectors.

National quotas have been retained on certain fresh and processed fruits and vegetables. An EC quota applies to beef and veal for processing. Emergency restrictive licensing can be applied to almost any product and has been to fresh apples and tomato concentrates.

Export subsidies (see attached list).

State trading affects tobacco and alcohol.

Japan

Variable levies were instituted in place of quotas to restrict imports of live swine, pigmeat, ham, and bacon.

Quota restrictions still affect imports of the following items of export interest to the United States:

Beef
Certain prepared meat items
Processed cheese
Dried peas
Other pulses (navy, pinto, great northern, lima)
Oranges
Tangerines
Wheat, rice, barley, flour and groats
Peanuts, other than for oil extraction
Fruit puree, pastes, pulp
Canned pineapple
Roasted peanuts
Fruit juices (excel. lemon)
Tomato juice
Tomato ketchup and sauce
Mixed seasonings
Ice cream powder, prepared milk powder for infants, and other preparations consisting mainly of milk
Preparations based on rice or wheat
Malt

Export subsidies are not employed.

State trading is used to control imports of most agricultural goods, but is not applied restrictively.

Canada

Import calenders in the form of seasonal duties are used to restrict entry of fresh fruits and vegetables during the Canadian harvest.

Commonwealth preferences discriminate against U.S. exports, particularly processed fruit items such as raisins and canned peaches.

A blanket minimum price authority can be used to apply variable levies. None are now in effect, but they have been used against four commodities of export interest to the United States, namely potatoes, corn, turkeys, and strawberries.

Restrictive licensing amounts to a virtual embargo on their importation of evaporated, condensed, and dried milk, butter, and Cheddar cheese, and imports of oleomargarine, and animal feeds containing dry milk solids are prohibited.

A state trading agency, the Canadian Wheat Board, restricts imports of wheat, barley, oats and certain other grains, and subsidizes wheat exports as necessary. (The feed freight subsidy, which prevents the United States from supplying corn to Eastern Canada, is not a border device.)

A blanket authority can be used to form producer marketing boards which will have monopoly control of the domestic market for any commodity.

This characterization of import barriers and export subsidies maintained by four of the most important agricultural trading entities is indicative of the kinds of trade practices affecting world agricultural trade which are inconsistent with the negotiating principles and objectives set forth in this paper. We recognize that from a practical standpoint, not all such practices will prove negotiable. But we strongly believe that in certain key areas such as the fixing and reduction of the EC's variable levies, the conversion of Japan's import quotas to tariffs, and a U.S. willingness to convert all of its nontariff instruments of border protection for agriculture to reasonable tariff levels, our proposals could pave the way for meaningful liberalization by all parties to the multilateral negotiations. Unless this is achieved, the promise which a new round of multilateral negotiations holds out for expanding trade and economic growth will not be realized.

163. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to President Nixon[1]

Washington, March 16, 1973.

SUBJECT

Wilbur Mills and the Trade Bill

During a 1½ hour meeting with Chairman Mills in his office on Thursday, March 15, we discussed (among endless non-related topics) the timing of Ways and Means consideration of the Trade Bill, and the extension of MFN to the USSR.

Regarding timing, Mills said that he had originally agreed to set aside tax hearings for trade legislation of an emergency nature, such as the right to impose a surcharge on imports from a single country. I pointed out that our trade negotiations were a major part, but only a

[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS Trade—Volumes I & II 1973/74. No classification marking. A handwritten notation at the top of the memorandum reads: "Be sure Simon & Shultz see this—" Attached to a March 19 note from White House staff member Tod Hullin to Shultz that reads: "John Ehrlichman asked that the attached be brought to your attention."

part, of a broad negotiating effort with our allies on both economic and non-economic matters. The former includes negotiations for monetary reform and discussions on investment rules as well as the trade negotiations. It was essential that all parts of these discussions move forward together and that the United States not be accused of "dragging its feet" in any single area, particularly so important an area as trade. Given the EC's public commitment to have a trade negotiating position by June, and general agreement to begin trade negotiations in September, long delay in consideration of the Administration's Trade Bill would be a matter of considerable concern.

I did indicate, however, some difficulty in declaring the Trade Bill to be "emergency legislation." Mills said all he was looking for was a statement by you that there was some "urgency" to Congressional consideration of the Trade Bill. If your message contained a sense of immediacy, Mills would respond by interrupting the tax hearings at the time of the Congressional recess on April 19. He would further commit to begin hearings on trade immediately on the Committee's return on Monday, April 30 and continue with the hearings and Executive Committee sessions, with the expectation that the Bill would come to the floor in the first half of July. In order to do this, Mills asks that the trade message be sent to the Hill either during the week beginning Monday, April 2 or early in the week beginning Monday, April 9.

In considering this timing, Mills indicated some regret that his first test of the new Rules Committee system, which denies him the closed rule,[2] would come in connection with the Trade Bill rather than the Tax Bill. He pointed out that the closed rule had been instituted as a reform and that he "needed to teach these new reformers the difference between good reform and bad reform." His preference for using the Tax Bill for this purpose is that he "considers trade more important." Presumably, he believes the new system could result in so bad a Bill that you would veto it and he could then convince the Congress to revert to the closed rule for Ways and Means bills. Since the prospect of vetoing a Trade Bill is highly unattractive, one could make an argument for delaying trade until after taxes. However, it is hard to believe that the Trade Bill would get a closed rule even if the Tax Bill provided a lurid example of the shortcomings of an open rule.

On MFN, Mills said he had had a long talk with Alkhimov[3] (USSR Deputy Minister of Trade) who had undertaken to get a relaxation of

[2] Before 1973, the House Ways and Means Committee often sent legislation to the floor of the House of Representatives under the closed rule, which prevented the addition of amendments to a bill by the majority party; in 1973, procedural changes were introduced that made it easier for majority party House members to add amendments to bills coming out of the Ways and Means Committee.

[3] Vladimir S. Alkhimov.

the exit visa practices upon his return to Moscow. I pointed out that this problem was considerably larger than Alkhimov and that it might take quite some time to arrive at a satisfactory solution. Therefore, I urged that Mills accept the Javits proposal allowing you the right to grant MFN to countries behind the Iron Curtain, subject to Congressional veto. I pointed out that this could remove MFN for the USSR from the Trade Bill discussions, protect the détente to the extent of giving you the opportunity of taking action on your commitment to Brezhnev,[4] and provide more time in which to work out a negotiation with the Soviets.

Mills said he did not find this solution acceptable. He based his opposition entirely on the belief that a Congressional veto violated the Constitutional right of the Executive to act. I pointed out a similar veto existed with regard to reorganization plans and that he had agreed to our proposal to a similar veto regarding negotiations on non-tariff barriers. Nevertheless, he continued to express opposition to the Javits proposal. (Jackson and Ribicoff had expressed similar opposition though most members of the Congress with whom it has been discussed find it an acceptable compromise.) I agreed with Mills that further discussions of this provision of the Trade Bill should await Shultz' return and a review of his discussions in Moscow.[5]

Mills will be on *Meet The Press* on Sunday, March 18 and will be quizzed by Eileen Shanahan on his schedule for trade hearings. In a phone conversation with me today he agreed to state his intention of setting aside tax hearings if so requested by the President. I recommend that prior to his television appearance you call him and thank him for his willingness to take up trade hearings immediately after the Easter recess and to continue them to completion. This will assure his sticking to this commitment. If you are successful in getting his agreement to the timing for the Trade Bill outlined above, we will schedule the submission of the Message and the legislation to Congress on Tuesday, April 10, as you are expected to be in San Clemente during the previous week.

In your conversation you might wish to commiserate with him about his bad back. Though he returned to Washington at the beginning of the week, he was out two days and it is clear his back is still

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[4] The President made this commitment during the U.S.-Soviet summit meeting in May 1972. See *Foreign Relations,* 1969–1976, volume XIV, Soviet Union, October 1971–May 1972, Document 265.

[5] Shultz was in Moscow from March 11 to 14; reports on his talks are in the National Archives, Nixon Presidential Materials, NSC Files, Box 953, VIP Visits, George P. Shultz (Europe & USSR), March 8–22 1973 [& September–October] and ibid., Box 424, Backchannel Files, Backchannel Messages—Europe—1973.

hurting. However, he looks a great deal better than he did during my recent visit with him in Arkansas.[6]

Timmons and Cook concur in my recommendation that you call Mills and confirm his agreement to begin hearings on the Trade Bill on April 30.

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[6] See Document 161.

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164. Memorandum From the President's Assistant for Legislative Affairs (Timmons) to Secretary of the Treasury Shultz and the President's Assistant for International Economic Affairs (Flanigan)[1]

Washington, March 17, 1973.

SUBJECT

Taxes and Trade Legislation

The President called Chairman Mills today regarding the need to consider the trade legislation promptly.[2]

Mills said if Secretary Shultz would testify before the Committee on taxes on Monday, April 30, he would then set aside tax reform legislation and move to consider trade on May 1. The Chairman also suggested a Presidential bipartisan meeting on trade for the afternoon of April 30.

The President agreed to this arrangement.[3]

My personal view is that Secretary Shultz may be able to testify on taxes in a general nature at that time, reserving specific proposals for when the committee resumes consideration of taxes after the trade

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[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS Trade—Volumes I & II 1973/74. No classification marking. Copies were sent to Ehrlichman, Cole, and Cook.

[2] President Nixon spoke to Mills by telephone from 1:42 to 1:52 p.m. (Ibid., Nixon Presidential Materials, White House Central Files, President's Daily Diary)

[3] According to an attached March 19 memorandum from Dam to Shultz, President Nixon agreed to this arrangement in order "to give Mills an 'out' with Congressional liberals for going back on his commitment to them to hear taxes prior to taking up trade." Flanigan wrote the President on March 19 that Mills had agreed to the revised schedule because "he viewed trade as part of an overall international problem for the solution of which there was urgent need." (Ibid., RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS Trade—Volumes I & II 1973/74)

bill. Also, I much prefer a bipartisan meeting on trade be held the week of April 9 with the trade message transmitted to Congress at the same time.[4] Because of the Easter recess, the legislation would not be hanging loose too long.

At any rate, perhaps we should get together soon and plot a strategy.

[4] A handwritten note at this point reads: "OK with Mills re Dick Cook."

165. Memorandum From Secretary of Commerce Dent to the Executive Director of the Council on International Economic Policy (Flanigan)[1]

Washington, March 20, 1973.

SUBJECT

Agriculture and Multilateral Trade Negotiations

We appreciate the opportunity to comment on the subject paper, which you circulated March 5 and which you noted "represents the position of the U.S. Department of Agriculture."[2]

We have reservations about a number of the issues raised in this paper. I will limit my comments to those which, from a Commerce perspective, seem most significant.

We are, of course, keenly aware of the importance of U.S. agriculture and agricultural exports to our trade and of the generally favorable competitive advantage we enjoy in the agricultural sector. We appreciate also the substantial element of protection and uncertainty weighing on American agricultural exports to the European Communities due to the variable levy system of import control. In short, we agree that agriculture is important and should be dealt with in the multilateral negotiations in a very substantial way.

One serious reservation about the paper is its implied "all or nothing" approach. Under the heading of negotiating principles the paper

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 219, Agency Files, Council on International Economic Policy (CIEP) 1973 (Vol II). No classification marking.

[2] Document 162.

states: "multilateral trade negotiations must be directed at the substantial reduction of tariffs and the *complete elimination* (underscoring supplied) of all other forms of border protection and export subsidies." The paper goes on to state that "stubborn adherence to this principle is the necessary condition for achieving complete removal of artificial barriers that hamper the movement of goods and prevent the economic response of supply and demand to price." While this principle may be a suitable initial negotiating approach, I suspect that stubborn adherence to it as a guideline in the forthcoming negotiations would diminish, rather than promote, the practical results achieved. This is particularly true in agriculture where the intransigence of the EC with respect to its Common Agricultural Policy reflects European reluctance to eliminate the protection afforded to high cost European agriculture. I doubt that this long-term objective can be attained in the next negotiating round, given the underlying negotiating possibilities and time frame. Thus more limited and presumably attainable interim goals probably should be developed for the forthcoming negotiations.

Moving from negotiating principles to the objectives on page 5 we find much with which we in Commerce agree. Item D, however, which refers to the phased increase of quota limits and eventual elimination of *all* quotas, presents certain questions. There certainly are numbers of areas where this could and should be done. On the other hand there are likely to be cases, where because of special circumstances or where an industry is of critical national importance, countries will insist that quantitative controls must be retained, textiles being a case in point.

With regard to the procedures outlined by Agriculture for reaching its objective of substantial reduction of tariffs and complete elimination of all border protective and export subsidy measures, the paper suggests a line-by-line or item-by-item negotiating approach. The reasons given for preferring this approach are not convincing. Agriculture argues that the "important barriers to trade are applied by a country against both agricultural and industrial products," but it does not necessarily follow that the only way or even the best way to deal with these barriers is on an item-by-item basis.

I assume that the objective of the United States is to achieve maximum reduction of barriers to world trade. This objective could not be achieved by an item-by-item approach, at least as a basic negotiating technique for dealing with industrial trade. First, it tends to limit, almost by definition the scope of the negotiations by requiring countries to table "request and exception" lists. Countries with the largest exception lists (items on which a country does not wish to negotiate) tend to control the pace of the negotiations. So widely accepted are its limitations as a viable negotiating technique that at a recent meeting of the GATT Committee on Trade in Industrial Products (CTIP), the Committee agreed to exclude item-by-item negotiations on industrial products from further examination.

Finally, it should be recognized that many countries are not yet prepared to accept formulas of reciprocity based on equality in approaching "... the goal of minimum interferences with the flow of world trade." Reciprocity, therefore, will continue to be measured in conventional terms such as trade coverage of concessions granted. The item-by-item approach, if applied to such generally accepted concepts of reciprocity, would inevitably mean that countries, such as the U.S., must pay for agricultural concessions with industrial concessions. However, we cannot afford such a trade-off since our trade with the EC in non-agricultural products and levels of industrial tariffs are roughly in balance, leaving us with little or no surplus in the industrial sector to trade-off for agricultural concessions. In the case of Japan, our imports of non-agricultural products are considerably larger than our exports to Japan, giving us an apparent surplus of negotiating leverage. However, much of that surplus would be needed in the industrial sector to obtain deeper cuts in Japan's industrial tariffs which are considerably higher than ours, if we were to enter into item-by-item type negotiations. The same is true of Canada.

I would conclude, therefore, by agreeing that the best approach to freeing up agricultural trade is to attempt to achieve minimum levels of interference to world trade flows, and to regard each country's efforts, if adequate, to constitute reciprocity. Under this concept, I would think that an item-by-item negotiation would be inappropriate and that an agricultural sector negotiation would be a more viable approach.

166. Paper Prepared in the Department of State[1]

Washington, undated.

Department of State Comments on the USDA Paper, "Agriculture in the Multilateral Trade Negotiations"[2]

The negotiating plan proposed by the Department of Agriculture consists of the following elements:

—Convert all non-tariff border measures (such as variable levies and quotas) to ad valorem duties;
—Harmonize tariff protection at no more than 25%, in the context of a line-by-line tariff reduction exercise covering both industrial and agricultural products;
—Eliminate export subsidies;
—Eliminate mixing regulations, monopolies, and restrictive licensing and prior deposit practices;
—Negotiate multilateral safeguards covering both agriculture and industry.

The paper recognizes that border protection is rooted in domestic policies but it does not consider it either necessary or practicable to enter into negotiations on these policies. It assumes that elimination of border protection, by increasing the budgetary cost of protection, would automatically force producing countries to reduce production incentives.

We question both the effectiveness and the realism of this approach:

1. By focusing narrowly on border measures, the plan would probably fail to accomplish our basic objective of a significant improvement of our agricultural export opportunities, as least so far as the European Community is concerned. (The plan might work in relation to Japan.) The Community has always insisted, with considerable justification, that border protection is only part of the story and that deficiency payments can be just as effective in stimulating production (the UK is a case in point). Thus, even if the Community should agree to convert its levies to tariffs (which is highly unlikely) and to make some concessions on these tariffs, and trade benefits to the US could be substantially impaired

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 219, Agency Files, Council on International Economic Policy (CIEP) 1973 (Vol II). Limited Official Use. Sent under cover of a March 20 memorandum from Eliot to Flanigan that reads: "On March 5 you forwarded to the Department a copy of Assistant Secretary Brunthaver's paper entitled 'Agriculture and Multilateral Trade Negotiations', and requested our comments. This Department's comments are attached, and a copy of these comments has been forwarded to Assistant Secretary Brunthaver, as you requested."

[2] Document 162.

or nullified if the Community were left free to substitute deficiency payments which are not production-neutral. We do not believe we can rely on the deterrent effect of increased budgetary outlays. Public expenditures for agricultural support have been increasing rapidly in the Community and by now over half of the total estimated cost of agricultural support by the Six is already being financed, directly or indirectly, by the FEOGA[3] or the national budgets. Second, the Community still has considerable leeway for shifting from wheat to feed grain production and for diverting wheat to livestock feeding, with adverse effects on our feed grain exports. On the positive side of the ledger, we recognize of course that a lower level of grain prices would have a beneficial influence on food consumption in the Community.

2. By directing the thrust of the attack to the *techniques* of protection, the negotiating plan takes the most difficult route toward our objective. We agree, of course, that it would be desirable to convert variable levies as well as quotas to tariffs. We should recognize, however, that techniques of protection, because they are deeply entrenched in legislation and institutions, are harder to change than levels of protection. What matters most, after all, is the protective effect of the totality of external and internal measures. This has been recognized by a succession of advisory groups, such as the Williams Commission and the Johnson Group.[4]

3. We agree that agriculture must get equal consideration with industrial interests in the trade negotiations. We question, however, whether this result is more likely to be achieved through a line-by-line negotiation which intermingles agriculture with industrial products. The line-by-line approach is an unwieldy and, in fact, a virtually impossible negotiating technique, either for industry or for agriculture. It was recognition that item-by-item negotiation had outlived its usefulness that led to the use of the linear technique in the Kennedy Round. Furthermore, this approach would make it practically impossible to come to grips with domestic measures which can be just as effective in keeping out agricultural imports as border measures. It is because of the close relationship of external and internal measures that both the Williams Commission and the Johnson Group recommended a sector approach for agricultural trade negotiations—stressing at the same time that this approach does not require a self-balancing package.

[3] The FEOGA, Fonds européene d'orientation et de garantie agricole (European Agricultural Guidance and Guarantee Fund), was an EC fund established in 1962 to finance the CAP.

[4] The International Trade and Investment Policy Commission, known as the Williams Commission after its chairman, former IBM President Albert Williams, was established in 1969 to review U.S. trade relationships among countries. The Commission submitted its report to the President in July 1971. See *Foreign Relations,* 1969–1976, volume IV, Foreign Assistance, International Development, Trade Policies, 1969–1972, Document 256. Regarding the Johnson Group, see footnote 2, Document 181.

4. The definition of reciprocity adopted in the paper, i.e., that it should be measured in terms of how closely a country is in conformity with GATT principles, is not one which can be either clearly defined or which is likely to be accepted by other countries since they would stand to lose more than ourselves by agreeing to this concept. Its introduction could only serve to start a protracted methodological dispute which might well prevent the negotiations from ever getting underway.

5. Finally, while we agree that we should oppose commodity agreements that narrowly focus on price management, we should not reject out of hand arrangements aimed at trade liberalization which seek to deal with commodities or groups of commodities as suggested in the Johnson Report. Furthermore, we would not want to rule out the possibility of US participation in international agreements dealing with tropical products.

In short, we do not think the approach proposed in the Agriculture paper is negotiable, or that it would be effective in accomplishing our goals. We recommend instead that we return to the Johnson Report to CIEP as a departure point for formulating this Administration's policy on agricultural trade negotiations.

167. Memorandum of Conversation[1]

Washington, March 29, 1973.

PARTICIPANTS

Dr. Henry A. Kissinger, Assistant to the President for National Security Affairs
George Shultz, Secretary of the Treasury
Major General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

Shultz: We have a commitment that if the dollar strengthens, the Europeans will sell some dollars to lower their holdings. Schmidt is especially strong on this.[2]

[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 1. Secret; Nodis. The memorandum identifies the date of the meeting as "Thursday, March 29, 1973 (?)," but there is no record of such a meeting in Kissinger's record of schedule. The memorandum identifies the meeting location as "Dr. Kissinger's Office (?)." A meeting among Kissinger, Shultz, and Scowcroft did take place on March 28 from 11:07 until 11:50 a.m. (Library of Congress, Manuscript Division, Kissinger Papers, Box 438, Miscellany, 1968–1976, Record of Schedule)

[2] Shultz met with Schmidt in Bonn on March 15. See Document 34.

Economics will have a major impact on the political scene.

Kissinger: Yes, and few Heads of State understand it.

Shultz: Heath does.

Kissinger: And Pompidou. But Brandt is a fool. Schmidt is good and understands the political dimension.

Shultz: I'm thinking we should have a strong economic section in the NSC and not have a CIEP.

Kissinger: I agree. I hadn't wanted to get into it, but we could do it—with Sonnenfeldt over at Treasury.

Shultz: Flanigan does a lot of things well and unselfishly.

Kissinger: I agree, but on the big things you and I should work it out.

We'll make the announcement next Wednesday.[3] We'll have language saying he can continue to be available to the NSC staff.

Shultz: He will be heavily involved in East-West trade, almost exclusively at first.

It'll be hard to abolish CIEP.

What about MFN?

Kissinger: There is a State proposal for a secret deal for 36,000 emigrants, for MFN. How could Jackson and his people withdraw their amendment[4] without any explanation?

Anyway, I can't imagine State being able to manage it. You or I might.

The U.S. attitude is inexcusable—emigration policy is none of our business.

Shultz: Rogers' proposal borders on the silly.

Kissinger: The Jews won't accept any firm upper limit. And you can imagine Brezhnev's reaction.

We have three options:

—Put it in the general bill.
—Put it in a Soviet bill.
—Follow the Javits route.

[3] April 4. The White House issued the announcement naming Sonnenfeldt as Under Secretary of the Treasury on April 6.

[4] In October 1972, Senator Henry Jackson (D–Washington), with the support of 71 other Senators, attached an amendment to a bill intended to ease East-West trade that banned the granting of credits or MFN treatment to any country that barred emigration or imposed overly onerous exit conditions on citizens wishing to emigrate. The amendment was a reaction to a recently introduced Soviet education tax levied on potential émigrés a tax that proved particularly burdensome to Jewish émigrés.

Shultz: Which Mills will oppose. The Soviets have done a lot.

Kissinger: But they can always revoke what they have done.

Shultz: Can't we have something that the President could announce with respect to non-market economies that the President could grant MFN when it's in the national interest?

Kissinger: This is very important to the Soviets.

Shultz: Yes. Most Congressmen think I made a deal. They don't understand.

Javits is delighted. How well he can be trusted to carry the ball, I don't know.

Within the framework of the trade bill, we don't have time before the visit[5] to get anything done.

Kissinger: My instinct is to put it in a general or Soviet bill and fight.

Shultz: In a trade bill, it couldn't be passed before October.

Kissinger: My first inclination was a separate bill, but if Jackson is in the trade bill, what is the difference?

Shultz: Why not put it in the trade bill, but with a clause about the President's determination?

Kissinger: It couldn't be done if the determination contained specific language about emigration policy. The Chinese would never accept on that basis.

Shultz: The Javits formula is attractive, but it won't get past Mills.

Kissinger: I like the Javits formula.

Shultz: Maybe keep it in the trade bill. There's not much chance. Mills thinks MFN is a Congressional right. They can give it to the President, but not give it or take it back.

Shultz: Javits is good because it doesn't require a vote. I described all these in detail, so you will know what is going on when one of them appears.

If it's in the trade bill, it would say the President can grant it with a determination that it is in the national interest.

Kissinger: How about a separate bill?

Shultz: The only way to get it by the time of the visit would be a separate bill. It could still be in the trade bill. If Congress wanted to support the President, a separate bill would be easy.

Kissinger: But that isn't the case.

Shultz: The climate is bad for everything.

Kissinger: They said it would improve after Vietnam.

Shultz: It has never been worse!

[5] General Secretary Brezhnev was scheduled to visit the United States in June.

168. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to President Nixon[1]

Washington, March 28, 1973.

SUBJECT

Description of the Trade Reform Act of 1973, with Options Papers on two remaining decisions

The proposed Trade Bill provides authorities and tools for the following purposes:

1) *To negotiate more open and more equitable trade.*

a) Five-year authority to reduce, raise or eliminate most tariffs over a period of time, for use during the upcoming multilateral negotiations. Authority to eliminate tariffs is essential to get an open, as opposed to restrictive, solution to the problem of preferential discrimination (particularly by the Common Market) against our exports. Import restrictions on some sensitive products or categories (e.g., textiles) would be exempt from change, either temporarily or permanently.

b) A declaration of Congressional intent that you negotiate agreements reducing, eliminating or harmonizing non-tariff trade-distorting measures (used by the Common Market and Japan to restrict imports of our agricultural commodities), and a new procedure to assure prompt Congressional action where changes in US law are needed to implement the agreements.

c) A more flexible authority for retaliation against those countries which balk at removing unfair restrictions against our exports.

2) *To guard against disruption of our market, to facilitate orderly adjustment to fair competition, and to assure that imports compete fairly with our domestic producers.*

a) A new domestic safeguard procedure to enable us to act promptly (within four months or sooner) and effectively to restrain the rise in imports causing serious injury for periods up to seven years, if needed, to give industry and workers time to make orderly adjustments to import competition. The criteria for availability of this relief would be eased relative to current law to permit us to respond promptly to real problems.

[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS Trade—Volumes I & II 1973/74. No classification marking.

b) Reform of existing unemployment compensation programs and establishment of minimum pension provisions, through separate legislation as you have proposed before. Pending implementing action by the States on such reform, workers unemployed from trade related causes (using less stringent and time-consuming processes than in current law) to be given benefits equivalent to those they would receive under the new unemployment compensation standards. Training and relocation grants to facilitate worker adjustment would continue, as under broader manpower programs. The existing adjustment program for individual firms would be repealed, but a modest program of studies and technical aid (already authorized under existing programs) would be used to encourage private initiatives by an industry to improve its productivity and competitiveness.

c) Changes in antidumping, countervailing duty and related laws to assure prompt action, and fair and effective procedures in handling cases of unfair import competition.

3) *To strengthen our capacity to manage trade policy and respond effectively to problems created for our economy by international or domestic imbalances.*

a) New authority to raise or lower tariffs or quotas across the board, or to impose these restrictions selectively against particular countries, to help correct an imbalance in our international payments position.

b) New authority to reduce trade barriers to fight domestic inflation.

c) Other permanent authorities to provide flexibility in international bargaining after the main negotiating authority expires.

4) *To open up and take advantage of new trade opportunities.*

a) Authority to fulfill your commitment to set up a system of generalized preferences for LDC's, with adequate provisions for exceptions and safeguards. This scheme will help to bring pressure on Europe and Japan to liberalize their programs, open their markets to Latin American and Asian countries, and remove reverse preferences that discriminate against U.S. exports.

b) Authority to grant MFN to communist countries in the context of a trade agreement. This would permit you to meet your commitments to the USSR and Romania, and give you flexibility to deal with the PRC and others.

To put American exporters on a more equal basis with foreign competitors, the Message will note separate legislation to be submitted calling for changes in the Webb–Pomerene Act regarding the antitrust exemption for Joint Export Associations, and extension of its coverage to include exports of certain services connected with the sale of goods (e.g., engineering, construction, management counseling).

To deal with the Burke–Hartke challenge to American investment overseas, the Message will stress the interrelationships among the trade, monetary and investment systems and the need to avoid unilateral action now which would compromise our ability to negotiate a balanced reform. The Message will also note certain changes in our laws concerning taxes on foreign source income which will be proposed as part of a tax reform package to improve our tax policy as well as to counteract the Burke–Hartke approach.

The two remaining issues for Presidential decisions, on which Option Papers are attached, are:

a) Whether the President's authority to impose, on a non-MFN basis, a surcharge or quota for balance of payments purposes should be constrained by international agreements (Tab A), and

b) The form in which Congress should be requested to give the President authority to grant MFN status to the USSR (Tab B).

Tab A

Option Paper

Issue: The Trade Bill provides that the President may impose a surcharge or quota, either selectively or on all nations, as a means of responding to a Balance of Payments deficit. At issue is whether the President is *required,* where the restraint is imposed selectively, to do so consistent with either international obligations or the approval of the IMF.

Option I: Authority to apply the surcharge or quota selectively only if allowed or recommended under international rules.

Pro: 1) Is compatible with our general support of the rules of law in international relations and basic defense of the MFN principle. U.S. leadership in indicating its intention to depart from its MFN obligations in surcharge cases only under multilateral agreement will strengthen international cooperation and dampen dangers of chaotic unilateral actions.

2) Gives the President a legal defense against pressures to make exceptions for particular countries (Canada, LDC's) from the imposition of a general restraint.

3) The threat of across-the-board restrictions to reduce our overall payments deficit keeps the pressure on *all* countries to cooperate to reduce the deficit. It encourages third countries to assist the US in bringing pressure on those nations which have undue surplus. An authority aimed primarily at one or just a few countries reduces that pressure and lets others (e.g., France with whom we usually have a trade surplus) wash their hands of the affair.

4) Chairman Mills' speech March 21[2] noted the possible need for an import surcharge against a country in chronic balance of payments surplus, but stated, ". . . this power should, of course, be used only in accordance with agreements now being negotiated in the international monetary reform effort."

Con: 1) If we don't succeed in getting changes in IMF rules which would permit countries to take discriminatory action against those in persistent surplus, we would not be able to use the authority on a selective basis. This makes our action to impose a selective surcharge hostage to the decisions of others.

2) Congress may insist on authority to take unilateral discriminatory action whatever we propose.

3) A showing that we are ready to act outside international rules if needed could improve the possibilities for getting the necessary rules agreed to by all.

4) Giving the President unilateral authority to act contrary to MFN does not mean he will in fact ignore MFN constraints, only that it is available.

Option II: Authority to apply the surcharge or quota selectively regardless of international rules, subject only to requiring that the President in taking such action "shall consider the relationship of such action to the international obligations of the United States."

Pro: 1) Gives full flexibility to protect our interests through imposition of a surcharge or quota against countries where our bilateral trade deficit or whose surplus is particularly large.

2) Makes clear to foreign countries that we have a powerful weapon to use if we deem it necessary.

3) Because it is selective among countries, this could help bring pressure on Japan and ease European and LDC fears that we would use across-the-board restrictions that hurt them when our main problem is elsewhere.

4) The President can resist pressures to make exceptions from a general restraint by referring to international obligations.

Con: 1) It could complicate relations with Japan, since it will be seen as aimed at her.

2) It invites other countries to levy similar restrictions against us regardless of whether rules sanction such action or not.

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[2] On March 21, Mills spoke in the House of Representatives on his desiderata in a new trade bill. (*The New York Times,* March 22, 1973, p. 65)

3) If we cannot get the rules we want in the IMF, we can ask Congress for unilateral authority later and certainly get it.

State, STR, NSC and CEA recommend Option I. Treasury, Commerce, Labor, Agriculture and CIEP recommend Option II.

Tab B

Option Paper

Issue: The Trade Bill is the appropriate vehicle for providing the President authority to grant MFN status to communist countries, when he considers doing so to be in the national interest. At issue is the question of how best to obtain such authority in order to (a) fulfill the agreement with the Soviets, (b) not jeopardize the current availability of Exim loans to the Soviets, and (c) not jeopardize the Trade Bill.

Option I: Request full Presidential authority to grant MFN status to communist countries where he considers it in the national interest.

Pro: 1) Similar to Presidential authority regarding other countries.

2) Most forthcoming on behalf of the Soviets.

3) Allows a fall-back position to the Javits proposal. (Option II)

Con: 1) Brings the debate with the Congress on this issue immediately to the fore.

2) Would undoubtedly be amended as proposed by Jackson and Mills, resulting in (i) the need for a Presidential decision that excessive exit fees were not being imposed, or (ii) if that were not possible, accepting the limitations of the amendment, including the loss of authority to grant Exim Bank credit to the Soviet Union, since vetoing the Trade Bill is unlikely.

3) Threatens the Trade Bill with lengthy and divisive debate.

Option II: Request Presidential authority to grant MFN status to communist countries, subject to a veto in two months by either House of Congress (Javits formula).

Pro: 1) Reduces the possibility of immediate confrontation on this issue, and consequent tying up of the Trade Bill.

2) Provides time for a negotiated settlement with the Soviets.

3) If passed, allows the President to meet his personal commitment to Brezhnev and so protect the détente, even if Congress subsequently reverses the action.

Con: 1) While acceptable to most members of Congress with whom it was discussed, the Javits formula is unacceptable to Mills, Jackson and Ribicoff. Therefore, it could be amended in the Congress to accord with their position.

2) The only fall-back from this position is to remove MFN authority for the Soviet Union from the Bill entirely, sending a request for MFN status for the USSR to Congress in separate legislation.

Option III: Exclude from the Trade Bill reference to MFN for communist countries, and send the Congress separate legislation on this matter.

Pro: 1) Avoids tying up the Trade Bill in debate on this issue.

2) Provides time for a negotiated solution.

Con: 1) Would appear to the Soviets as reneging on our commitment, as they know inclusion of this authority in the Trade Bill increases the chances for passage.

The proper choice among the above options cannot be made accurately until the situation in the Soviet Union, and the consequent attitude in Congress, is determined just before submission of the Trade Bill. Therefore, the following scenario is proposed:

(a) In all drafts of the Trade Bill (on the assumption that these drafts will be leaked) include Option I.

(b) Kissinger will discuss the situation in the USSR with Dobrynin on March 28. Based on indications from several Jewish leaders, a confrontation could be avoided on the following basis:

(i) 35,000 Jewish émigrés from the USSR per year.
(ii) Inclusion among the émigrés, through the exemption provision in the Soviet law, of some college graduates and other "special" cases.
(iii) A reduction in the persecution, by firing and other means, of Soviet Jews, when they or their relations apply for an exit visa.

(c) Assuming the current Soviet attitude is at least as forthcoming as the above settlement, submit the Bill with Option I, if agreement can be reached with Congressional leaders not to amend the authority. If no agreement is possible, choose Option II. Choose Option II if that course avoids the amendment. If no progress is made with the Soviets, choose Option II, with Option III a fallback position.

169. Editorial Note

On April 2, 1973, President's Assistant for International Economic Affairs Peter Flanigan sent President's Assistant for National Security Affairs Henry Kissinger a copy of the MFN Option Paper that he had sent to the President on March 28 (Document 168, Tab B). In a covering memorandum, Flanigan wrote: "As the Option Paper indicates, unless there has been a change in the way the Soviet law is being enforced, and that change is reflected in the attitude of the Jewish leaders in the US and Congressional leaders, I believe Option II is preferable. I understand you have determined the Soviet attitude with [Soviet Ambassador Anatoly] Dobrynin. It remains to determine the attitude of Jewish leaders in the Congress and we have very little time to do this. According to George Shultz, you have the responsibility for this decision. Unless I hear differently from you, the Bill will be sent to the Congress with the provision for granting MFN to the USSR, as indicated in Option I." On April 2, National Security Council staff member Richard T. Kennedy forwarded Flanigan's memorandum to President's Deputy Assistant for National Security Affairs Brent Scowcroft. Kennedy noted in his covering memorandum to Scowcroft Flanigan's requests that his memorandum be forwarded to Kissinger "urgently" and "that we advise HAK that he has sent this memorandum to him and that the ball is now in HAK's court with time running out as to how we approach Congress on this matter." Both memoranda were sent to San Clemente, California. An April 4 note by Kennedy, written on his April 2 memorandum to Scowcroft, reads: "Per Gen. Scowcroft's call from San Clemente, RTK informed Flanigan that HAK prefers Option 2 with fall-back to Option 1 if Mills balks too hard. Flanigan understands and agrees will go forward in that way." (National Archives, Nixon Presidential Materials, NSC Files, Box 219, Agency Files, Council on International Economic Policy (CIEP) 1973 (Vol II))

On April 10, President Richard Nixon sent the Trade Reform Act of 1973 to Congress. For his remarks and transmittal message, see *Public Papers: Nixon, 1973,* pages 258–270.

On April 18, President Nixon, Shultz, Kissinger, Flanigan, President's Assistant for Legislative Affairs William Timmons, Press Secretary Ronald Ziegler, and National Security Council staff member John Lehman met with Senators Michael Mansfield (D–Montana), Hugh Scott (R–Pennsylvania), George Aiken (R–Vermont), Henry Jackson (D–Washington), Jacob Javits (R–New York), and Abraham Ribicoff (D–Connecticut), Speaker of the House of Representatives Carl Albert (D–Oklahoma), and Representatives Gerald Ford (R–Michigan) and Thomas O'Neill (D–Massachusetts) on the issue of MFN for the Soviet Union. (National Archives, Nixon Presidential Materials, White House Central Files, President's Daily Diary) No other record of this meeting has been found. According to an April 20 article in *The New York Times,* the President told the Congressmen that the Soviets were easing obstacles to Jewish emigration to Israel by waiving a tax imposed on educated emigration applicants.

In an April 19 memorandum to the President, Timmons wrote that "Hugh Scott and Jerry Ford are prepared to do battle to provide MFN for Russia." Timmons also reported that National Security Council staff member Tom Korologos had spoken with Mansfield, whom Korologos quoted as saying, "It was an outrageous way to treat the President. . . . a man who is trying to do all of these things for peace. Jackson wants SALT II and MBFR to fail. Tell the President I'm behind what he's trying to do. If Jackson and others succeed in their efforts, they are going to head this country toward a major wave of anti-Semitism." (Ibid., NSC Files, Box 317, Subject Files, Congressional, Vol #8, January–May 1973)

President's Deputy Assistant for Legislative Affairs Richard Cook wrote in an April 19 memorandum to the President that "Ways and Means Chairman Mills reiterated to me this morning what he told Peter Flanigan yesterday: that as far as he is concerned, the Soviet communication on Jewish émigré head tax is completely satisfactory. Further, Mills told me he granted an interview today, to the *Washington Post* in which he has authorized public commitment to granting the President's request for MFN to the Soviet Union in the trade bill." Cook commented that "with Mills' support, we should be able to get MFN authority approved by the Committee on Ways and Means and probably by the House. Even if the proposition is rejected by the Senate, Mills is convinced the conference committee on the trade bill would restore the request. Tom Korologos and I agree. Recommendation: First, if the above proves to be an accurate appraisal, there is no need for further requests by the President and his staff for cooperation or compromise from anti MFN leaders such as Jackson, Ribicoff, Javits and [Representative Charles] Vanik [D–Ohio]. Second, it is essential that Henry Kissinger establish a personal relationship with Mills and [Representative Herman] Schneebeli [R–Pennsylvania] over the coming months on the MFN issue. Third, I think the President should communicate our success with Mills to the Soviets, inasmuch as Ambassador Dobrynin knows full well that Mills' attitude on MFN is far more important from a legislative standpoint than Jackson, Ribicoff and Javits combined." (Ibid.)

President's Assistant Stephen Bull reported on a conversation between Flanigan and Mansfield in an April 19 memorandum to Timmons, noting that "Sen. Mansfield characterized the attitudes of Jackson and Ribicoff as 'outrageous.' He said that the Soviets have taken 'an enormous step forward,' referring to the elimination of the emigration tax. Continuing in his commentary on Jackson and Ribicoff, Sen. Mansfield said they would 'lose' if they maintained their position on the Jackson Amendment. Sen. Mansfield said that Peter Flanigan could tell the President that, in view of these new circumstances, he (Sen. Mansfield) is ready to 'go to the mat' on this issue if the President wishes him to do so." (Ibid.)

According to an April 19 memorandum from National Security Council Staff Secretary Jeanne Davis to Kissinger, Mills informed Flanigan "that 'the Soviet statements meet his requirement'; he will drop the Mills Amendment [which mirrored the Jackson amendment] and believes he will have a unanimous vote for a clean trade bill in the Ways and Means Committee." (Ibid., NSC Files, Box 290, Agency Files, U.S. Treasury, Vol. III, Jan. 1972–Sept. 18, 1973)

170. Memorandum From Council of Economic Advisers Member Gary Seevers to Secretary of the Treasury Shultz and the Chairman of the Council of Economic Advisers (Stein)[1]

Washington, June 6, 1973.

SUBJECT

Export Controls on Agricultural Products

This morning John Dunlop and I met with Secretary Butz and Secretary Dent to develop a plan if the President decides to take measures to control agricultural exports.[2]

We agreed, subject to further staff and legal analysis, on the recommendation which is outlined below. Our assumption at the morning meeting was that the "short supply" criteria of the Export Administration Act could be met under present and expected conditions. However, further analysis has raised serious question about this assumption. The criteria specified in the Act are:

1. The Secretary of Agriculture, who must approve "short supply" controls, may not approve the controls for any period during which the supply of the commodity involved is in excess of the requirements of the *domestic* economy. This was added for agricultural commodities after the ill-fated export controls on cattle hides.

2. The Secretary of Commerce must make the following finding: Export controls are ". . . necessary to protect the domestic economy

[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 4, Export Controls 1973 GPS. No classification marking. A copy was sent to Dunlop.

[2] The Nixon administration was considering implementing agricultural export controls as part of a package to address the problem of persistent and high rates of domestic inflation, particularly in the realm of foodstuffs.

from the excessive drain of scarce materials *and* to reduce the serious inflationary impact of abnormal foreign demand."

Agriculture does not believe criterion 1 could be met, and Commerce is uncertain about criterion 2. COLC does not have authority to place quantitative restrictions on exports.

There are other statutory bases for export controls under the Export Administration Act. These rest upon either significantly furthering the foreign policy of the United States and fulfilling its international responsibilities *or* protecting national security.

Another alternative ground for controls is the Trading with the Enemy Act, using the 1950 declaration of emergency, as was done in August 1971.

In short, while we do have statutory authority to control exports, it is not purely on the short supply/rapid inflation basis we had assumed.

Recommendation

If we decide to proceed, the recommendation at this morning's meeting would entail establishing a monitoring system (for which Commerce has the authority) and the threat of export controls (for which we have shaky authority).

The President would announce the following—

1. He would explain the problem, emphasizing the importance of carefully monitoring exports until we find out whether American production and world conditions will alleviate unacceptable pressures on domestic supplies and prices.

2. The Commerce Department would institute a mandatory reporting requirement for all outstanding orders for export of the relevant agricultural commodities. Such reporting requirements would cover aggregate quantities for each specified commodity by country of ultimate destination and by month of scheduled or anticipated export.

3. In addition, Commerce will require weekly reporting of all new orders for exports accepted subsequent to the date of the initial reporting requirement, as well as all shipments for export.

4. He would state that if conditions do not improve, he would use all available authority[3] to institute a program to restrain exports to assure adequate food supplies at reasonable prices for American consumers. He would emphasize that export contracts signed after the announcement date would be subject to any restraints imposed (this is to avoid a surge of anticipatory export buying and selling).

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[3] Note: This might require new legislation, but we should not say that in the public statement. [Footnote is in the original.]

5. The system would cover wheat, feed grains, soybeans, cottonseed, and products of the foregoing. It was felt the immediate need was less for meats and the political resistance would be greater. They could, however, be added if rising exports became a problem.

This option has several advantages. It keeps us from becoming committed to a system of export controls that may turn out to be unnecessary. It allows for prompt announcement without the necessity to work out beforehand all the technical details that will be required if and when actual controls are put in place. At the same time it represents a deterrent against foreign buying in anticipation of controls and a safeguard against a few huge "one-shot" purchases.

Secretary Butz prepared draft speech material for the President in line with this recommendation (Tab A).[4] Commerce is on standby to put the reporting requirements into effect on 48-hour notice.

Alternative Options

A milder option would be to implement only the mandatory reporting on new sales and/or the inventory of unfilled contracts without the presumption that controls will be implemented unless conditions improve. The major argument against this approach is that it might cause anticipatory buying to get orders in ahead of controls if there was no announced threat that new contracts would be subject to controls. The strongest option would be to announce that export controls are being implemented immediately (it would take a minimum of two weeks to get them in place). In addition to being questionable legally, there was a feeling that this option goes too far at this time and that there is insufficient information to conclude that controls are actually needed. Also, a "crash" program would reduce the time required to follow acceptable consultative procedures with the Congress and groups directly affected.

The Impact of Export Controls

It is too early to know how much exports would have to be restricted to achieve any given price objective. I think our goal would be to get feed costs below the present inflationary levels so as to be consistent with our goals and forecasts for retail food prices expressed in the White Paper[5] (i.e., a "flattening out" in the second half of 1973 and the prospect of substantially greater food supplies—and presumably lower retail prices—in 1974).

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[4] Attached but not printed.

[5] Apparently a reference to a white paper on food prices issued by the Cost of Living Council on March 20.

A strong case can, of course, be made against any kind of controls on agricultural exports. It runs counter to several foreign policy objectives, to our posture in trade negotiations and to the long-run development of existing commercial markets. An NSC memorandum coming to you separately makes several valid arguments against controls and proposes an alternative program to deal with the problem.

The risk in the NSC approach is, of course, that we will find ourselves in the position of having sold more agricultural commodities than we would be able to deliver without keeping prices at their present inflated levels or sending them higher. This is the problem we face today with old-crop soybeans, which have been "oversold."

Gary Seevers

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171. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to the White House Chief of Staff (Haig)[1]

Washington, June 9, 1973.

Following our conversation on export controls, Shultz called me. It turns out that the foreign policy implications go far deeper than just export controls.

As Shultz explained it to me, in order to put restraints on agricultural commodity exports, the Secretary of Agriculture must make a finding that the commodity is in short supply. Conversely, in order to provide commodities under PL 480, Agriculture must declare that the commodity is in adequate supply. This latter finding is the currently operative one. In order to apply export controls, therefore, that finding must be withdrawn and replaced with the short supply finding. This, of course, would immediately stop the PL 480 program in those commodities being controlled.

I have prepared an input to Shultz' overall package, but in the time available it is not very adequate. It is obvious, however, that adding

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 290, Agency Files, U.S. Treasury, Vol. III, Jan. 1972–Sept. 18, 1973. Secret; Eyes Only. According to another copy of this memorandum, it was sent by LDX to Haig in Key Biscayne, Florida. (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 3, 6/8–12/73) Haig was in Key Biscayne with the President.

the impact of the cessation of the PL 480 program to that of an export control program creates a foreign policy disaster.

I described to Henry what was going on[2] and have just received the following cable: "I agree with you completely on absolute necessity that we have foreign policy clearance over agriculture export control proposals, also over any other aspect of economic package that has any foreign policy impact. Please tell Haig it is essential that President has our input before any decision is made."

I trust that you will ensure us an adequate input on foreign policy aspects before decisions are made. At this point, we know so little about what is being planned that we cannot even intelligently prepare ourselves.

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[2] In a June 9 message to Kissinger in Paris, Scowcroft wrote about the possible imposition of agricultural export controls: "I called Haig to find out if that consideration was still active and if any steps on our part were needed. He said that the overall measures being considered were severe and that export controls would probably have to be included." Scowcroft related that Shultz later telephoned to tell him "that the economic package would include strong measures to hold down commodity prices. This move, in view of rising world prices, would result in the stimulation of commodity exports if controls were not imposed." Scowcroft explained to Kissinger the implications of export controls for P.L. 480 and noted NSC preparation of material for inclusion in Shultz's briefing package for the President. Scowcroft concluded, "As near as I can discern, had I not called Haig to find out what was going on, this entire issue would have been resolved without any input whatsoever from us." (Ibid.)

172. Editorial Note

On June 9, 1973, Secretary of the Treasury George Shultz assembled a package of briefing materials and recommendations for President Richard Nixon on a new economic program to address the problem of inflation. He proposed two options: "Option I, continuing the present program with some strengthening" and "Option II, proposing a freeze and return to comprehensive and mandatory controls," including export controls on selected agricultural products. Cost of Living Council Director John Dunlop, President's Assistant for International Economic Affairs Peter Flanigan, Council of Economic Advisers Chairman Herbert Stein, and Shultz all favored Option I. Office of Management and Budget Director Roy Ash and former Secretary of the Treasury John Connally (who had been serving as an unofficial emissary of and adviser to President Nixon for several months) favored Option II. Anne Armstrong, the President's Counselor, conceded the possible need for some controls, particularly on food prices. "Short-term limitations on commodity exports may be justified, therefore," Armstrong wrote, "despite the price we will pay in loss of confidence from our purchasers abroad." Vice President Spiro Agnew favored the status quo; Secretary of Commerce Frederick Dent also favored staying the course. Federal Reserve Board Chairman Arthur Burns and Deputy Secretary of the Treasury William Simon rejected both options and each presented alternative approaches. Secretary of Agriculture Earl Butz, citing recent sharp declines in grain prices, counseled that "it may be desirable to go slow on interfering with the export market. There are so many negatives involved in action of this kind that I am extremely reluctant to initiate controls unless absolutely necessary."

In outlining his reasons for opposing Option II, Shultz argued strongly against export controls, which he asserted "would wreak havoc with several aspects of our foreign policy. It would interrupt and perhaps reverse the long-awaited improvement in our trade balance. It would undermine the position of the dollar in the foreign exchange markets and dissipate the chances of creating a new international monetary system! It would put us in an extremely disadvantageous position for trade negotiations; both negotiations with the EEC on compensation for damages from the Communities' enlargement currently underway and the multilateral trade negotiations scheduled to begin in the fall. It would adversely affect our reliability as a source of supply in the eyes of present and potential foreign customers. And it might well cause complications in the development of ties with Communist countries. In short, it would push us toward a 'closed society' just when we wish to enhance the cause of world peace by creating a more open world." (National Archives, Nixon Presidential Materials, NSC Files, Box 290, Agency Files, U.S. Treasury, Vol. III, Jan. 1972–Sept. 18, 1973)

173. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to Secretary of the Treasury Shultz[1]

Washington, June 9, 1973.

SUBJECT

International Impact of Restraints on U.S. Food Exports and PL 480 Program

It is our understanding that there are moves under consideration in the economic area which could involve agricultural commodity export controls and termination of exports under PL 480. Such moves should not be undertaken without full recognition of the severe foreign policy implications. This memorandum outlines these implications and suggests measures to mitigate their impact upon our foreign relations. In view of the fact that I became aware only this afternoon of contemplated moves with respect to PL 480,[2] this preliminary analysis is necessarily sketchy.

Export Restraints

It is a truism to state that export limitations imposed for security or economic reasons have far-reaching international implications. They are, in effect, the mirror image of stockpile disposals.

To our trading partners, U.S. restrictions on food exports may well appear as a kind of protectionism, since by holding down food prices at home at the expense of our balance of payments we will be protecting ourselves against the consequences of an interrelated world trading system. We may appear to be abandoning the rules of the game of international cooperation, both political and economic, which we have said we want to improve. *Our* food prices will be lower—but our balance of payments position will be worse, and *their* food prices will be higher and availabilities reduced. They are likely to feel we are trying to transfer our problems to them on both the price and payments side.

The reaction of other countries could be very serious if our actions lead them to think they cannot rely on U.S. agricultural exports and consequently need to protect and expand their own agricultural production (Europe and Japan), if it appears that we are going back on an important economic component of political understanding (USSR, China), and

[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS White House. Secret. A copy of this memorandum was included in Shultz's June 9 briefing materials for the President; see Document 172.

[2] See Document 171.

if it appears as if we are indifferent to the hardship we will be causing to countries far poorer than we (India and LDC's generally). The international economic ramifications could also be serious: a more vigorous European effort to compel U.S. policy changes to improve our balance of payments, heightened speculation against the dollar, increased stocking (hoarding) of foodstuffs for both precautionary and speculative reasons, and, in general, a retreat from cooperative interdependence.

The impact will be tempered somewhat if other countries are made aware of the dimensions of the problem, and if assurances are provided concerning the temporary nature of the departure from our normal practices. We would need to emphasize our continuing commitment to long established principles of international commerce, to reducing our balance of payments deficit, and to increases in the long-run of agricultural exports. There are many ways in which other countries can help both to distribute and to alleviate what is a worldwide problem. The inventory and pricing policies of other countries will be particularly pertinent, as well as the measures they take to check commodity speculation. Simple agreements on spacing purchases can help turn what might otherwise be a short-run emergency into a more protracted, but less painful, adjustment. It may even be that if fuller information is made available that our current concerns will be shown to be exaggerated to some important degree. Certainly international consultations can help to moderate the balance of payments effects of any measures taken to restrain U.S. food exports.

If intensive international consultations on U.S. food shipments are entered into, therefore consultations should be carried out with key consumers (Japan, China, the USSR, and the EEC as a group or key European countries separately, and possibly India), with other producers (Canada, Australia, Argentina) and with minor importers. Therefore consultations with key consumers and major producers should be carried out by senior Washington officials with NSC coordination; those of particular importance could be handled through diplomatic channels. The purpose of these consultations should be to exchange information, explain our position and the reasons for it, and to explore possible cooperative measures in other countries. A second round of consultations might be needed at a later date when our own crop situation is clearer and our findings from previous consultations have been received.

If we are compelled to take steps to curtail U.S. food exports, our trading partners will be harmed. How vigorously they react will depend on how carefully we manage our actions.

Suspension of PL 480 Program

The PL 480 program represents a substantial portion of U.S. assistance to other countries. In 1971, for example, U.S. food aid represented 25 percent of total U.S. development assistance and 72 percent of world food aid. As the Chart at Tab A[3] indicates, termination of the PL 480 Title I program would strike hard at a number of countries where such assistance is sorely needed: Vietnam, Cambodia, Korea, Indonesia, Pakistan, the Philippines and Bangladesh.

Elimination of the PL 480 Title II program would result in very substantial human, as well as foreign policy, costs. Designed for humanitarian and emergency purposes, termination of Title II would impact directly on those peoples of the world who are already suffering most acutely.

A detailed country analysis of the impact of a PL 480 cutoff is under preparation. However, a preliminary review of the situation indicates that there are ways in which cuts in planned PL 480 commodity allocations can be made, saving substantial exports without resorting to export controls and termination of the PL 480 program. Rather than terminating the PL 480 program immediately therefore, it is recommended that the President announce that the program is being intensively reviewed and that major cuts in some commodities may be necessary at a later date. Following such a review, it should be possible to identify those commodity programs by country, issue the necessary procurement authorizations, and thereafter issue a finding that certain commodities are not in adequate supply. It is estimated that this process could be completed in approximately three weeks.

[3] Attached but not printed.

174. Editorial Note

On June 11 and 12, 1973, National Security Council staff member Charles Cooper produced numerous memoranda on the foreign policy implications of export controls, varying according to the status of the impending Presidential decision for or against controls. (National Archives, Nixon Presidential Materials, NSC Files, Box 368, Subject Files, PL–480) On June 11, after being informed that Cooper was preparing a revised memorandum to the President on the issue, President's Assistant for National Security Affairs Henry Kissinger wrote to President's Deputy Assistant for National Security Affairs Brent Scowcroft: "We must get on top of nature of controls." (Undated note attached to a June 11 memorandum from Cooper to Scowcroft; ibid.) The next day, in a memorandum to Scowcroft, Cooper commented, "Until we know how the decision stands, there is little we can actually do." Cooper then proposed two plans of action, depending on whether export controls would be imposed immediately or at a later time. (Ibid., Box 403, Subject Files, Trade, Vol. VI, April 8–December 1973)

Part of the confusion surrounding the imposition of export controls owed to an ongoing debate within the administration as to whether the President had the legal authority to impose such controls. On June 12, Council of Economic Advisers member Gary Seevers wrote the Chairman of the Council of Economic Advisers, Herbert Stein, that neither the Department of Commerce nor the Department of Agriculture believed that it could legally sanction immediate export controls under the terms of the Export Administration Act. This left, Seevers noted, imposing controls under the authority of the Trading with the Enemy Act or asking Congress for new authority to do so. Seevers also briefly reported on the issue of the allocation of quotas, were controls to be imposed. Stein forwarded Seevers's paper to Secretary of the Treasury George Shultz, noting that he had "referred the legal question about export controls to the Office of Legal Counsel at the Department of Justice for a quick opinion." (Ibid., RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 4, Export Controls 1973 GPS)

President Richard Nixon announced a new price control program on the evening of June 13. The measures included a temporary freeze of all prices, except rents and unprocessed agricultural goods at the farm-level, as well as planning for a new system of price controls that would take effect no later than 60 days thereafter. The President stated that he would also ask Congress for the authority to impose export controls, which would be applied to grains. Nixon remarked: "In exercising such authority, this will be my policy: We will keep the export commitments we have made as a nation. We shall also consult with other countries to seek their cooperation in resolving the worldwide problem of rising food prices. But we will not let foreign sales price meat and eggs off the American market." For the President's remarks, as well as a full account of the measures he announced that evening, see *Public Papers: Nixon, 1973,* pages 584–587.

Cooper and Scowcroft did have the opportunity to review at least a part of the text of the President's speech before he delivered it. On June 13, Scowcroft forwarded some wording changes suggested by Cooper to White House Chief of Staff Alexander Haig, adding, "In addition, it would appear that the speech could result in a speculative rush on agricultural commodities in anticipation of the controls to be imposed. This perhaps has been taken care of elsewhere in the speech but from this portion it appears that it could be a problem." Cooper put it more bluntly in his note to Scowcroft: "The problem of a possible speculative market reaction is a substantive one—this language, at a minimum, would require an immediate follow-up briefly. Is one being prepared? If so, how do we influence it, or do we?" (National Archives, Nixon Presidential Materials, NSC Files, Box 321, Subject Files, Economic Speech (June 73))

175. Memorandum From Charles Cooper of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, July 9, 1973.

SUBJECT

Phase IV—the Opportunity to Minimize Export Controls

I understand that some basic decisions regarding Phase IV[2] may be taken at a meeting with the President tomorrow. Although there is considerable sentiment within the Government for allowing greater flexibility in food prices under Phase IV, the final decision, which is of critical foreign policy importance, is still in doubt. Your intervention is needed to make sure that the foreign policy implications of the decisions taken are fully appreciated.

Problem

Economic. Supplies of agricultural and other commodities are tight in the U.S. and abroad. Export controls have been initiated under Phase 3½ to keep domestic supplies at a level high enough to maintain low domestic prices.[3] As an example, under Phase 3½ the price of meat is controlled, but the price of feed grains is not; if feed grain prices remain high and meat producers cannot pass the increase on to consumers, meat production becomes unprofitable and is cut back. Thus, export controls are needed to maintain sufficient domestic supplies to insure that grain prices are reduced below a certain target price so that meat

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 403, Subject Files, Trade, Vol. VI, April 8–December 1973. Secret. Sent for action.

[2] Phase IV was the name for the new system of price controls President Nixon promised to implement in his June 13 speech; see Document 174.

[3] On June 27, the Nixon administration instituted a temporary embargo on soybean and cottonseed exports. On July 2, it lifted the embargo, replacing it with controls on exports; at the same time, the administration also instituted restrictions on scrap metal exports. On July 5, the administration restricted the export of an additional 41 agricultural goods. (*The New York Times,* June 28, July 3, and July 6, 1973)

production again becomes profitable. Greater flexibility in the price of meat and other food products by raising the ceiling price would also diminish the need to retain such high amounts of domestic supply and thus the need for export controls. They would also elicit new domestic production to meet high demand (the present freeze reduces production incentives), and the resulting higher prices for domestic products would diminish foreign incentives to purchase in the U.S. (Present low prices give foreigners a substantial bargain which provides an incentive to buy in the U.S. and draw down our tight supplies.)

Political. The foreign policy cost of these controls has been enormous.[4] Japan and Europe, on whom we have applied heavy pressure to provide greater market access for our agricultural products, will almost certainly take new measures to increase their self sufficiency and to develop new sources in order to reduce reliance on the U.S. This will, over time, seriously damage our balance of payments. It will contribute to intense friction when our farmers demand—in spite of foreign perceptions that we are demonstrably an unreliable supplier—greater European and Japanese reliance on U.S. supplies. And, the problems which will arise under Phase IV if we must, in establishing controls, make decisions as to which countries will receive our exports will be mind boggling.

Recommended Response

Dealing with this problem requires that Phase IV allow adequately for increases in the price of food products. While preventing any increase in food prices is desirable, it isn't feasible: all laws of economics argue that in a period of high demand and limited supply, prices should rise both to elicit new production and dampen demand. If such price increases aren't permitted, administrative controls to restrict exports will have to be imposed.

Our entire strategy for dealing with trade problems in agriculture, our relationship with Japan (which as the result of our pressures is heavily dependent on the U.S. for its food supply), and ultimately our

[4] In telegram 8165 from Tokyo, June 28, the Embassy reported the Japanese Government's "deep concern over possible implications of U.S. action to embargo shipment of soybeans, and in particular over prospect of future allocation of exports of soybeans and products." The embargo and the possibility of future export restrictions had led to "increased talk in Japan of need to diversify sources of supply in agriculture, as well as to increase the percentage of Japanese self-sufficiency in agricultural area." (National Archives, RG 59, Central Foreign Policy Files) In telegram 3950 from USEC Brussels, July 13, the Mission reported the "deep concern throughout the European Community" evoked by U.S. export controls. "We also hear with increasing frequency," the Mission reported, contentions that the controls "have undercut the US case for major liberalization of agricultural trade in the MTN and strengthened the hand of those in the Community who favor maximum European 'self sufficiency' and 'organization' of world agricultural markets." (Ibid.)

relations with the Soviet Union and China will be strongly affected by what we do in Phase IV. If we let higher prices be the primary vehicle for limiting exports we will not be forced to make invidious decisions as to which countries will get how much, and we will not be blamed directly for limited food availability and contributing to inflation abroad. In short, your strong intervention could be the determining factor making the difference between a regime of overly rigid prices, and consequently intensified export controls, and a regime of more flexible domestic prices, and consequently minimized export controls.

Recommendation

That you discuss this subject with Secretary Shultz and the President.[5]

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[5] Kissinger did not mark either the approve or disapprove option. Instead, he wrote at the bottom of the memorandum: "*Chuck* This has to be much more systematic along the lines of our conversation—ASAP." The attached NSC correspondence profile notes that the memorandum was returned to Cooper for revision according to Kissinger's comments. No revised memorandum has been found.

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176. Memorandum From Charles Cooper of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, July 16, 1973.

SUBJECT

The Temporary Reprieve on Export Controls

As long as the dollar remains undervalued and inflationary pressures remain strong, there is a danger that ad hoc export controls will be imposed at some point. The July 13 decision,[2] in my judgement,

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 403, Subject Files, Trade, Vol. VI, April 8–December 1973. Secret. Sent for information.

[2] This is apparently the decision against the extension of export controls in Phase IV of President Nixon's Economic Stabilization Program. On July 18, the particulars of Phase IV were announced. In addition to various price and wage control measures, the President promised that controls on agricultural exports would be rescinded once the new harvest was ready for sale. The President suggested that further export controls would be unnecessary, provided there were no major crop failures or sharp increases in foreign demand. For the text of the President's announcement, see *Public Papers: Nixon, 1973*, pp. 647–653.

should be considered as a reprieve, not a full pardon. It is essential that appropriate contingency plans and international consultations be carried on in order to guard against a future crisis when "emergency" controls might be unavoidable.

The Need for Contingency Plans. The present system of registering export orders for a number of agricultural products will continue. Such a registration system will provide better information both to the government and the market than has existed heretofore. But, registration alone offers no guarantee that agricultural exports will remain at the levels projected by the USDA. Should registration information begin to show greater export demand than projected, the issue of export controls will re-emerge. Moreover, since the registration data and its implications will be known to the trade, we may see a protective or speculative trade reaction which will accelerate any portending crisis and make it all the harder to resist emergency controls.

If foreign demand for U.S. wheat and feed grains turns out to be significantly higher than USDA projections, I doubt that we can resist controls. Moreover, even if true demand is correctly estimated, there could be a short-run market surge this summer or this fall in which prices get driven up sharply, and during which emergency controls will become irresistible. In summary, unless we have high confidence in USDA's quantitative estimates, there is a real chance that we will be forced to export controls later this summer or this fall in spite of the July 13 decision.

A Stand-by Control System. Even if my personal estimate of the likelihood of export controls is too pessimistic, we need a stand-by system. Such a system should be designed to limit food exports to amounts close to USDA estimates—not to cut them back to what the price-controllers think would be consistent with target price estimates. Although the problems of designing such a system have so far proved intractable, I think that either of two systems would work:

1. License for shipment without charge all amounts contracted for as of June 13; auction additional licenses up to a minimum set at USDA export projection levels.
2. Establish minimum country quotas which aggregate to around two-thirds of the total projected export demand. Issue licenses freely for shipments under these quotas (all shipments would have to specify destination). Auction to anybody licenses for the last one-third.

System 1 is simpler and cleaner. System 2 would permit some rough and ready leveling out of country availabilities for equity purposes. Variants of either are possible: a technical working group is trying now to come up with a short list of feasible control system options.

International Consultations. Whether or not we are forced to impose controls, we need to start explaining our problem and consulting about its implications. Lardinois' (EEC Agricultural Commissioner) visit on

July 19 will offer a good opportunity to begin such discussions with the Europeans.[3] But, more is needed. A special meeting of the OECD Economic Committee is one possibility; there are others. I will work with State to come up with a good proposal.

The Longer Run. Until this year, U.S. stocks have provided a buffer cushioning the ups and downs of world market supply and demand. This is no longer the case. Pompidou's proposal for some kind of world-wide buffer stock deserves serious consideration.[4] There are many problems, some probably incapable of resolution, involved in any such scheme. Nevertheless, we should take an active role in international consultations on this subject in any event since we have to demonstrate our concern about the problem if we are to get the Europeans and Japanese to agree to any world trade system for agricultural products which meets our needs. Our basis line might be: "We'll guarantee supply, if you'll guarantee market access." And, then go on from there to joint arrangements on stocks, and consultations on production and consumption, etc. One aspect of this whole area that needs more international attention is how to provide for food to poor countries now that our PL–480 availabilities are less likely to be adequate to bear as much of this burden as in the past.

[3] A briefing memorandum for the July 20 meetings between Pierre Lardinois and U.S. economic officials is in the National Archives, Nixon Presidential Materials, NSC Files, Box 322, Subject Files, European Common Market, Vol. III, October 1972–July 1973. A report on the highlights of the meetings was transmitted in telegram 143944 to USEC Brussels and to the EC capitals, July 21. (Ibid., RG 59, Central Foreign Policy Files)

[4] Apparently a reference to French President Pompidou's proposal in his June 25 letter to President Nixon; see Document 43. Kissinger wrote at the top of this memorandum: "Chuck—I agree with last point *re Pompidou ideas.* How do we now proceed?"

177. Memorandum From Charles Cooper of the National Security Council Staff to Secretary of the Treasury Shultz[1]

Washington, July 17, 1973.

SUBJECT

Phase 4 and Food Exports

The Problem

The market's appraisal of current conditions in wheat, corn, and soybean markets was indicated by the sharp price rises following the USDA July crop report.[2] Even if USDA's estimates of world demand for these crops turns out in the end to be accurate, removal of the threat of export controls in today's bullish market could lead to sharp increases in market prices of these crops, particularly in the short run. At the same time, low stock levels in most other countries and uncertainties about availabilities are likely to feed speculative demand and "hoarding" demand, which, in turn, could lead to total export demand substantially higher than USDA estimates. Concern about the possibility of a surge of export demand late in the crop year could also lead to high grain prices next spring and summer in order to assure an adequate carry over of stocks. Finally, USDA estimates of export demand and corn production may turn out to be too low and too high respectively: projecting commodity availabilities is far from an exact science.

Under these conditions, a policy of unrestricted exports could lead to grain and soybean prices that push up meat and poultry prices beyond the point that is politically sustainable, and consequently to a reversal under unfavorable political and economic circumstances of the original liberal policy decision. This process could take some months to develop, or it could happen very quickly in a matter of weeks as bullish market conditions exert themselves in an atmosphere of great uncertainty.

The Solution: A Liberal Quota System

Announcement of upper limits on U.S. exports of wheat, corn, soybeans, and related products would help avert some of the above dangers even if those limits are set at or near the levels of export demand projected by the USDA. If world demand turns out to be near projected

[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 4, Export Controls 1973 GPS. Secret.

[2] The report was issued on July 10. (*The New York Times,* July 11, 1973, p. 1)

levels, reducing uncertainty could dampen bullish forces which might otherwise be very strong. If USDA projections are too low, such quotas would "bite" and serve actually to restrict exports to levels more compatible with domestic price objectives. Finally, an announcement of liberal global quotas, while it would cause some concern in other countries, could be very useful in seeking cooperative measures by others to limit speculative and postponable demand. Any such announcement should be followed immediately by intensive international consultations and announcement of a specific restrictive mechanism as soon as possible.

Implementing the Basic Solution

There is no simple way to set an effective upper limit on U.S. food exports. However, the problem is a difficult one, not an insoluble one. The broad outlines of a policy that would be economically effective and diplomatically acceptable can be sketched in. Many details will require further staff work and analysis, but based on the work that has already been done the following appears to offer a feasible resolution of the basic problems involved.

Outline of the Proposed "Liberal Quota" Program

1. Announce the following global ceilings for exports of wheat, corn, and soybeans in the 1973–4 crop year:

Wheat	1025	million	bushels
Corn	1200	"	"
Soybeans	600	"	"

2. Require licenses for all shipments of the above commodities, specifying country destinations certified by the importing country.

3. Announce that all shipments resulting from contracts concluded prior to June 13, and all shipments to countries whose total imports in 1973–4 had not yet reached 100 (110?) % of their average imports of the same commodities in 1971–2 and 1972–3, will be freely licensed.

4. Specify commodities and quantities to be reserved for first quarter shipment under the PL–480 program.

5. Indicate that license requests for first quarter shipments that do not fall in either of the categories in Point 3 will be received, but not yet acted upon.

6. Enter immediately into international consultations at the OECD and bilaterally to seek cooperation in limiting non-essential imports of the above commodities, agreement to an auction system for allocating shipments exceeding the 1971–2–1972–3 base quota base, and agreement on quantities and methods for reserving adequate supplies of the commodities affected for poor countries.

7. Continue to press for Congressional authorization for flexible export control authority.[3]

Further Issues

1. If ceilings are placed on wheat, corn, and soybean exports, will ceilings on rice exports be required?

2. If an effective annual ceiling is enforced, will quarterly ceilings be required as well?

3. What, if anything, needs to be done about old crop corn exports?

4. Can wheat exports since July 1 all be attributed to particular countries?

5. Should the 1973–4 corn export ceiling be set temporarily (until the next crop report) at 1000–1200 million bushels?

6. Can ceilings be established in wheat, corn and soybean equivalents to handle the problem of related products? How many products are involved?

7. Is a requirement for national certification by the importing *country* realistic?

8. Can a public statement be made about likely Chinese and Soviet imports in 1973–4?

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[3] Under cover of another memorandum that same day, Cooper sent Shultz suggested language on the quota proposal for a Presidential speech, commenting: "As I mentioned last night, Dr. Kissinger agreed orally that we should at least consider a policy option along the lines I have proposed, but he has not seen any of this material yet." Cooper also forwarded to Shultz a similar proposal produced in the CIEP. He concluded: "Needless to say, there has been no inter-agency coordination of any of this. Can we get a day's grace? This subject is as important as it is complicated, and I can't help but feel we need one more go-round, unattractive as that prospect is." (National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 4, Export Controls 1973 GPS)

178. Memorandum for the Files[1]

Washington, July 19, 1973.

SUBJECT

Minutes of CIEP Council Meeting of July 19, 1973, Room 208, OEOB

ATTENDANCE

(List attached)[2]

Mr. Flanigan asked Mr. Jackson to give the Council a report on the status of the Trade Bill.

Mr. Jackson began by asking that if anyone disagreed with the approach which he and Bill Pearce were taking on the Bill, he would appreciate their comments at the time. At present, the Ways and Means Committee is going over specific draft language section-by-section. They hope to finish the entire Bill not later than a week from Friday.[3] The Speaker has indicated that he hopes to bring the Bill to the Floor by October 11th. However, Chairman Mills is skeptical and thinks this schedule may slip.

Mr. Jackson then discussed the variety of atmospheric problems which had arisen in recent weeks. They include:

1. The change in leadership of the Ways and Means Committee. This will be the first bill that Ullman will bring to the Floor on his own.[4] He does not want to lose on the Floor and this will cause him to be more conservative than perhaps Mr. Mills would be.

2. There is growing opposition in the House on the whole question of Presidential discretion in the requested authorities, with the result that several limitations are being written into the bill.

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[1] Source: National Archives, RG 429, Records of the Council on International Economic Policy, 1971–1977, Box 250, Executive Committee Meetings, 1973–1974, 52817 Hinton, Dean R., Executive Cte. Mtg. Re: Trade Bill, July 19, 1973. Confidential. Drafted by Morris on September 20. Copies were sent to Flanigan, Hinton, and Morris. The meeting took place in the Old Executive Office Building.

[2] Attached but not printed. According to the list, Shultz, Dent, Casey, Under Secretary of Labor Richard Schubert, Renner, Goodman, Department of Labor officer Blackman, Fox, Cooper, Seever, Department of Defense officer Captain Robertson, Office of Management and Budget Assistant Director Bernard A. Bridgewater, Eberle, Jackson, Flanigan, Hinton, Morris, Dam, and CIEP staff members Gunning, John Niehuss, Reuben Sternfeld, and Edward Jayne were in attendance.

[3] July 27.

[4] Mills suffered frequent bouts of ill health during 1973, leaving Albert Ullman (D–Oregon) to assume stewardship of the trade bill through the House Ways and Means Committee.

3. On the Jackson–Vanik Amendment, congressmen are saying that they are getting more letters from constituents on this aspect of the Bill than most of them can remember with any other piece of legislation within their experience. This is thus creating very severe pressure in favor of Jackson–Vanik and it is likely that members will insist on a Floor vote for it regardless of what the Ways and Means Committee recommends.

4. The Hill is swarming with lobbyists. The business lobbyists in particular in that they are focusing on areas of special attention to them and not promoting the Bill as a whole. Labor lobbyists are very active and agricultural constituencies are staying away.

5. There is a mounting challenge to the presence of Executive Branch personnel in executive sessions of the Committee. This pressure limits our ability to argue forcefully on some points which we could be doing in the absence of it.

Mr. Jackson then went into a discussion of the situation title-by-title.

Title I:[5]

While we were in reasonably good shape after the first reading of the Bill, the Committee is now beginning to backslide. While the 50% authority remains intact, the exception concerning 80% of OECD-country trade is being challenged. Here is where the business lobbyists could be helpful if they could be mobilized.

Under the 80% of OECD trade authority, about 83% of our trade could be eligible for zero duties. If the criterion were raised to 90%, that would reduce trade coverage by around 10–15%. If formula is further reduced to products in which Japan, the United States, Canada and the EC account for 80% of world trade, the coverage would be further reduced by around 10–15%. Regardless of what the Ways and Means Committee determines, the outcome on the Floor of the House is much less certain.

The NTB procedure is in good shape. However, we may have to accept a time limit during which we can use the veto procedure. Committee is considering a five-year limit and we are arguing for at least ten years.

Mr. Eberle also noted that there was considerable pressure for a mandatory reciprocity by sector. This began by arguments from industry sources such as steel and textiles but labor is also picking this up and now is giving great impetus to this idea.

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[5] Title I covered the executive trade negotiating authority.

Title II:[6]

Mr. Jackson said that the escape clause proposals remain essentially intact and that indeed most of the changes proposed by the Committee were improvements. On adjustment assistance the Committee has rejected the Administration proposals completely, substituting a revised system along the lines of the Trade Expansion Act. The main issue here is the question of financing. The Committee is considering three options:

1. Financing the whole assistance program from general revenues;
2. Financing it from increases in the unemployment tax;
3. Financing from general revenue only that portion of the benefits in excess of those which would be available from State assistance.

Most of the sentiment in the Committee is for the first option.

Secretary Shultz said that the arguments in favor of the third option were very strong for both fiscal and control reasons. Mr. Jackson said that we were pushing the third also and, though there was substantial committee sentiment for it, he was not sure it could command the majority.

In response to Mr. Flanigan's question as to what to do if this came to a vote while Shultz is away on his trip, Secretary Shultz noted that if the Committee votes against Option 3, there isn't much we can do.

Title III:[7]

Mr. Jackson said that the main issue here was on the countervailing duty section. Committee is charged up about this for two reasons: general antagonism against discretionary authority and criticism of the way this program has been administered in the past. The Committee wants judicial review of negative decisions, strict time limits on investigations and very little discretion granted. We believe we have been able to negotiate a compromise under which, for four years, Secretary of the Treasury would have discretion in applying countervailing duties if he judged it would jeopardize international negotiations in progress. After the negotiations, the Committee will probably insist that we bring the agreement, covering both countervailing duties and subsidies, back to Congress for action, presumably through the veto procedure.

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[6] Title II covered escape clause relief and adjustment assistance.

[7] Title III covered injury caused by unfair foreign trade practices.

Title IV:[8]

The Committee is very nervous about this title largely because it contains a lot of discretionary authority and has no time limits. As a result, they have restructured the Bill to put most of the elements of Title IV into Title I making them subject to the time limit provision. The reason is mainly that the Congress does not want to give up permanent control of these elements and wants the Administration to come back for renewal of these authorities after five years.

Regarding the balance of payments authority, Committee has inserted limitations on the amount of the surcharge (15%) and the time it would apply (not more than 150 days unless Congress extended it). The authority to reduce barriers for this purpose would be limited to not more than 5% ad valorem. A similar time limitation would be put on the anti-inflation authority.

The Committee has accepted the GATT appropriation section with the provision that the Administration try to negotiate changes in GATT. Their list includes voting power, border tax adjustment, Article 12[9] and inclusion of a new article on fair labor standards. While we have indicated that we doubt we can negotiate many of these, the Committee says that we should at least make the effort.

Title V:[10]

As regards the Jackson–Vanik amendment, three options are being considered:

1. Jackson–Vanik;
2. The Pettis–Corman compromise;[11]
3. Dropping Title V entirely.

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[8] Title IV covered trade management, including the authority to address balance-of-payments emergencies.

[9] Article XII of the GATT dealt with "Restrictions to Safeguard the Balance of Payments."

[10] Title V covered MFN status for Communist countries.

[11] The Pettis–Corman proposal would allow the President to extend, or continue to extend, MFN status to a Communist country provided that the trade deal in which MFN was extended allowed for an equitable balance of trade concessions between the Communist country and the United States, the extension of MFN status to U.S. goods, and safeguard provisions to protect U.S. markets and producers; that the President submit an annual report to Congress affirming that the Communist country was "evidencing reasonable progress" in respecting human rights and not imposing unreasonable taxes or discriminatory obstacles on potential emigrants; that such trade deals be extended for no more than 3 years at a time, renewable on the President's recommendation and Congressional concurrence. The President would have the authority to terminate the deal at any time in the interest of national security. (National Archives, Nixon Presidential Materials, NSC Files, Box 317, Subject Files, Congressional, Vol #9, June–September 1973)

Committee leaders believe there is no chance for the Pettis–Corman compromise on the Floor and that Jackson–Vanik will be adopted by the House. Mills and others want to drop Title V in order to avoid this. However, we are not sure that this would preclude the Floor from adopting Jackson–Vanik in any case.

Mr. Hinton said that the President has indicated clearly that he cannot live with Jackson–Vanik for foreign policy reasons. He assumed that Mr. Kissinger was prepared to do whatever is necessary to see that Jackson–Vanik is not adopted. Mr. Jackson also indicated that there was some pressure in the Committee to write in a separate provision limiting our ability to grant credits to Eastern bloc countries and that we have to watch this one closely.

Title VI:[12]

This is one part of the Bill which seems to be in very good shape. The only major change so far has been a decision by the Committee to require that, instead of leaving it to the discretion of the Secretary of the Treasury, the rule of origin would be that 35% of total value added must be accounted for by the exporting LDC. Mr. Eberle said that the other possible option which is still open would be to write in a higher percentage of value added accounted for by all eligible LDCs.

Mr. Jackson also said the Committee would like to specify which countries specifically are eligible. As a counter proposal we have said we could accept a list of ineligible countries (as in the Interest Equalization Tax legislation) and this might be acceptable to the Committee. Finally, he reported that there has been no Committee consideration of the portions of Title VII regarding repeal of the Johnson act or the fur embargo, but that this tied up in the consideration of the Jackson–Vanik and the issue of credits to eastern countries.

During the ensuing discussion it was agreed that Secretary Dent and Department of Agriculture would try to do more to mobilize business and agricultural organizations in supporting the Bill, bearing in mind the legal restrictions on lobbying activities by the Executive Branch.

Regarding the proposed mandatory provisions on sectoral reciprocity, Mr. Jackson said we are trying to develop qualifying formula. We have four options:

1. "If feasible";
2. A consideration of "balance of market access";
3. "Consistent with the desire to expand U.S. exports in general";
4. Including a reporting requirement which would not be such as to "tilt" the negotiations toward a sector approach.

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[12] Title VI covered tariff preferences for LDCs.

The discussion then turned to a report by Ambassador Eberle on Article XXIV:6 problems.[13] Ambassador Eberle said that we will know next week how far the EC was prepared to go on the new offer. We will consider it at that time and also a formal request for additional products. We know their offer will not be satisfactory and several EC people know they have to move further. The "crunch" should come around the end of October and we will have to make major decisions then. While some industrial items are important, tobacco, grains, and citrus are the key to the package. We will have to judge in about a month whether the package is substantial enough to permit acceptance.

Secretary Dent raised the question of what to do about licensing requirements on soybeans and the 40-odd other items currently under license as of the end of September. He felt that the licensing requirement should be retained if we have any expectation at all that we may have to reinstitute controls some time in the future. The maintenance of a licensing system would facilitate imposition of such controls if that were deemed necessary. The matter was important today due to the need to make an early announcement of our intentions so that the trade would be prepared come October 1.

After some discussion about the techniques involved, it was generally agreed that it would do no harm to retain the licensing requirement at least through the coming month during the period while the new USDA reporting system was working out the bugs in its new reporting system. Secretary Shultz proposed that we retain the status quo until we could have a staff paper giving the considerations involved in removal or retention of licensing. Mr. Cooper was asked to develop such a paper through the Dam Group.

[13] See footnote 9, Document 40.

179. Memorandum for the President's File by Secretary of the Treasury Shultz[1]

Washington, July 25, 1973.

SUBJECT

Meeting with Chairman Wilbur Mills and Secretary of the Treasury George P. Shultz, Wednesday, July 25, 1973, 3:00 p.m.

The President's conversation with Wilbur Mills was easy and wide-ranging, winding up with a statement by Wilbur Mills that he hopes the President will get around the country and give the leadership only he can give. Mills pledged his support in that effort.

Substantive points covered in the meeting were these:

1) Mills expressed satisfaction with the progress of the Trade Bill and said he expected to bring it out of Committee shortly after recess and to pass it in September. He told the President he thought he could handle the MFN issue on the basis that the President would withdraw the MFN treatment if:

a) there is discrimination against the United States
b) there is market disruption in the United States
c) there is undue restriction on immigration of its citizens.

The President agreed with this approach.

[Omitted here is discussion unrelated to the trade bill.]

George P. Shultz[2]

[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, Box 92, President's Meeting File, Memoranda for the President's File, Beginning July 22 (1973). No classification marking. Initialed by Shultz. The President met with Mills and Shultz in the Oval Office from 3:14 until 4:24 p.m. (Ibid., White House Central Files, President's Daily Diary)

[2] Printed from a copy with this typed signature.

180. Memorandum From Charles Cooper of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, August 8, 1973.

SUBJECT

Export Controls

Export controls, particularly on wheat, are again a major issue. I will attend a meeting tomorrow (August 9) at 4 p.m. with Shultz, Butz, Dent, Stein, et al to discuss the problem.[2] The new crop report will be out tomorrow morning. If the figures appear bad, there may be an immediate move to impose export controls on wheat.

The Problem

The wheat price has increased the permissible limit every day for the past eight days, rising 80 cents to a spot price of about $4.35. This is an all-time record price for wheat. Corn prices have also risen sharply to an all-time record. Although Congress has voted to repeal the 75-cent bread tax, millers and bakers are complaining loudly that prices to consumers will have to be raised. There are increasingly widespread calls for export controls. The situation is not helped by the EEC Commission action this week, in effect denying any additional export licenses for wheat from the EEC.[3]

The basic situation has now changed from what it was during the past two months when export controls were an issue. While we had price controls on many consumer products, an increase in wheat prices would have severely squeezed the millers, bakers and spaghetti manufacturers who would have paid the higher wheat price without increasing their prices. This situation is now changed and the processors will be able to pass the increased costs on to consumers. The price rises to the consumers will not be all that large because such a large part of the final price of most products is labor, transportation and other costs, i.e., flour will increase a couple of cents a pound and bread two or three cents a loaf.

However, in a psychological situation where there is great concern about price increases, particularly food prices, these increases could be the straw that breaks the camel's back.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 403, Subject Files, Trade, Vol. VI, April 8–December 1973. Secret. Sent for action.

[2] No record of this meeting has been found.

[3] On August 6, the EEC banned hard wheat exports.

The U.S. Government's information is simply not good enough to make any reliable prediction for the future. We may be seeing a bubble in the market. With expectations of higher prices in the future, users—including those in other countries—are trying to buy early while farmers are waiting for higher prices. In this case prices will come down in the future. On the other hand, there may be a real worldwide shortage of food, even at current relatively high prices, and prices may continue rising.

If there is a temporary bubble, export controls are unnecessary. If there is a worldwide shortage, export controls on wheat are likely to shift demand to other products and cause a cascade effect in which we have to place export controls on one product after another.

In simple terms, export controls are a means of protecting the U.S. consumer at the expense of consumers in countries which import from us. They create foreign policy problems for the many reasons I have enumerated before. In particular, they lead other countries to relate exceptions to our controls to all sorts of other foreign policy issues from base rights to the monetary negotiations, and they reduce U.S. exports and thus keep down or force down the value of the dollar. Others will correctly argue that we are refusing to export what they want while making U.S. goods which we want to export too competitive.

There does not appear to be any technically good way of imposing export controls. If we go with historical market shares, we have real problems with new customers like the USSR and China. If we go by already written contracts, we penalize those that buy on a regular basis instead of buying ahead. If controls are arbitrary, we have maximum foreign policy problems as every country tries for a higher quota. The best system is to auction off the right to export, but that raises legal and even Constitutional questions because it could be interpreted as an export tax. We probably would have to go to Congress to get a fairly good export control system. That would take time, but it would force Congress to share some of the responsibility, which might not be a bad idea.

Current Action

The line I plan to take tomorrow, subject to your approval, is that we cannot afford to be a zig-zag government, denouncing export controls and favoring the free market one day, and putting on export controls the next. We cannot afford to let the figures of the moment generate crisis action, especially since figures have changed so frequently from week to week over the past two months. Just ten days ago Shultz mentioned to me how well the commodity market was doing. We should not rule out export controls if the situation requires them later, but we should not put them on hastily under the immediate pressures of prices in a fairly narrow futures' market.

During the next few weeks we should:

—Advance our work toward the best possible export control system.

—Continue our consultations with other countries to discourage stock-building, and to lay the basis of understanding for controls if they are needed.

—At the technical level we should do everything possible to improve our understanding of the situation.

Delaying export controls for a month or even more is no disaster. Our ports and transportation system limit actual exports so only modest amounts of wheat will be shipped. In fact, most of the shipments will be against contracts made before June 13, when we placed the trade on notice contracts might be broken.[4] We would want to honor these contracts in any case.

Over the next month, we will be able to judge how many products, if any, require controls, and do the homework necessary on control systems. Among other things we can do a study to see just how much the increases in grain prices will really affect the consumer. We can then take a measured decision with all the elements before us.

Emergency Consultations

Depending on the way the discussion goes tomorrow, it may be desirable to call a special high-level international meeting this weekend or early next week with the EEC, the Japanese and the Canadians. This will certainly be the case if there appears to be a consensus on the likelihood of export controls in the very near future. Joe Greenwald will be in the country and could attend, in addition to the usual battery of Washington officials. Even if we are forced to controls, we can avoid the kind of foreign policy disaster we had with soybeans.[5]

Recommendation

That I proceed as outlined above.[6]

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[4] See Document 174.

[5] See footnote 4, Document 175.

[6] Kissinger initialed his approval and wrote "Excellent" below it.

181. Letter From Secretary of Agriculture Butz to Secretary of the Treasury Shultz[1]

Washington, August 22, 1973.

Dear George:

You are undoubtedly familiar with the debate concerning the U.S. position on agriculture in the Multilateral Trade Negotiations which has been going on for some months.[2] I understand that this debate was resolved in mid-June when most agencies agreed to go along with a compromise negotiating plan which would give first and primary emphasis to the reduction of the level of border protection, but would also provide for subjecting domestic programs to international discipline in order to insure that border commitments were not circumvented by domestic actions.

If you are required to discuss agriculture in any detail during the course of the Tokyo Ministerial meeting, I trust that you will continue to adhere to that position. For your information, the enclosed talking points are drawn from the scope paper prepared for the GATT Preparatory Committee meeting in July,[3] and in my opinion accurately reflect the consensus arrived at among agencies then. I see no reason at this time to depart from a position which makes good sense for the long run because of the temporary pressures caused by the current world food supply situation. I think you know how strongly I feel about the importance of letting the marketplace do the job.

Sincerely,

Earl L. Butz

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[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 1, GPS Agriculture 1973. No classification marking.

[2] As a result of the agency responses he had received concerning the Department of Agriculture's paper on "Agriculture in Multilateral Trade Negotiations" (see Documents 162, 165, and 166), Flanigan wrote Rogers, Shultz, Dent, Butz, Brennan, Kissinger, Stein, Ash, and Eberle on May 7 of his belief that "we should examine in more detail possible U.S. negotiating objectives and strategies on agriculture for the coming GATT round. Accordingly, I have asked Dr. Gale Johnson to chair a series of meetings for the purpose of drawing up specific options for review and decision at a more senior level." The weekly meetings were to begin May 16; no record of the meetings has been found. (Ibid., Nixon Presidential Materials, NSC Files, Box 219, Agency Files, Council on International Economic Policy (CIEP) 1973 (Vol II))

[3] The GATT Preparatory Committee met in Geneva July 2–25.

Attachment

Talking Points on Agriculture in the Multilateral Trade Negotiations

1. Agricultural and industrial negotiations should move forward together, and should insure that agricultural progress is substantial and meaningful in trade terms.

2. Such progress can be achieved only through increasingly greater market orientation for agriculture.

3. Consequently, we will be working toward a more open trading system involving substantial reductions in border protection and export aids.

4. In order to insure that after reductions in border protection are achieved they are not offset by domestic actions, an effort should be made to negotiate some kind of understanding or code which would provide a framework for consultations on management of transition to the long-term objectives.

5. Where governments must take action to meet adjustment and income problems due to trade expansion, it would be expected that they would agree to carry out such actions in a way which reduces or eliminates the impact of the measures upon farmers in other countries.

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182. Memorandum From the Executive Secretary of the Department of State (Pickering) to the President's Deputy Assistant for National Security Affairs (Scowcroft)[1]

Washington, August 31, 1973.

SUBJECT

MFN Treatment for Soviet Union Being Dropped from Trade Bill

A Congressional staff member informed the Department that Acting Ways and Means Chairman Al Ullman has decided that, barring a specific resolution by the House Foreign Affairs Committee favoring MFN for the USSR and other Communist nations, he would not report

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 403, Subject Files, Trade, Vol. VI, April 8–December 1973. Confidential; Limdis. The attached NSC correspondence profile indicates that the memorandum was sent to San Clemente, California, on September 1, where Kissinger saw it.

out those provisions of the Administration's Trade Bill granting the President authority to extend most-favored-nation (MFN) treatment to the Soviet Union and other Communist nations.

Ullman believes the mood of the Congress is against granting MFN to the Soviet Union. He argues the Congress and American public opinion hold the Soviet wheat deal responsible for much of the current inflation.[2] Moreover, he is concerned that the continuing Jewish emigration problem and publicity over the repression of Soviet dissidents are continuing to undermine support for the MFN provisions.

Chairman Wilbur Mills underwent spinal surgery in Arkansas yesterday. The surgery went well, but Mills' forecast he will be back at his desk in a month could be optimistic. Ullman has considerably less influence in the House, and the Trade Bill would be the first major piece of legislation he has managed. Accordingly, he is seeking to avoid hard problems such as arguing for the MFN provision.

Given Mills' absence, Ullman's desire to have the Trade Bill go as smoothly as possible on the floor, and continued adverse press reports regarding the situation of Soviet Jews and dissidents, MFN for the Soviet Union will fail unless a concerted and high level effort is made.[3]

Thomas R. Pickering[4]

[2] In 1972, the Soviet Union purchased more than $1 billion in grain from the United States, financed largely through a credit deal struck with the Nixon administration. The massive purchases (by the beginning of August, for example, Soviet negotiators had secured approximately one quarter of that year's American wheat crop) led to higher grain prices in the United States, as well as Congressional investigations of the episode.

[3] Treasury officials were also concerned about the implications of Mills's illness for the trade bill. In an August 31 memorandum to Shultz, Director of the Office of Trade Policy Peter Suchman cautioned that Ullman, worried about the bill's manageability on the House floor, wanted it "trimmed down to its essentials, with all the 'frills' eliminated. 'Frills' probably includes such things as the MFN authority, generalized preferences for LDCs, balance of payments authority and various 'housekeeping' authorities included in Title IV." Suchman also warned that Ways and Means Committee members who opposed trade liberalization, "subdued until now, because of the Chairman's [Mills's] commitment to the bill" might "be encouraged now to launch an all out offensive on the concept of further multilateral trade negotiations." Suchman advised "considering in the very near future what Administration strategy should now be, including which parts of the bill are absolutely essential." (Ford Library, William Simon Papers, Drawer 23, Folder 49, Trade: 1973 (May 17–Sep))

[4] Samuel R. Gannon signed for Pickering above Pickering's typed signature.

183. Paper Prepared in the Office of the Special Representative for Trade Negotiations[1]

Washington, undated.

Title V of Trade Reform Act: Pros and Cons of Major Options

Background to Problem:

Title V of the Trade Reform Act would grant to the President the authority to enter into bilateral commercial agreements to extend most-favored-nation treatment to imports from Communist countries. The President would also be given the authority to extend MFN treatment to Communist countries which becomes parties to the GATT.

Strong Congressional opposition to the granting of these authorities had developed even before the Trade Reform Act was introduced. In late 1972 the so-called Jackson–Vanik bill was introduced which would have denied the President the authority to grant MFN treatment to any Communist country whenever the President determined that such country denied its citizens the opportunity to emigrate or imposed more than a nominal emigration tax. Additionally the Jackson–Vanik bill would have prevented such countries from participating in any U.S. programs of export credits (e.g. Ex-Im Bank loans) or investment guarantees.

It became clear to the Administration before the TRA was submitted to the Congress that the Jackson–Vanik bill had the support of perhaps 70% of the Senate and 60% of the House. In search of a compromise which would satisfy those concerned with Soviet emigration policies in particular and treatment of Jews in general, the Administration added a clause to Title V of the TRA which allows the Congress to veto any Presidential action granting MFN treatment under this title.

This compromise now appears to have been totally unsuccessful in winning Congressional support for Title V. For this reason as well as others, Chairman Mills has given some thought to an alternative compromise which would keep the Soviet Union from backsliding on

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 404, Subject Files, Special Assistant for Trade (Ambassador Eberle). Limited Official Use. Sent to Eberle under cover of a September 6 memorandum from Special Assistant to the Special Representative for Trade Negotiations Roger Hansen that reads: "Attached is the Options Paper on the Title V question which will be discussed in Mr. Flanigan's office this afternoon. Copies have been distributed to the following: Secretary Shultz, Mr. Flanigan, Mr. Dam, and Mr. Scowcroft." The attached NSC correspondence profile notes that Sonnenfeldt attended the meeting on Kissinger's and Scowcroft's behalf. No other record of this meeting has been found.

its presently more liberalized de facto emigration policy for Soviet Jews, but would leave all determinations to the President.

During the past several months, however, the probabilities for the passage of a Title V which is acceptable to the Administration have deteriorated rather rapidly. The worsening climate seems attributable to three separate factors.

In the first place, Jewish leadership in this country has become so publicly committed to the Jackson–Vanik position that it is now very difficult for them to back away from that approach. It is probable that many Jewish leaders recognize that the passage of the Jackson–Vanik amendment might worsen the plight of Soviet Jews, but it will take months of quiet, carefully calculated planning on the part of Jewish leadership to alter its present public commitment to the Jackson–Vanik amendment.

In the second place, the fallout from the Soviet wheat deal has added a new dimension to the argumentation over Title V. It has called into question the value of increased trade with the Soviet Union, and raised doubts in the minds of many whether we can benefit from increased commercial exchanges with a state trading country.

In the third place, the escalating Soviet crackdown on its internal critics—particularly some recent expressions by Sakharov[2] of the dangers of a U.S.–Soviet détente—have added a superficial validity to some of the long-expressed concerns of those in the Congress basically opposed to a policy of détente.

In sum, opposition to Title V of the TRA is no longer a one-issue opposition if it ever was. It now encompasses the Jewish community, opponents of a détente policy, and those who feel that a free-enterprise system will always be out-traded by a monolithic state trading regime. This coalition appears at present to constitute *well over* 60% of each house of Congress. The opposition in the House is so strong that the acting Chairman of the Ways and Means Committee, Mr. Ullman, is now actively considering various approaches to the Title V problem which might improve the prospects for the passage of the TRA. *While we are not in a position to control Mr. Ullman's choice among several alternatives, the Administration might well influence that choice substantially if an Executive Branch decision on its own preferred course of action can be reached within the next few days.*

The following options are presented without knowledge of the exact details of the Administration's commitment to the Soviet Union regarding U.S. action to achieve MFN status for the USSR. Two of the

[2] Andrei Sakharov was a Soviet nuclear physicist, political dissident, and human rights advocate.

options assume that Title V can be separated from the TRA without violating any commitment.

The Options

Option I

Continue on our present course of action. Under this approach the Administration would attempt to keep Title V in the bill as is, and would work within the Ways and Means Committee to see that the Committee retains exclusive control over this Title. If successful, this strategy would guarantee that Title V would be reported out of the Committee within the next 4 to 6 weeks as an integral part of the Trade Reform Act.

Pros:

1. This approach would suggest to the USSR that the Administration was doing everything possible to obtain the authority required to implement our bilateral commercial agreement.

2. The approach would allow Title V to benefit from whatever momentum the TRA has developed when it reaches the House Rules Committee and the floor of the House. At the very least it guarantees House consideration of the Title V issue before the end of the year.

3. This option keeps open the outside possibility that Chairman Mills can lead the fight for a somewhat revised Title V should he recover from his operation in time to manage the TRA before the House. He generally supports the Title with modifications which would establish criteria to be met before each 3-year renewal of the US–USSR agreement, but he would leave it to the President to make the necessary determination.

Cons:

1. The approach jeopardizes passage of the TRA in several different ways. In the first place, the AFL–CIO's strategy of defeating the TRA by inaction could benefit by the choice of Option I. If Title V remains a part of the bill, organized labor can play upon concerns over this title to slow considerably the pace of Congressional consideration of the bill in the Ways and Means Committee, before the Rules Committee, and before the Democratic Caucus.

In the second place, retention of the Title could produce a rule that would be totally unacceptable to the Ways and Means Committee. In this event the TRA would be taken back to the Committee, and might not be reported out again before the Congress adjourns.

2. This approach runs a very high risk that the TRA will go to the House floor with a modified open rule. At the present time it seems certain that the Democratic Caucus would support, and the Rules Committee would grant, a rule allowing consideration of an amendment

to Title V when the bill reaches the House floor. Chairman Mills and Mr. Ullman have both expressed this opinion on several occasions, and have seemed prepared to let Title V go to the floor this way. The major problem for the rest of the TRA is that if the opportunity to obtain a closed rule is lost over the issue of Title V, the prospects increase that other amendments will be accepted by the Democratic Caucus and allowed to go to the floor. Smart parliamentary maneuvering by opponents of the bill might then gut the Administration's entire approach to trade policy at the very moment when negotiations are opening in Geneva.

3. If the approach does, as expected, result in a rule allowing amendments to Title V, there will be a strong effort to add the Jackson–Vanik amendment to the Title on the floor. If this tactic is successful the Administration will be in a worse position vis-à-vis the Soviet Union than it is now because of the provisions of the amendment denying export credits and investment guarantees.

4. Finally, Option I does not present the Administration with an opportunity to make a public case for the détente policy implicit in Title V. The question cannot be debated before the Ways and Means Committee since it is now in closed executive session. It can, of course, be debated on the floor of the House, but it will be too late by then to develop the rationale and build enough support to influence many House votes. At most, the bill would be debated in the House for two or three days.

Option II

Endorse and support a tentative suggestion by Acting Chairman Ullman that the House Foreign Affairs Committee be asked to submit its views on Title V issues to the Ways and Means Committee.

Under this approach Mr. Ullman would speak to Chairman Morgan[3] very shortly to see if he would be willing to hold hearings on Title V and submit his committee's views to the Ways and Means Committee within approximately four weeks. The report and recommendations of the Foreign Affairs Committee would not be binding on the Ways and Means Committee. But if they were adopted, they would add some weight to the Ways and Means Committee's decisions on Title V when the TRA is reported out.

Pros:

1. This approach would provide the Administration with a public forum in which to develop its rationale for Title V as an integral part of a broader foreign policy, and to build a wider base of support for the authorities requested therein. It would also provide what is

[3] Representative Thomas E. Morgan (D–Pennsylvania) was Chairman of the House Foreign Affairs Committee.

probably the most congenial forum in the House at the present time. This is not to say that the membership of the Foreign Affairs Committee would not present the Administration with problems, but simply to say that it would probably be less hostile to the Administration's case than any other House committee.

2. This approach provides a maximum of flexibility for the TRA at the present time. It would allow the Administration to (a) avoid a lengthy debate over Title V in the Ways and Means Committee which would slow progress on the other titles and (b) delay any decision on Title V until the Administration can appraise the sentiments evoked by the Foreign Affairs Committee hearings and reassess the strength of support for the Jackson–Vanik amendment. At that point a decision on what to do with Title V can be made in full knowledge of its implications for the passage of the TRA if it remains a part of the trade bill.

Cons:

1. The actions of the Foreign Affairs Committee cannot be accurately predicted in advance. If hearings are held and witnesses hostile to Title V are heard in detail the Committee's report and recommendations might not strengthen support for the Title V approach. Little ground would be lost, however, since lack of support within the Committee would simply confirm the prevalent view that Title V in its present form is dead.

2. The Foreign Affairs Committee is not one of the really prestigious committees in the House. Therefore, its endorsement of Title V, even if it did result, could not be expected to guarantee acceptance of the Title by any means. Thus the potential gains strictly in terms of House votes cannot be expected to be large.

3. If the Foreign Affairs Committee is brought into the act the Ways and Means Committee does sacrifice some degree of control over the issues raised in Title V, and this strategy might make it more difficult for Mr. Mills to push forward with some compromise of his own. However, given the Ways and Means Committee's apparent willingness to sacrifice Title V in the fight for the rest of the trade bill, it is difficult to argue that some loss of control by Ways and Means would be very detrimental to the Administration's position on Title V.

4. The Soviet Union might wonder if Administration backing of a referral of Title V to another Committee represented a diluting of support for MFN for the USSR.

Option III

Suggest to Mr. Ullman that he request the Foreign Affairs Committee to submit its views on the foreign policy aspects of Title V issues without going through any process of public hearings. This represents a less effective version of Option II. It is suggested as a possibility in case the Foreign Affairs Committee would agree to this option but would be unwilling or unable to undertake public hearings over the next several weeks.

Pros:

The same as in Option II, but without the benefit of a public forum to develop the Administration's case.

Cons:

The same as in Option II, but with less risk of losing control over the course of events.

Option IV

Request Mr. Ullman to drop Title V from the TRA and consider it as a separate piece of legislation.

Under this approach the Administration would immediately request the Ways and Means Committee to delete Title V from the bill and handle it as separate legislation. As part of this approach the separated Title V would be referred to the Foreign Affairs Committee for hearings and recommendations. The Ways and Means Committee might easily be persuaded to accept this option given its general desire to report out a trade bill which will meet with the approval of the full House.

Pros:

1. This approach would eliminate the serious risks which Title V now poses to the passage of the trade bill (including the risks of an open rule and consequent amendments unacceptable to the Administration).

2. The approach would provide the Administration with the time and the public forum required to present its best case for Title V and détente.

3. It would provide the time needed to work *behind the scenes* with Jewish leadership to move them away from Jackson–Vanik and toward the Administration's position.

Cons:

1. This approach might prove offensive to the USSR. It would mean postponing the MFN question at least until 1974, and there is no ironclad guarantee that the bill would be acted upon next year. There is certainly a risk that the Ways and Means Committee might not return to consideration of trade legislation next year, although that risk could be limited if Mr. Ullman or Mr. Mills were willing to commit the Committee to action within the next six months.

2. 1974 is an election year, and that setting might prove very inauspicious for judicious consideration of the Soviet MFN question.

3. Title V as a separate bill would lose the advantage of the momentum which the TRA may have gained, and should prove more vulnerable standing on its own. However, this argument is completely nullified if, as certainly seems the case, Title V as part of the Trade Bill goes to the House floor open to amendment.[4]

[4] Another copy of this paper contains the following addendum: "Whichever option is chosen, consideration should be given to accepting a Ways and Means Committee staff proposal which calls for *Congressional confirmation* of the renewal of all bilateral commercial agreements entered into under Title V. (It is not clear whether the staff proposal contemplates a veto procedure or an affirmative act of Congress.) In the Administration's version of the bill no Congressional approval of the renewals (required every three years) was called for. Administration acceptance of this proposal would certainly improve the chances for Congressional acceptance of Title V. However, it would somewhat diminish the authority of the President." (National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS White House)

184. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, September 6, 1973.

Henry:

Flanigan says that Ullman (who is managing the trade bill in Mills' absence) is disposed to drop MFN from the bill. Flanigan says there appear to be three options:

(1) Propose to Ullman the compromise wording which Mills had considered introducing—to the effect that the President would be required to withdraw MFN if the Soviet Union reimposed an education or other tax.

(2) Endorse and support a proposal that the Foreign Affairs Committee be asked to submit its views on MFN.

(3) Drop MFN from the bill.

Option (1) appears the preferred course of action. While I doubt that Option (2) would change many votes, it could really be tried regardless of the outcomes on Option (1).

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 317, Subject Files, Congressional, Vol #9, June–September 1973. Confidential.

Unless you indicate otherwise, Flanigan will support Option (1).

Brent Scowcroft[2]

Okay[3]

No, support Option ______

[2] Scowcroft initialed "BS" above his typed signature.

[3] Kissinger approved this option.

185. Briefing Paper[1]

Washington, undated.

SCOPE PAPER

The Tokyo Ministerial Meeting should mark an important step toward the U.S. objective of a more open and improved world economic system. It will formally open the GATT multilateral trade negotiations (MTN), give the negotiators general political guidance and create a Trade Negotiating Committee (TNC). The basic objectives the U.S. wishes to achieve are—political guidance by the negotiating parties for lowering trade barriers toward liberalization and improvement of the system, establish a Trade Negotiating Committee to supervise the negotiations and give it direction for a work program, and set end-1975 as the target date for their completion.

These objectives must be embodied in a Ministerial declaration to be approved by the nations participating in the Tokyo meeting. A draft declaration negotiated in July by the Preparatory Committee will be the basis. (Background Papers—Tab K.)[2] This text (aside from the bracketed passage on the trade/monetary link discussed below) is acceptable to the U.S. and incorporates language on all major issues we want covered. It specifies that the TNC will hold its first meeting by No-

[1] Source: National Archives, Nixon Presidential Materials, White House Central Files, Staff Member & Office Files, Council of Economic Advisers, Herbert Stein, Box 104, Meetings Files, Multilateral Trade Negotiations, Feb–Dec 1973. Confidential. This paper was included in a briefing book for the GATT Ministerial meeting held in Tokyo from September 12 to 14. The tabs are attached but not printed.

[2] The draft declaration was transmitted in telegram 3982 from the Mission in Geneva, July 30. (Ibid., RG 59, Central Foreign Policy Files)

vember 1, but does not lay out a detailed work program for it. The draft declaration has also been generally accepted by all the developed countries and there is a tacit understanding among these countries that they will approve the language as is. Accordingly, unless some of the agreed language is unexpectedly reopened, the issues that will need to be resolved are: (a) how to deal with the trade/monetary link (see Briefing Papers, Tab E); (b) how to deal with attacks on the declaration by the more extremist of the developing nations as noted hereafter and in Briefing Papers, Tab C; (c) how to be sure that the TNC begins a work program per Briefing Papers, Tab B, and (d) how best for the U.S. to provide continuing momentum to move the trade negotiation forward during and after the Tokyo meeting.

The attitude of the developing countries to the draft declaration varies. The more responsible LDCs, such as Brazil and Mexico, support the present text. However, in the final meeting of the PrepCom,[3] Peru speaking for the Andean Group (Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela) and for Cuba said the draft was not acceptable because it did not go far enough to meet LDC interests. This group will probably continue to criticize the present draft and press for changes at Tokyo. While such discordant notes will be regrettable, they should not interfere with the basic objective which is approval of the declaration by the countries which are planning meaningful participation in the forthcoming negotiations. There is no requirement for any country to participate, and the election not to participate by a few developing countries will not affect the approval of the declaration.

It is important that the U.S. concert closely with the EC and Japan in dealing with problems which may arise on the LDC sections of the declaration.

The U.S. intervention will be one of the first and must lay the foundation to accomplish our objectives. Its purpose must be to set a high level tone toward our global objectives, yet with enough specifics to clarify U.S. purposes and to give leadership. (See attached paper on the Scenario.)[4]

Specific key points covered in the declaration are:

(a) *Liberalization.* The declaration meets our desire to highlight the importance that the MTN shall aim at "the expansion and ever-greater liberalization of world trade."

(b) *Reform of the world trading system.* As the result of U.S. initiative, the declaration states that "improvement of the international framework for the conduct of world trade" can contribute to the ob-

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[3] The GATT Preparatory Committee met in Geneva from July 2 to 25.

[4] Printed below.

jectives of the MTN. We intend to use this opportunity to press for the removal of inequities under the present rules. With regard to timing, the language in the declaration suggests that proposals for reform be developed and considered during the course of the negotiations and in the light of their progress. (See Briefing Papers, Tab B.)

(c) *Trade/Monetary Link.* This area is in disagreement. The French (and possibly some others) would like to condition the opening of trade negotiations on the U.S. keeping the dollar closer to the rates at the time of the Paris meeting (March 1973).[5] If they can't achieve that, they want agreement on a one-way link specifying that the trade negotiators should at all times during negotiations assess the progress being achieved in the monetary negotiations, and be prepared to stop—or not put into effect the results—if there is not sufficient monetary progress. How and by whom this would be assessed is not clear. The U.S. believes that any language on this point in the declaration should make it clear that the linkage is two-way. We believe with the dollar's performance this may not be too difficult an issue as most of the EC members are in agreement with us. We believe the U.S. should maintain the link to assess the progress in each area relative to the other, as it gives us the maximum leverage in both negotiations until we are further along in each area, and we can best assess in both IMF and GATT that we are working toward a better overall economic system.

(d) *Tariff Techniques.* "Appropriate formulae of as general application as possible" are called for. We would have liked something more explicit. However, the EC opposed language which would have called for a substantial cut in tariffs. The EC tends to favor "tariff harmonization" as an approach, which would in many cases require the U.S. to make bigger cuts than the EC. However, it is unlikely that the various possible tariff cutting techniques will be discussed at any length in Tokyo and the languages leave open the issue of the extent of the tariff reductions. (See Briefing Papers, Tab B.)

(e) *NTBs.* There was an easily reached consensus that NTBs should be reduced, eliminated, or brought under more effective international discipline. It is clear that there is general agreement that NTBs will be a priority topic in the negotiations. (See Briefing Papers, Tab B.)

(f) *Safeguards.* The adequacy of the GATT safeguard system is to be examined with a view to furthering trade liberalization and preserving its results. The U.S. pressed for the decision to re-examine the adequacy of the present system; others asked for the reference to furthering and preserving liberalization. The text leaves open the question of how it should be accomplished, but clearly makes safeguards part of the negotiation. (See Briefing Papers, Tab B.)

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[5] The G–10 Ministers met in Paris on March 9; see footnote 4, Document 32.

(g) *Agriculture.* Agriculture is to be included in the MTN, with the approach being in line with the general objectives of the negotiations, but with account being taken of its special characteristics and problems. This was a compromise between U.S. insistence that agricultural liberalization should be an equal objective and the EC view that agriculture needed to be treated differently. The declaration also contains the important provision that the negotiations shall be considered as one undertaking, the various elements of which shall move forward together. This allows the U.S. to keep the agriculture issue as part of the negotiation and not to allow it to be separated and possibly lost. (See Briefing Papers, Tab B.)

(h) *Developing Countries.* (1) The declaration reiterates earlier policy declarations promising special attention to the trade problems of the developing countries, including less than full reciprocity, and support for generalized preferences. This language is broad enough to include any proposals without advance commitment on any specific system of preferences. (See Briefing Papers, Tab C.) (2) There had been some question on how LDCs who are not members of the GATT would participate. The prevailing view, which the U.S. accepted as a concession, is that they should be allowed to participate, and then at the end of the negotiation decide whether they will join the GATT or otherwise enter into any or all of the agreements that affect them. This could create problems of LDCs interfering unreasonably or of attempting to filibuster on certain issues. It appears the procedures can prevent this and we believe it is best to have them as participants in the negotiations, although they would obviously not participate in all bargaining sessions. (See Briefing Papers, Tabs B and C.) (3) The LDCs themselves could not agree on how the least developed versus the more developed nations should be treated. While this is basically a LDC problem, we need to watch it to make sure that their internal argument does not disrupt the Tokyo meeting or interfere with approval of the declaration. (See Briefing Papers, Tab C.)

(i) *TNC.* Will have mandate to work out negotiating plan and supervise negotiations. First meeting to be no later than November 1. We believe that there is much basic work that the TNC should start on this fall and winter, and that we will be able to participate in fully even before the TRA is enacted. (It should be made clear to other delegations that we are consulting closely with Congressional leaders and will, of course, be careful not to get out ahead.) The draft declaration leaves open the membership of the TNC and the general direction to start the preparatory work, analysis, etc., prior to the actual offers and counteroffers. We propose to try to clarify and get as much agreement as possible at Tokyo as to how the TNC should proceed. We believe the membership should be limited to nations participating in the negotiations without observers from non-participants or international organizations.

The report of the July Preparatory Committee, which is also on the agenda, does not require comment and should merely be noted. It served as a useful repository at the PrepCom meeting for recording unagreed views. (See Briefing Papers, Tab H.)[6]

[Omitted here is material concerning the GATT Article XXIV:6 negotiations with the EC.]

Scenario

The draft declaration is generally adequate for our purposes. If all goes reasonably well, there will be little opportunity to open the draft, even to small changes, lest we open the door to each participating nation to suggest some other "small change." At the same time we need to give inspired leadership to the session. With the great amount of time and effort already done on the draft declaration, and the general consensus reached, the key trading nations will be prepared to approve the draft as it stands.

Therefore, our first choice of options should be to take the leadership and support the declaration by:

(a) Determining in the days before the meeting in Tokyo what, if any problem, exists with the draft. (Each member of the delegation will be assigned a group of countries to seek out and stay in touch with.)

(b) Working out language on the trade/monetary link with the EC at Tokyo before the formal opening of the meeting.

(c) Clearly supporting the draft declaration in concert with the other major trading nations.

(d) Designing an intervention that is positive, high level in policy presentation, yet specific as to some of the issues. Such specificity to clarify our positions, show some flexibility, and encourage others to get on with the negotiation promptly, but not get out ahead of Congress. (See Draft Speech.)[7]

(e) Get as much agreement as possible as to the specific tasks for the bargaining work of the TNC. (See Briefing Papers, Tab B.)

Alternate scenarios will arise if there are serious questions raised about the draft and it in fact is opened up for general changes. There appear to be three alternatives that we have in this event:

(1) Negotiate on an acceptable basis the changes so long as they are consistent with our objectives, or

[6] At Tab H is a briefing paper on the U.S.–EC Article 24:6 negotiations. The Preparatory Committee Report is at Tab Q.

[7] Not attached. A note at the end of the briefing book index states that the draft opening statement would be forwarded the following week. Attached but not printed is a suggested outline for Shultz's opening statement at Tokyo.

(2) If unable to negotiate satisfactory solutions for the changes, postpone the session to another date and reconvene the Preparatory Committee for more work, or

(3) Agree to disagree and leave the future preparation and negotiation open for a later decision.

It would appear that the alternate options should rank in order of listing, with the first one being the only one that is consistent with our basic objectives. Obviously, we will know by September 10 or 11 what problems there are as most key delegations will then have arrived no later than Monday, the 10th. The EC will hold a Council of Ministers Meeting on September 11, the Canadians will have been there on the 6th–7th for meetings with the Japanese, etc. We have also asked the Embassies to report if there are any indications any issues may be reopened.

Our positions under alternate (1) must be consistent with our objectives and we will have to leave open how we best achieve this in the corridor negotiations. In the event such problems arise, our intervention could change nominally to take note and urge acceptance. Any other specific reference to problems will be decided at the time of the session. This could mean the U.S. opening of certain issues to accomplish our purpose.

Options 2 and 3 are undesirable fallback positions. Option 3 should be avoided if at all possible as it would undoubtedly cause the trade negotiations to be set back for a year or two, at best, as the momentum would be lost. Obviously, Option 2 could be used but only if we have no agreement on the changes. These changes will follow the various papers prepared for the PrepCom and this meeting.[8]

[Omitted here is material concerning the GATT Article XXIV:6 negotiations with the EC.]

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[8] The final text of the Tokyo Declaration, adopted on September 14, was transmitted in telegram 11943 from Tokyo, September 14. (National Archives, RG 59, Central Foreign Policy Files) It is also printed in Department of State *Bulletin*, October 8, 1973, pp. 450–452.

186. Memorandum From Helmut Sonnenfeldt of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, September 17, 1973.

SUBJECT

Title V (MFN) of the Trade Bill

The attached (Tab A) paper by Bill Pearce which you received separately over the weekend lays out the issues and options. Since my brief memo (Tab B) of September 14,[2] there have been these additional developments of which I am aware.

1. Competing pressures by the US business community (Kendall and others) and Jewish groups as well as Soviet dissidents—Sakharov statement and attack on Lazarus by Soviet Jews[3]—have tended to pose the issues in terms of profits vs. humanity. Senator Jackson is scheduled to speak on the Senate floor today, with Sakharov's well-timed plea for adoption of Jackson–Vanik as the backdrop.

2. On the other hand, Richard Perle[4] has contacted a Ways and Means consultant to suggest (1) the possibility of some compromise, or (2) adoption of Jackson–Vanik by Ways and Means and the House and the use of the time before Senate action to work on a compromise. Perle and Tony Solomon of the Ways and Means staff may be exploring these currently. But just what is involved is quite unclear and the upshot may well be a House Bill with Jackson–Vanik in it and no Administration leverage when Senate consideration begins for a practi-

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 403, Subject Files, Trade, Vol. VI, April 8–December 1973. Confidential; Sensitive; Outside the System. Sent for very urgent attention. Kissinger initialed the memorandum.

[2] In the memorandum at Tab B, attached but not printed, Sonnenfeldt reported on the status of the Title V issue, concluding, "Ullman and Corman seem again to be reaching the conclusion that the only viable alternatives in Committee are Jackson–Vanik or dropping Title V. The key, if there is any, is the Jewish Community. All soundings by Ways and Means people show the Washington Jewish lobbyists solidly behind Jackson–Vanik and opposed to the compromise."

[3] On September 15, Sakharov appealed to U.S. Congressmen to support the Jackson–Vanik amendment. That same day, a group of Soviet Jews alleged that Deputy Assistant Secretary of Commerce for East-West Trade Steven Lazarus had pressured them during a February trip to Moscow "to desist from public protest lest they endanger the Administration's trade bill" and "to appeal to Jewish organizations in the United States to drop their support for the Jackson amendment." (*The New York Times*, September 16, 1973, p. 1)

[4] Richard Perle was a staff aide to Senator Jackson.

cable compromise, unless there is a major break meanwhile in Soviet conduct and/or Jewish leadership attitudes in this country.

3. The ubiquitous Alkhimov is in town again. His principal mission was to get an EX–IM loan for the Moscow trade center. (I understand Kearns[5] has turned this down. Alkhimov had given him a 24 hour deadline. Kearns and others apparently feel that with mortgage money in the US at 10%, EX–IM and the Administration would be extremely vulnerable were the Soviets given 6% money for what amounts to mortgages on the hotels and other buildings of the Trade Center. Alkhimov is seeing Shultz this afternoon.) The press already is reporting on Alkhimov's presence and his meeting with Don Kendall. Overt lobbying for Title V by Alkhimov could produce a bad backlash.

The idea of delaying any action on Title V until the very end of the third reading has merit only if there is a major effort to build support for Pettis–Corman (the only remotely viable alternative to Jackson–Vanik). Failing that, delay will mean that Corman will be further deterred from sticking with the compromise, support for Jackson–Vanik will be restored and about the only option left will be to drop Title V. (This last course has much support within the Administration among those who fear that the fight over Title V could ruin the whole trade bill by opening it to crippling amendments on the House floor.)

The argument that a House Bill without Title V will permit House conferees to operate flexibly to obtain a compromise on a Senate bill that includes Jackson–Vanik has been used by Mills and others. But it is a very thin argument: the Senate might also drop Title V and then there is no MFN at all (though credits would be saved); or, more likely, the Senate might pass Jackson–Vanik so overwhelmingly that few in the House will be prepared to take the political heat to which they would be subjected were they to try for a weaker version in conference.

An Administration veto threat would produce major acrimony inside the Administration and, if carried out, might well be overridden.

In sum, delay makes sense only if there is a well-coordinated effort to get a solid Committee vote for Pettis–Corman at the end of the delay. Otherwise, the other unpalatable options are to get whatever vote is obtainable on Wednesday[6] for Pettis–Corman *or* for dropping Title V with an explicit commitment from Mills to take responsibility for a strong position by House conferees later on.

[5] Henry Kearns was the President and Chairman of the Export-Import Bank.

[6] September 19.

In the event of a decision to delay, there is little value in your going up to Ways and Means on Tuesday.[7] Whatever impact you have will be dissipated by voting time *unless you make a further appearance later,* or undertake a major direct effort with individual Ways and Means members. But you may want to consider a later appearance, closer to voting time.

If it is decided to go for a vote Wednesday, your appearance Tuesday is essential, though its results would be unpredictable.

A package of material for a Tuesday appearance will be sent to you shortly, so it is available.

Note: Since completing this memo I heard from Pearce on the Hill (10:00 a.m.) that over the weekend enormous pressures were mounted against Pettis–Corman and that it is now assumed that Jackson–Vanik has 300 votes on the floor. Corman had a meeting with Jewish leaders on Friday,[8] *where he urged "responsibility" but ran into a stone wall. Committee members feel that Pettis–Corman would fail in the Committee, and that once Jackson–Vanik had passed, a vote to drop Title V would fail also. Pearce thinks delay is probably the only possible chance, unless your appearance Tuesday can turn the situation. But he doubts that even that can be accomplished. Pearce says that any effort to delay must be decided on promptly today or it, too, will fail.*

Pearce tends to be pessimistic and, I think, generally would prefer for Title V to go away so the Bill will pass. We need Timmons for an independent judgment of the situation in Ways and Means.

[7] September 18. According to a September 13 memorandum from Timmons to Scowcroft, "The President and HAK agreed to Al Ullman–Herm Schneebeli request to brief an executive session of Ways and Means Committee next Tuesday afternoon on urgent need for MFN Soviet Union." (National Archives, Nixon Presidential Materials, NSC Files, Box 317, Subject Files, Congressional, Vol #9, June–September 1973)

[8] September 14.

Tab A

Memorandum From the Deputy Special Representative for Trade Negotiations (Pearce) to the President's Assistant for National Security Affairs (Kissinger) and Secretary of the Treasury Shultz[9]

Washington, September 16, 1973.

SUBJ

Title V and the Jackson/Vanik Amendment

The House Ways and Means committee is scheduled to decide Wednesday (September 19) whether it will accept the Jackson/Vanik amendment, the Pettis/Corman amendment or drop Title V from the trade bill. The attached paper reviews recent developments and arguments for and against three alternative Administration strategies.

The choice among them hinges on the likelihood of a successful effort to swing the support of responsible Jewish leaders from Jackson/Vanik to Pettis/Corman or some acceptable alternative. If this can be achieved in three to four weeks, the best bet would seem to be a combination of Option III (delay) and Option I (Pettis/Corman). If several months will be required, serious consideration should be given to Option II (drop Title V from the House bill), distasteful as that may be. We must decide Monday (September 17).

Attachment

Paper Prepared by the Deputy Special Representative for Trade Negotiations (Pearce)[10]

Washington, September 15, 1973.

Title V: Pros and Cons of Major Options

Problem

The Ways and Means Committee has been meeting since June in Executive Session marking-up The Trade Reform Act of 1973. It has

[9] Limited Official Use. Copies were sent to Flanigan, Eberle, Timmons, and Sonnenfeldt.

[10] Limited Official Use.

now virtually completed its second reading of the bill, in which it has attempted to reach tentative decisions on all policy issues. Final decisions will be made in a third reading after the Committee staff has translated policy decisions into legislative language.

The Committee has not yet been able to reach a decision on Title V which authorizes the President to extend most-favored-nation treatment to Communist countries. Debate has centered mainly on the issues raised by the Mills/Vanik bill (also known as the Jackson/Vanik amendment) which Vanik will offer as an amendment to Title V (Tab A).[11] The Jackson/Vanik amendment would effectively block implementation of U.S./USSR commercial agreement because it would prevent extension of most-favored-nation (MFN) treatment to any nation which "denies its citizens the right or opportunity to emigrate." It would also require the President to suspend extension of credit or credit guarantees to the Soviet Union.

When this issue was reached in the Committee last Wednesday (September 12) the Committee Counsel, John Martin, at the request of the Acting Chairman, Congressman Ullman, offered a substitute amendment. The following day, the substitute amendment was modified to take account of several objections we raised. Congressmen Pettis and Corman agreed to sponsor the amendment.

The Pettis/Corman amendment (Tab B) is tough, but is probably manageable. Before the President could extend or maintain MFN treatment to a Communist country, he would have to find (1) that the country is "evidencing reasonable progress in the observance of internationally agreed upon principles of human rights (including the right of free expression of ideas and of freedom of emigration)," (2) that such country does not impose an unreasonable emigration tax and (3) that it does not discriminate in emigration practices "on the grounds of race, color, creed or level of education or on the grounds of the choice of that individual as to the country to which he desires to emigrate." An agreement extending MFN could not have an initial term of more than three years and could not be extended without approval of the Congress.

Reaction to the Pettis/Corman amendment has been disappointing:

Mills—Chairman Mills has advised Vanik and Martin that he will adhere to the Jackson/Vanik amendment and issued a tough public statement criticizing the Soviet handling of dissident intellectuals.[12] Subsequently, he reaffirmed this in a conversation with Ullman, but added that if the Committee drops Title V from the bill, he will attempt

[11] Tabs A and B are attached but not printed.

[12] Printed in *The New York Times,* September 10, 1973, p. 1.

to fashion a workable compromise in the Conference. In a discussion this morning (September 15), he reportedly told Don Kendall that the U.S./USSR agreement must be implemented, that he doubted that the Committee could complete work on the bill by October 15 and that he would return by that date and work something out.

Jewish Community—There has been no evident support for Pettis/Corman in the Jewish community. Although we are handicapped because, so far as we know, the Administration has had no direct contact with Jewish leaders since this issue arose last week, we understand that the view of respected Jewish leadership is that while some settlement along the lines of Pettis/Corman will probably be acceptable as a compromise in Conference, no responsible element of the Jewish community is prepared to accept it at this point. To accept it now would "pull the rug out from under Jackson." A "representative sampling" of Jewish leadership met Thursday (September 13) in New York and concluded that, while they would not criticize Pettis/Corman, they would continue to adhere to the Jackson/Vanik strategy for the present.

Jackson—Senator Jackson and his staff (Richard Perle and Dorothy Fosdick) have generated strong pressures against Pettis/Corman. The 18 members of the Ways and Means Committee who co-sponsored the Mills/Vanik bill all have felt this pressure. Some have received calls from Jackson. All have reportedly been under pressure from Jewish leaders (whom many regard as responsible) in their constituencies and, despite the decision in New York not to criticize Pettis/Corman, many of them are calling it a "sell out."

Against this background, Congressman Corman is beginning to lose interest in his amendment. He advised us Friday[13] that he is willing to stick with it so long as there is any hope that it could become the law. However, he believes that (1) Pettis/Corman probably can win in Committee, but with no more than a one or two vote margin, (2) the Acting Chairman will not be able to get a rule that precludes a vote on the Jackson/Vanik amendment on the floor and, indeed, the effort to open the rule for this purpose could result in opening it for other, potentially destructive amendments, and (3) there is no hope of defeating Jackson/Vanik on the floor unless there is first some movement in the Jewish community. This is possible, but not likely. Congressman Corman's analysis is probably correct. In any event, it reflects a consensus among key members of the Ways and Means Committee.

This is especially troublesome because of the situation in the Senate where support for the Jackson/Vanik amendment seems, if any-

[13] September 14.

thing, stronger than it is in the House. It is generally accepted that unless there is a major change in attitude in the Jewish community, the Jackson/Vanik amendment will be in the Senate bill. This means that if it cannot be avoided in the House, there will be no opportunity to work out a compromise in the Conference.

Mr. Ullman proposed, and the Chairman agreed, on Friday (September 14), that Mr. Kissinger will be heard beginning at 2:00 P.M. on Tuesday (September 18) and the Committee will choose on Wednesday (September 19) among three alternatives: the Jackson/Vanik amendment, the Pettis/Corman amendment or an amendment to drop Title V from the bill. There is no agreement yet on the order in which these alternatives will be considered.

The Options

Option I

Work for the adoption of the Pettis/Corman amendment. The Administration would give full support to adoption by the Ways and Means Committee of the Pettis/Corman amendment. With a major effort, we could likely win on this issue, although this must be reevaluated Monday (September 17). It will require picking up the votes of several members now leaning the other way.

Pros

1. Success of this effort would give us a strong, responsible compromise to take to the floor. Pettis/Corman would provide a nucleus around which support could be rallied.

2. If we succeed in the House, it would assure an acceptable alternative to Jackson/Vanik which will likely be in the Senate bill.

3. While Pettis/Corman imposes tough conditions, they are manageable. It avoids any new restrictions on credits.

4. Our support for Pettis/Corman would likely be understood and accepted, though certainly not relished, by the Soviets.

Cons

1. It will not be easy to obtain necessary votes to secure Committee approval of Pettis/Corman. Members are under heavy pressure from constituents. Those who co-sponsored the Mills/Vanik bill (18 of 25 Committee members) are especially vulnerable. Since ultimate success of the amendment is hard to predict, most of them will be reluctant to support it.

2. Even if the Committee accepts Pettis/Corman, there is no assurance that Jackson/Vanik will not be substituted on the floor. This is especially true if Chairman Mills continues his support for Jackson/Vanik. Under new rules of the Democratic caucus, 50 members can pe-

tition for the right to submit an amendment. The Chairman is then obligated not to ask for a rule which would exclude a floor vote on the amendment. The consensus is that Vanik can get 50 members and that, unless there is substantial movement in the Jewish community, Jackson/Vanik will be substituted on the floor.

3. In other respects, the Committee is likely to report a bill giving us substantially what we have sought. If the adoption of Pettis/Corman provokes a major fight on the rule, the result could be a decision to permit floor consideration of other damaging amendments as well. We cannot rule out the possibility of an open rule which would, for practical purposes, end any hope of getting an acceptable trade bill from the House this year.

Option II

Seek to persuade the Committee to drop Title V from the bill. This could probably be achieved by combining the votes of those who oppose Jackson/Vanik with those who oppose trading with the Soviets. Both Vanik and some Jewish leaders have expressed concern about this possibility, the latter because they recognize that any action which implies that the Administration has given up on MFN or will not press it actively now reduces pressure on the Soviet Union to end offensive emigration practices and harassment of Jews seeking to emigrate.

Pros

1. This may be the only way to avoid the Jackson/Vanik amendment in the House bill. This would permit House members of the Conference to work out a satisfactory solution, assuming the Senate version will include Title V. Chairman Mills has said to others that he would assist us in this.

2. Such action could exert useful pressure on responsible leadership of the Jewish community to work out some sort of acceptable compromise on this issue.

3. Dropping Title V from the trade bill seems preferable to enacting it with the Jackson/Vanik amendment, since Jackson/Vanik would block *both* implementation of the U.S./USSR commercial agreement and further extension of government loans and loan guarantees in connection with private transactions with the Soviet Union.

Cons

1. The Soviets could regard this as an act of bad faith, despite our best efforts to explain the problem and our tactics.

2. Title V could be permanently lost from the trade bill if the Senate failed to add it. This would require separate legislation for authority to extend MFN to Communist countries.

3. There is no assurance that the Committee's decision to drop Title V would preclude the possibility of Jackson/Vanik in the House bill. Vanik could be expected to seek a rule permitting a floor vote on Jackson/Vanik even if Title V is eliminated (the possibility of this might be reduced if Ullman could be persuaded to ask Chairman Morgan to hold hearings in Foreign Relations on foreign policy aspects of this issue).

4. Also, there is no assurance that Mills could (or would) fashion a feasible compromise in Conference that would be acceptable to both the House and the Senate. At best, this strategy postpones a final decision on this issue until the Conference (at which point responsible Jewish leadership may be less reluctant to break with Jackson) and provides further time in which to improve the climate for Congressional resolution of the issue.

Option III

Seek to delay any resolution of this issue until all other issues in the trade bill are resolved. The Committee will require at least two weeks and possibly longer to complete final action on the bill. Ullman said Friday that it might be possible to delay action for "a week or ten days" although it would be difficult.

Pros

1. Delay would preserve our substantive options. It would avoid the necessity for a decision before we have accurately gauged the attitudes of various factions in the Jewish community.

2. Delay also would permit us to develop support for a compromise (perhaps some version of Pettis/Corman) which would enable us to implement the U.S./USSR commercial agreement. Reports suggest that responsible Jewish leaders want a compromise that maintains continuing pressure on the Soviet Union. Many recognize that the Jackson/Vanik amendment is self-defeating for their purposes (though not necessarily for Jackson's purposes). They seem willing to recognize that some compromise will have to be worked out in the end, but they do not seem to recognize that we may be locked in to Jackson/Vanik unless some sort of agreement is reached before the bill leaves the Ways and Means Committee.

3. Delay would give Dr. Kissinger a better opportunity to deal with the problem as Secretary of State. The present demands on his time and his attentions have limited his participation in this effort.

4. If the Ways and Means Committee acts Wednesday (September 19) either to adopt the Pettis/Corman amendment or to drop Title V from the bill, Vanik will have two weeks and perhaps longer to develop his strategy on the rule and support in the House. A coalition

with organized labor cannot be excluded. On the other hand, if a decision on this issue can be delayed until the Committee is prepared to report a bill, there will be little time (perhaps no more than a day or two) for this to develop.

Cons

1. There is no assurance that Ullman can delay a decision. Vanik will oppose any delay, pointing out, among other things, that since Ullman has publicly announced a vote on Wednesday (September 19) delay will embarrass the Committee.

2. Because Ullman has publicly expressed his opposition to Jackson/Vanik, a delay would be interpreted as evidence that he lacks the votes to beat it.

3. Unless a successful effort with the Jewish community can be mounted swiftly, delay might actually reduce chances that Option I or Option II could succeed. Jackson/Vanik forces also will be active and, on the record to date, they have used time more effectively than we have.

4. We have built up considerable momentum since Ways and Means resumed Executive Sessions on September 5. Delay on this issue, taken at our instance, increases the risk of delay in completing work on the bill as a whole.

187. Memorandum of Conversation[1]

Washington, September 27, 1973.

President's Meeting with GOP Leadership—September 27, 1973[2]

SUBJECT

Defense Procurement and MFN

[Omitted here is discussion unrelated to trade policy.]

Kissinger: MFN. Let's put it in perspective. When you came into office you said we would pursue trade only if certain conditions were met. That linkage was universally controversial. Now we are being castigated in just the opposite way. The President *invented* the idea of getting something for trade.

President: The dominant idea was that trade in itself was good and would leaven Communist societies.

We agree, but just say it is inevitable that politics and economics go together. The Soviet Union says trade—we say MBFR. They say trade—we say SALT. It's *not* explicit but implicit.

If there's anyone who is known as opposed to the Communist system, it is me. But you don't change them by isolating ourselves from them.

If liberals want to go back to the Cold War, okay. But then we need a massive increase in the U.S. defense budget. We can't have it both ways.

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[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 2. Confidential. The meeting took place in the Cabinet Room from 9 to 10:21 a.m., and included the following Republican participants: Senate Minority Leader Hugh Scott (who arrived at 9:30 a.m.) (Pennsylvania), Senator Robert Griffin (Michigan), Senator Wallace Bennett (Utah), Senator Norris Cotton (New Hampshire), Senator John Tower (Texas), Senator William Brock III (Tennessee), Senator Strom Thurmond (South Carolina), Senator George Aiken (Vermont), Representative Leslie Arends (Illinois), Representative John Anderson (Illinois), Representative Barber Conable, Jr. (New York), Representative Robert Michel (Illinois), and Representative William Mailliard (California). Also present were Nixon, Vice President Spiro Agnew, Kissinger, Schlesinger, Ash, Counselor Bryce N. Harlow, Counselor Anne Armstrong, Haig, Executive Director of the Domestic Council Kenneth R. Cole, Jr., White House Press Secretary Ronald L. Ziegler, Timmons, Korologos, Deputy President's Assistant for the House of Representatives Max L. Friedersdorf, Eberle, and Pearce. (National Archives, Nixon Presidential Materials, White House Central Files, President's Daily Diary)

[2] President Nixon's talking points for this meeting are ibid., NSC Files, Box 317, Subject Files, Congressional, Vol #9, June–September 1973.

There has been more Jewish migration from the Soviet Union under our policy than ever before. In China, Downey is out of prison because I went to China.[3]

MFN is tough—with the Jewish community, with conservatives, and with labor unions. The typical Congressman can get points from all three constituencies. Also there is a tendency of business to say we want projects at all costs—that hurts.

[unidentified]: The major fight is ahead. 83 Senators and 200 of the old House are for Jackson–Vanik.

President: Jackson is at least consistent.

Kissinger: It is important to understand that trade with the Soviet Union is not important. What is important is they have given in: peace in the Middle East, out of South East Asia, Berlin access, and no base in Cuba. Now, when they have performed, we raise this issue? When it is raised, they agree to give us a letter reversing the education tax. Then we raise 710 cases and they act on 410. Now this.

This will be used by Brezhnev's internal opposition. What will we do if we go back to confrontation in Cuba, Berlin, etc.

[unidentified]: There is a major effort building to restore full Jackson–Vanik on the floor.

Kissinger: We can live with the general language which gives Congress or the President the right to withdraw it if certain things are not done.

[unidentified]: We can work something out if we can get a rule. Albert controls the rules.

Kissinger: We need to maintain the maximum difference in the House and Senate. So we can compromise in Conference.

Mailliard: There is tremendous pressure. Everyone who won't join Vanik is accused of anti-Semitism.

[unidentified]: The MFN is only one issue in the bill.

Mailliard: At what point do we drop the bill and try again?

Kissinger: We are better off without Title V than with Jackson–Vanik. Because of credits.[4]

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[3] On March 12, 1973, the People's Republic of China released John Downey, who had been imprisoned on espionage charges since 1952.

[4] Tentative planning for the possibility of dropping Title V had been considered in the White House. On September 24, Leonard Garment, the President's Special Consultant, forwarded to Scowcroft a draft Presidential letter requesting the deletion of Title V. That same day, Scowcroft sent the draft letter to Timmons, attached to a note requesting his counsel; on September 25, Timmons wrote on the bottom of Scowcroft's note, "I don't think we [should] use unless absolutely necessary." (National Archives, Nixon Presidential Materials, NSC Files, Box 317, Subject Files, Congressional, Vol #9, June–September 1973)

[unidentified]: Is there an alternative? Long is thinking of sending at least some parts of the Trade Bill to the House.

[unidentified]: Could we survive with Jackson–Vanik without credits?

Kissinger: Maybe, but with credits, it would be a disaster.

Mailliard: We maybe can get Title V dropped. We can't win a vote on the Jackson–Vanik.

Anderson: We are talking about in committee or the floor? On the floor, there is not much hope.

Eberle: If we can get Albert to get a rule to go up or down on Title V, we maybe can do it.

President: If the bill comes down with Jackson–Vanik and credits, it will be vetoed. The Trade Bill is not that important.

[unidentified]: An open rule in the House would bring an interesting demonstration.

President: I don't see Albert playing ball.

Mailliard: It's worth a try.

President: We'll try. If not, I want the Soviet Union to know we tried and want our opponents to know they are responsible for the consequences.

188. Editorial Note

On October 3, 1973, the House of Representatives Ways and Means Committee favorably reported out the trade bill. It included a modified Jackson–Vanik amendment, which placed liberal emigration-related restrictions on the granting of MFN to Communist countries but did not place such restrictions on the granting of credits to those same countries. The bill also included changes in its titles. Title I now covered "Negotiating and Other Authority"; Title II covered "Relief From Injury Caused by Import Competition"; Title III covered "Relief From Unfair Trade Practices"; Title IV covered "Trade Relations With Countries Not Enjoying Non-Discriminatory Treatment"; Title V covered "Generalized System of Preferences."

The following day, President Richard Nixon responded in a public statement that, "In most respects, the bill submitted to the House by the Ways and Means Committee is a highly responsible piece of legislation." But Nixon's statement also asserted that, "In one important area, however, the committee bill is clearly inadequate. I am deeply concerned about the bill's failure to provide the tools we need to expand healthy commercial relationships with the Soviet Union and other Communist countries. This Administration is committed to seeking most-favored-nation treatment for the Soviet Union. Indeed, the United States has made a formal commitment to the Soviet Union to seek the necessary legislative approval for such treatment in the firm belief that this is in the best interests of both our countries. Therefore, once again, I strongly urge the Congress to restore the authority to grant nondiscriminatory tariff treatment to all countries." (*Public Papers: Nixon, 1973,* page 847)

The Nixon administration was divided in its reaction to the revised bill. The President's Assistant for Legislative Affairs, William Timmons, noted in an October 5 memorandum to White House Chief of Staff Alexander Haig, that "CIEP and STR are convinced that the MFN section is minor when looking at the trade authorities in the over-all measure. They are anxious for the President, staff and Administration to lock in hard behind the Ways and Means Committee version and accept the Jackson–Vanik amendment as inevitable. On the other hand, I think NSC is much more concerned about the USSR than the trade provisions." (National Archives, Nixon Presidential Materials, NSC Files, Box 318, Subject Files, Congressional, Vol #10, September 73 (2 of 2)) On October 7, President's Deputy Assistant for National Security Affairs Brent Scowcroft reported on an October 4 staff meeting to President's Assistant for National Security Affairs Henry Kissinger, noting that Peter Flanigan, the President's Assistant for International Economic Affairs, "praised the Trade Bill, except for the MFN title. Timmons asked if the President would veto the bill if it did not contain MFN but had no credit restrictions. Flanigan said that was too tough to call this early, but Haig said that the President had indicated that he would; the President had been reluctant to put out the statement on the Trade Bill, even though there was tough language on the MFN title. Flanigan said that if the President vetoed the Trade Bill it would collapse trade negotiations and possibly our European declaration." (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 4, 10/1–8/73) On October 3, Timmons concisely identified the dilemma in a memorandum to Haig: "The key decision is will the President sign a very good trade reform bill without MFN authority? Or is the international political consideration so great that he must veto a bill with a Jackson–Vanik amendment?" (National Archives, Nixon Presidential Materials, NSC Files, Box 403, Subject Files, Trade, Vol. VI, April 8–December 1973)

On October 8, Kissinger spoke with the President over the telephone. President Nixon recounted a conversation he had had with Donald Kendall, President and Chief Executive Officer of PepsiCo, Inc., which included a discussion of MFN for the Soviet Union: "The question came up as to whether the trade bill would come down with the

Jackson/*Vanik amendment* but with credit in it. I told him if it came in with the credit in it I would veto it. I don't want to start the MFN if credits are in the trade bill. I will veto it. I would rather not have it. You give that signal out." Kissinger said that he would do so. (Ibid., Kissinger Telephone Conversations, Box 22)

189. Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to Secretary of State Kissinger[1]

Washington, October 10, 1973.

SUBJECT

Thursday[2] Morning Discussion with Congressmen Albert, O'Neill and Ford

1. The timetable for House action on the Trade Bill calls for passage at the end of next week. (Rules Committee is scheduled to meet on Tuesday, October 16; Floor vote on Rules on Thursday, October 18, Floor vote on Bill on Friday, October 19.) The current vote count indicates a Rule which will open the MFN issue, and a Floor vote to prohibit the extension of credit by the US to the USSR.

2. An effort has been made with Ullman, acting Chairman of Ways and Means, to delay the schedule for two weeks in order to: (a) allow pressure from Jewish leaders to work on House members. Garment has contacted the President of the major Jewish organizations, and others, who have agreed to urge members that now is *not* the time to exacerbate US–USSR relations by a Jackson–Vanik vote. (b) Hopefully remove this emotional vote from the current context of the Mideast war.[3]

Ullman has so far declined to seek a delay. Ullman believes that hard-line anti-Communists and labor union supporters have joined the pro-Jewish supporters of Jackson–Vanik, and that this coalition cannot be beaten during a two week delay.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 318, Subject Files, Congressional, Vol #10, September 1973 (2 of 2). No classification marking. Sent under cover of an October 10 note from Scowcroft to Kissinger that reads: "Peter asked that the attached be provided for your breakfast meeting. His facts are correct, but I think we need to push for a delay in any event, regardless of a decision on the Rule."

[2] October 11.

[3] On October 6, Egyptian and Syrian forces launched a surprise attack against Israel. The ensuing conflict lasted until the conclusion of a cease-fire agreement on November 11.

3. You should impress on the House leaders the enormous damage that could flow from a House action at this time that is seen by the Soviets as antagonistic. You should point out that it would diminish our tenuous ability to influence the Soviets' involvement in the Mideast and might push them into more active support of the Arabs.

This would not only be detrimental to the Israeli cause, but would have serious implications for the West's oil supplies.

To avoid this, you should investigate with the leaders the possibility of *not* opening the Rule to allow the amendment prohibiting US credits to the USSR. The House Parliamentarian ruled this out of order for Ways and Means, so a case can be made that it should *not* be brought up without proper Committee consideration. This would allow the Bill to be brought to a vote without risking the inclusion of an amendment prohibiting US credits to the USSR. (Joe Waggoner[4] believes this is possible.)

If the leaders think this is impossible given the current schedule, you should then urge them to delay taking the Trade Bill to the Rules Committee for two weeks, to provide more time for outside voices to be heard by the members.[5]

[4] Representative Joe D. Waggoner (D–Louisiana).

[5] On October 11, Kissinger secured Congressional agreement to delay House consideration of the trade bill until October 24 or 25. (*The New York Times*, October 12, 1973, p. 15) House leaders subsequently agreed to a further delay, again at the behest of the White House. (Ibid., October 30, 1973, p. 1) On October 29, in a telephone conversation with Albert at 5:29 p.m., Kissinger summarized the administration's dilemma: "If we can get the Jewish community to favor dropping title IV, then we would like to have the discussion now. If we cannot do that, we would prefer to defer it because the President would be forced to veto any bill with the amendment as it now stands." Kissinger then asked for, and Albert agreed to, 2 days in which to convince Jewish community leaders to drop Title IV. (National Archives, Nixon Presidential Materials, Kissinger Telephone Conversations, Box 23)

190. Position Paper Prepared in the Council on International Economic Policy[1]

Washington, undated.

Administration Position on Title IV of TRA

Title IV of the TRA deals with authority to grant MFN treatment by the US to the USSR and other countries not now enjoying non-discriminatory trade treatment. An effort will be made on the floor of the House to amend Title IV with the result that the Administration would, under current circumstances, be prohibited from granting Ex-Im, CCC and other credits to the USSR.

In view of the present unsettled conditions in the Middle East, the Administration believes that it would be imprudent to take any substantive action with respect to Title IV. Negative action by the House would risk aggravation of the present diplomatic situation and affirmative action may not be warranted by the circumstances which emerge from the current Middle East crisis.

Therefore, quite apart from the issue of Soviet emigration policy, the Administration believes the national interest would best be served by the House of Representatives,[2] striking Title IV from the Bill. Striking Title IV entirely from the TRA will leave both the Administration and the Congress full flexibility for further action depending on subsequent developments.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 219, Agency Files, Council on International Economic Policy (CIEP) 1973 (Vol II). Secret. Attached to an October 16 memorandum from Flanigan to Scowcroft that reads: "Herewith the position on Title IV of the Trade Bill which we discussed at the 8:30 meeting this morning. I believe it fully reflects Henry's agreement. I intend to start using this on the House members this afternoon. If you have any trouble with it, please call me immediately. I presume you will forward a copy to Henry."

[2] The phrase "with the overt support of the Administration" was crossed out.

191. Minutes of a Cabinet Meeting[1]

Washington, October 18, 1973.

Shultz: Brezhnev and Kosygin were genuinely puzzled about things going on in the United States.[2] They seemed genuinely sincere about détente. Brezhnev asked me: "Is the problem really about Jewish emigration, or does the United States want to go back to the Cold War." They seemed to be saying that if this is the way people think Jews will get out of the Soviet Union, they are mistaken.

President: The significant thing is that Brezhnev has staked his leadership on better relations with the United States. He needs us for European détente, for trade, and to keep the United States from tilting toward the Chinese. This puts the Middle East into perspective—what will they do. Last May—in May of '72—they didn't chuck us for the mining of Haiphong. Of course they must support their clients, but the question is whether they will do it at the jeopardy to all the other fish they have to fry. Henry, you expand.

Kissinger: In 1969, the President announced the concept that came to be known as linkage—the idea that there was a connection between their behavior in Vietnam, Berlin, the Caribbean and general policy. We were violently attacked for this idea. We were told that trade was beneficial in itself and shouldn't be linked to the political sphere. We were accused of an outmoded Cold War policy. It took us two years to get the Soviet Union to look at things this way. Then we had simultaneous crises in 1970 on the autobahn, in the Caribbean, and in Jordan. Since then the Soviet Union has delivered on every political condition and on lend-lease[3] and we have done nothing. The wheat deal had nothing to do with détente—we thought that was a good deal. They

[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 2. Secret. The meeting took place in the Cabinet Room from 3:09 until 5:02 p.m. (National Archives, Nixon Presidential Materials, White House Central Files, President's Daily Diary) All brackets, with the exception of those indicating omission of unrelated material, are in the original.

[2] From September 30 until October 3, Shultz was in Moscow to attend a meeting of the U.S.–USSR Joint Commercial Commission. Shultz also met with Soviet leaders. A transcript of his October 3 press conference in which he responded to questions about MFN for the Soviet Union is in telegram 12177 from Moscow, October 3. (Ibid., RG 59, Central Foreign Policy Files)

[3] On October 18, 1972, the United States and the Soviet Union signed two agreements on bilateral economic relations. The first agreement involved a $722 million settlement of outstanding U.S. claims against the USSR arising from the provision of lend-lease aid during the Second World War. The second agreement included, among other provisions, export credits and MFN status (subject to Congressional approval) for the Soviet Union.

have given assurances on the Jews and we keep raising the ante. It must be looked on by them as a deliberate attempt to scuttle détente. One of the riskiest things is to try to play around with the domestic structure of a revolutionary government.

Last week I talked to Dobrynin about détente. He says he understands our domestic policy, but in Moscow they are saying that they are being attacked here more than before there was détente. The Europeans are saying to them: "The U.S. is unreliable; trade with us." If this Soviet leadership fails, it may be years before we can reestablish a dialogue. This frivolous monkeying around with the domestic policy of the Soviet Union can have the most serious consequences. This is one of the most important foreign policy issues of our times.

President: If détente goes down the drain, I will have to ask for $25 billion more for defense.

Ford: The bill is coming up on Halloween. There are hearings on the rule next week and the rule will probably open up the issue of the credits. Henry's statements need to get to the House.

President: I have serious doubts I will sign a trade bill with Vanik; if credits are denied, it will be vetoed. That is a public statement.

Ford: I will need Henry's help on it.

Shultz: [Discussed the Nairobi Conference][4]

President: While the people in this country support aid to the Israelis, they are against American involvement. But aid has no constituency. We must continue to act responsibly, but we must recognize that we have neo-isolationism in this country and there is no support for aid.

Excluding food and energy from the CPI, we would have inflation of only 3½ percent.

I am totally committed to expanded world trade, toward an international monetary system to avoid crises—but I will veto the trade bill with Vanik and [limit on] credits and I will seriously consider it with Vanik even without the credit restrictions.

We can't negotiate with other countries if a minority can determine the foreign policy of the United States. No minority is going to do it while I am President.

[Omitted here is discussion unrelated to trade policy.]

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[4] The Boards of Governors of the IMF and the World Bank held their annual meeting in Nairobi from September 24 to 28.

192. Memorandum From Charles Cooper of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Scowcroft)[1]

Washington, October 23, 1973.

SUBJECT

Comments on Trade Bill and Jackson/Vanik

The legislative outlook for the Trade Bill may be souring. The AFL–CIO opposition to it is beginning to mount. They are attempting to insure that the bill is subject to an open rule in order to allow protectionist amendments on the floor—many of which would probably pass. The delay in bringing the bill to a vote which was agreed to in order to provide more time to try to compromise the Jackson/Vanik amendment issue has given labor supporters more time and opportunity to generate support for an open rule.

The importance of the non-MFN aspects of the Trade Bill is not economic but political. It provides authority necessary for the United States to participate in trade negotiations to resolve a growing list of trade problems between ourselves and Europe, Japan, and other countries. Without the authorities contained in the bill many politically contentious trade issues will go unresolved. Our ability to achieve monetary reform—which is also politically important—will be jeopardized. And the entire thrust underlying "Year of Europe" could be severely compromised. The Europeans and Japanese could claim that we sacrificed the parts of the Trade Bill designed to resolve problems with them for the sake of securing MFN and authority to extend credits to the Soviets. This could be interpreted as a clear case of putting the relationship with Moscow ahead of the relationship with our allies and friends.

There is probably no good solution to the Jackson/Vanik problem. The best solution appears to be to remove Section IV (MFN) by arguing that to give MFN now would be inappropriate in light of recent Soviet actions in the Middle East, but that it would be equally inappropriate to foreclose the prospects of giving MFN and credits and thereby tie the President's hands in his delicate negotiations with the Soviets on

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 403, Subject Files, Trade, Vol. VI, April 8–December 1973. Confidential. Sent for information. Sent under cover of an undated note from Cooper to Scowcroft. The note is marked "Sent for action" and reads: "This matter will undoubtedly be up for discussion in the next couple of days. I did this memo for you rather than for Secretary Kissinger since I didn't know whether he'll have time to involve himself in any meetings in which this subject might come up." Scowcroft wrote at the top of this note: "Thanks."

the Middle East. However, even if we cannot get this sort of solution, I believe it important to move the bill through the House as soon as possible. The longer the consideration of the bill is postponed the greater the chance that the protectionists can mount pressure on the Ways and Means Committee for an "open rule" or secure enough support from the House membership to vote an "open rule" on the floor. In that case a number of protectionist amendments would be put on the bill. These would compromise this country's ability to participate in trade negotiations. Thus, we would lose not only the Jackson/Vanik battle but also authorities the need for which inspired the Administration to submit the Trade Bill in the first place. If the House is unwilling at this time to separate the MFN section of the Trade Bill from the other sections it does us little good to delay consideration of the bill and thereby risk amendments which would completely gut other aspects of the bill.

If I am correct in thinking that delay could seriously endanger the prospects for a reasonable Trade Bill, then early consideration of it by the House is essential. If an improvement comes in our relations with the Soviets, there will be an opportunity to turn Jackson/Vanik around in the Senate. In the meantime we should try to preserve our ability to secure a bill the other parts of which serve our original and politically important intent of getting authority to deal with the numerous trade problems between ourselves and our allies.

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193. Letter From Secretary of Agriculture Butz to Secretary of the Treasury Shultz[1]

Washington, October 24, 1973.

Dear George:

I am concerned that the United States may be adopting a position that will seriously weaken the bargaining position for U.S. agricultural products in the forthcoming Multilateral Trade Negotiations.

The European Community, with the expected support of Japan and most other GATT countries, is advocating, at the meeting of the Trade Negotiating Committee now in progress in Geneva,[2] that negotiations

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[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 1, GPS Agriculture 1973. No classification marking.

[2] The TNC met in Geneva from October 24 to 26. See Document 203.

on all agricultural products be dealt with by an Agriculture Committee. We foresee serious dangers for American agriculture, and hence America, in this approach:

—Separating out agricultural products provides a convenient way to avoid negotiating on these products without jeopardizing the rest of the negotiations, but with great potential loss to the U.S..

—There is insufficient negotiating reciprocity within the agricultural sector. In FY 1973 U.S. agricultural exports totalled $12.9 billion against imports of $7.3 billion. With Japan we had a surplus of $2.2 billion. With the EC we had a surplus of $2.7 billion.

—Many non-tariff problems are essentially the same for agriculture as for industry: import quotas, licensing, export subsidies, and so on. If agriculture is handled separately, separate rules may be devised for agricultural products. We would then be worse off than we are under present GATT rules, which apply universally to all products with some exceptions for agriculture. This is a danger even if the negotiations are otherwise successful.

—If all agricultural products are considered together, delays associated with a few problem commodities may prevent progress on many products for which benefits could rather easily be negotiated.

U.S. agriculture's contribution to our trade balance in FY 1973 was a plus $5.6 billion. This was made possible in substantial part because of the efficiency of this industry, and hence the competitiveness of its products when they go on to the world market. An MTN strategy which permits segregation of negotiations on all agricultural products into an Agriculture Committee for purposes of negotiations would tend to erode this U.S. industry's ability to remain competitive and hence would weaken its effectiveness in maintaining the favorable trade balance that it now has. Further, it would inhibit its future ability to improve trade balance which is one of its major objectives.

We have—in the President's program—deliberately sought to make American agriculture market oriented. A key element in our program is ever expanding access to foreign markets. U.S. agriculture in this manner can operate as a growth industry and remain efficient, conferring the benefits of such efficiency on the American people in terms of the food and fiber they buy. Hence, channeling agricultural negotiations into a separate Agriculture Committee would work against the best interests of American consumers and taxpayers.

The above are two compelling economic reasons why an Agriculture Committee should not be permitted for purposes of carrying out agricultural negotiations in the forthcoming MTN.

Further, the agricultural community has been one of the staunch supporters of the President's Trade Reform Act. To permit our negotiators in Geneva to put agriculture in a second rate negotiating position in the MTN would probably tend to alienate substantial support for this bill which may still be needed for its passage. Indeed, I could find difficulty in continuing to give my own support as wholeheartedly as in the past.[3]

Lastly, we feel that there was some agreement and certainly full knowledge in other departments as to this Department's opposition to carrying out these negotiations with an Agriculture Committee. The moves presently underway by the U.S. delegation in Geneva toward approving an Agriculture Committee are done without adequate advance consultations with the representatives of this Department.

I, therefore, request your strong, prompt support in avoiding segregating agricultural negotiations in the MTN, and hence also avoiding a downgrading of U.S. agriculture's ability to export and remain efficient along the lines set forth above.

Sincerely,

Earl L. Butz

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[3] The final sentence of this paragraph has been underlined and highlighted.

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194. Letter From the Deputy Special Representative for Trade Negotiations (Pearce) to Secretary of the Treasury Shultz[1]

Washington, October 31, 1973.

Dear Mr. Secretary:

This responds to your request for a list of issues which should be resolved within the Administration before we seek active support for dropping Title IV.

The most important issue involves how and when we approach a House vote. I am enclosing a brief summary of our options on this issue. While I can't fully assess the impact of all this on our relations with the Soviet Union and on discussions looking toward a settlement of the Middle East crisis, on the basis of what I know, I support Option 3.

Both the first or the second options impose a serious risk that the trade bill will fail in the House for the reasons outlined. At best, the coalition supporting the trade bill (which now includes both liberal

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[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS Trade—Volumes I & II 1973/74. No classification marking. A copy was sent to Eberle.

traders and the steel and textile industries) is fragile. There is clear evidence that our efforts to delay the bill and to delete Title IV are creating hostility among those who have supported us on trade. Failure of the trade bill in the House would effectively end our efforts to deal constructively with trade issues in our relationships with Western Europe and Japan. The effect on monetary negotiations is harder to judge, but it is not likely to be positive.

In weighing Options 1 and 2, these risks must be weighed against the prospects for success in avoiding the Vanik amendments in the House. I think it is fair to say that neither offers much in the way of assurance on this score.

I might view these issues differently if there had been a more thoughtful, effective effort on Title IV before attitudes hardened in the House. I am enclosing a letter I received from Congressman Conable several weeks ago which illustrates the point.[2] Despite this clear, early warning, little was done in the intervening months to improve prospects on this issue. People who could have helped were unavailable to meet with the Ways and Means committee when it considered this issue. Indeed, I was without instructions on the issue when the committee began its final debate on this subject. Only after the bill was reported and, in a real sense, the die was cast in the House, was any serious effort made to turn the Jewish community around. Against this background, I find it difficult to believe that the very limited, tentative efforts now being made by the Jewish leadership can produce an about-face in the days immediately ahead.

A second important issue involves the President's intentions with respect to the bill if the House does not respond to our request to delete Title IV. In my view, a threat of veto at this point would *not* help resolve the Title IV issues; if anything, it would reinforce Labor's dedication to the Vanik proposals. On the other hand, a threat of veto could seriously undermine support for the bill. It would belie the President's strongest argument for negotiating authorities. It would be hard to sell

[2] The attached, but not printed, September 28 letter from Representative Barber Conable (R–New York) to Pearce enclosed a letter Conable had written to Kissinger on March 2, 1973, warning him that a bill introduced by Mills in February 1973 and co-sponsored by Vanik and twenty-three other Representatives, the "Act for Freedom of Emigration in East-West Trade," commanded substantial Congressional support and posed a serious threat to the achievement of increased trade with the Soviet Union through a new trade bill. Barber wrote Pearce: "If anyone at the White House is critical of you for your failure to get a more favorable result on MFN for Russia, you might show them the enclosed copy of a letter sent to Kissinger on March 2. The response I got from Kissinger, relayed through John Ehrlichman, was to the effect that if I was having trouble with my Jewish community, 'go ahead and sponsor the bill; we'll work something out later.' "

the idea that they are essential to restore order and equity to world trading arrangements if he is prepared to abandon the bill to preserve, temporarily, the authority to extend government credits to the Soviet Union. Moreover, it would give a clear signal to our allies and to developing countries that détente has a higher priority.

Finally, there is no apparent need—at least in terms of our relationship with Congress—to play this card now while we are still several months away from final Senate action. If it is felt that our relationship with the Soviet Union requires such assurances now, presumably, they could be given privately.

There is one another additional thing that I must tell you which has become clearer to me since our discussion earlier today. From several sources, including sources on the Hill, I have been informed that unless "Peter Flanigan gets out of this" we are going to lose substantial support for the trade bill. It has been made very clear to me, in no uncertain terms, by the Jewish community that Peter Flanigan is misinterpreting the position of the top Jewish leaders and underestimating the resistance of second echelon Jewish leaders to the top leadership on this issue. If he pursues his activities, it could provoke a public reaffirmation of their support for the retention of Title IV with full Jackson/Vanik. Leonard Garment concurs fully in this assessment.

When I was given and accepted responsibility for the trade bill, a procedure was established for supervision and policy guidance. In recent days, it has collapsed. Decisions are being made and actions taken without my knowledge. I am asked to carry out decisions which are later brought in question. Unless we can reestablish appropriate lines of authority and responsibility, we are headed for disaster.

Sincerely,

Bill Pearce

Attachment

Paper Prepared by the Deputy Special Representative for Trade Negotiations (Pearce)

Washington, October 31, 1973.

Timing of the Trade Bill

Options

1. Delay House action on the trade bill until it is clear that Title IV issues can be resolved to our satisfaction (i.e., by defeating the Vanik amendment or dropping Title IV).

Pro

a. Avoids unfavorable House action on MFN, credit while Middle East issues unresolved (though see Con #e).

b. Avoids threat of veto which would undermine prospects for the bill.

c. Provides time in which to turn the House around on the Title IV issue.

d. No real evidence the EC is prepared to go forward now anyway.

Con

a. Delay increases risk that opponents of TRA will gain strength—we now have votes to pass it.

b. Doubtful that Title IV issues can be resolved before the House recesses. Pushing House action into next year jeopardizes momentum in trade negotiations. Enables France, others to pull back, blame U.S.

c. Reflects choice between Soviet détente and relationships with major allies, obligations to LDC's.

d. Increases hostility of W&M members who comprise our most solid House support for the TRA.

e. Vanik amendment could be added to another bill (possibly veto-proof). If so, we would lose both ends.

2. Proceed on the basis of Mr. Ullman's proposal (a privileged W&M committee amendment to drop Title IV).

Pro

a. Would commit W&M to support dropping Title IV.

b. If succeeds, strengthens somewhat prospects for beating Vanik amendment (since committee amendment precedes Vanik amendment).

c. Avoids further delay in House vote, thus reduces chances of AFL–CIO chipping away necessary support.

Con

a. Forces issue in House before Jewish counter effort has time to succeed.

b. Forfeits W&M responsibility for passage of the bill. (Ullman has said he will support a committee amendment if the President asks, but then the President bears the responsibility if bill fails.)

c. Effect of success in dropping Title IV on vote hard to appraise—could result in defeat in House. All of our vote counts are based on the assumption that Title IV (and, presumably Vanik) are in the bill. This means liberal Democrats with obligations to Meany can vote for him on Title IV, then against him on bill. If they are pressured to vote against him on Title IV, it is hard to predict their votes on the bill.

d. Doubtful we will have effective support of the liberal trade community. (This could change if solid evidence of support in the Jewish community emerges.)

e. If succeed, still must contend with Jackson forces in Senate.

f. No assurance that we can avoid or defeat the Vanik credit amendment even if we prevail on the committee amendment. Could end up with no MFN authority, restrictions on credit in House bill.

3. Proceed with action in the House. Seek deletion of Title IV but without asking for a committee amendment. Then work toward a solution in the Senate.

Pro

a. Bill will pass (albeit with Vanik amendment, Title IV). Have basis for trade bill we want in conference where House usually wins on trade issues.

b. Sets stage for a better considered, executed effort in Senate. More time for Jewish community to work for compromise. In the end, we must deal with Jackson anyway.

c. Avoids delay in preparations, loss of momentum in negotiations.

d. Avoids for now a Presidential "choice" between détente with Soviets and accommodation of allies, LDC's.

e. Soviet reaction could be moderated somewhat by effective diplomatic effort pointing out we have other chance to come out where we want to be by dealing with the issues in the Senate where there are fewer "cold warriors."

Con

a. Risks offense to Soviets in critical Middle East period.

b. Could increase difficulty in negotiating with Jackson since he has what he wants in the House bill.

195. Memorandum From Helmut Sonnenfeldt of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, November 1, 1973.

SUBJECT

Trade Bill Strategy and US-Soviet Relations in the Next Phase of the Middle East Bargaining

The House is apparently going to call up the trade bill around November 12. Although, despite the ineptness with which it was done, the Administration's rationale for dropping Title IV is meeting with some support, it is far from clear whether enough votes will be there in the end. Moreover, it is quite likely that a further amendment, in effect prohibiting further government credits to the USSR, will have sufficient support to pass.

The trade people in the Administration are, as you know, aghast at the prospect that the threat of a Presidential veto will be used to obtain the dropping of Title IV. They feel that such a threat is all the opponents to the bill as a whole need to solidify support for Title IV and the Vanik amendment so as to ensure a veto and hence the death of the trade bill.

It has now been suggested by some that in order to marshall the votes for dropping Title IV some additional sweeteners are needed—beyond the argument that a debate on it at present would be damaging to prospects for US-Soviet cooperation on a Middle East settlement. Their idea is to tell supporters of Vanik that in recognition of their strong desire to curtail government credits to the USSR, we would be prepared to put a freeze on additional credits until a new Administration bill on East-West trade is submitted some time next year at which time there would be an opportunity to debate all aspects of our Soviet trade policy. STR paper at Tab A.[2]

I have no way of knowing whether such a gambit will produce the votes needed to drop Title IV. I would assume, however, that

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 403, Subject Files, Trade, Vol. VI, April 8–December 1973. Secret; Sensitive; Exclusively Eyes Only. Sent for prompt attention. A handwritten note at the top of the memorandum reads: "OBE." Sent under cover of an undated note from Scowcroft to Kissinger that reads: "Maybe I don't understand this, but it seems to me to give up the fight for something which is almost indistinguishable from full Jackson–Vanik, except for a 'freeze' rather than a 'ban' on credits. Looks to me like an attempt to save the Trade Bill by throwing MFN to the wolves."

[2] Attached but not printed at Tab A is a November 1 draft memorandum prepared by Pearce entitled "Proposed Compromise."

under present conditions Senator Jackson would not find it sufficient to call off his troops. Almost certainly, he would want to extract additional commitments regarding the Administration's position on a Middle East settlement and on arms supply to Israel. On the other hand, a credit freeze might be enough to get the required support in the House, even if Jackson were adamant.

The impact on the Soviets is hard to judge. They evidently understand our tactics in urging withdrawal of Title IV; whether they would accept a credit freeze with equal equanimity is another question. While our original commitment to the Soviets was for no more than 500 million of EXIM credits during the first three years of the trade agreement, we have since then made noises suggesting the availability of additional sums. But there has been an issue concerning additional extensions due to Soviet reluctance to meet EXIM's normal requirements for proof of credit worthiness. Because of various Congressional problems, EXIM would be reluctant in any event to go much beyond 500 million unless the Soviets met these requirements. This matter is being haggled over between EXIM and the Soviets. A flat freeze on additional credits, even if explained in terms of tactical considerations relating to the Trade Bill, might lead the Soviets to cut off lend-lease payments. (The lend-lease settlement was tied to both MFN and EXIM credits.)

Apart from these considerations, it is however worth considering action on credits for another reason. It is clear that the Soviets have supported Arab manipulation of oil supplies to us and other Western countries, partly because they think it gives them bargaining leverage for the Middle East negotiations, partly, and more cynically, because they think they can profit from it themselves. Credits are one of the few economic means at our disposal to exert some counter-leverage on the Soviets. Since Congress may very well take the issue over in any case, there is a question whether the Administration should not do so itself and use it for its own purposes. If one did not want to be crude about it with the Soviets, the line to take would be that a freeze is intended to prevent even greater restrictions from being enacted but that the lifting of the freeze would to some extent depend on whether we were still under an oil embargo.[3] (Any such message would of course be lost if the Soviets continued to be assured that the President would veto a trade bill that includes the Jackson–Vanik amendment.)

I am not necessarily advocating this tack; but since the credit issue will arise very soon in any event, it is important that the Administration have a coherent position on it.

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[3] Beginning October 19, Arab oil producers imposed an oil embargo on the United States and other Western nations in retaliation for aid to Israel in its war against Egypt and Syria.

196. Memorandum for the File by the President's Assistant for International Economic Affairs (Flanigan)[1]

Washington, November 2, 1973, 6 p.m.

Ambassador Dobrynin called to ask about the apparent conflict between my statement that the Administration did not wish to go forward with a Trade Bill if it would result in Title IV including the full Jackson–Vanik,[2] and the published reports of Congressman Albert saying that Kissinger had agreed to go forward with the Bill on the 12th of November.[3] I told Dobrynin that we believed the report on the Albert conversation was incorrect and that Kissinger believes that he still has until the middle of next week, the opportunity to ask that the bill be withdrawn.[4] I pointed out that there is no assurance that the Congress will accede to our request.

Dobrynin, saying that his request was only for his own information, expressed some concern. I told him that the Administration still was very anxious that there be no vote in the House of Representatives which would impair our cooperation and that therefore, we were urging the dropping of Title IV. I told him that we were not yet in a position to feel confident that Title IV would be dropped. If it were not dropped, we would then consider requesting that the bill be withdrawn. However, I again pointed out that there was no assurance this request would be honored.

Peter M. Flanigan[5]

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[1] Source: National Archives, RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 6, GPS Trade—Volumes I & II 1973/74. Secret.

[2] On October 29, Flanigan testified before the Senate Banking Committee that Congress should suspend its consideration of the U.S.–USSR trading relationship while negotiations on the Middle East conflict were ongoing and requested the deletion of Title IV from the trade bill. (*The New York Times,* October 30, 1973, p. 1)

[3] On November 1, Speaker of the House Albert announced that Kissinger had told him that the White House would ask for no further delays of House consideration of the trade bill. (Ibid., November 2, 1973) On October 31 at 6:02 p.m., Kissinger informed Albert on the telephone: "Our problem is we have not been able to get enough of an indication from the Jewish Community if they would support dropping Title IV. Our view on it is that if they would, we would want to have it voted on now." Kissinger inquired as to whether the vote could be scheduled for the week of November 12 and Albert agreed to see whether it could. Kissinger then told Albert: "If you could put it on the week of November 12, we would then take the liberty of letting you know next week." (National Archives, Nixon Presidential Materials, Kissinger Telephone Conversations, Box 23)

[4] During a November 2 telephone conversation with Flanigan at 2:35 p.m., Kissinger commented on the tactics behind scheduling the vote for the week of November 12: "I have done exactly as I was told. We had it put on the calendar the week of the 12th, which gives us the option of taking it off next week." (Ibid.)

[5] Printed from a copy that bears Flanigan's typed signature.

197. Memorandum From Helmut Sonnenfeldt of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, November 3, 1973.

SUBJECT

Trade Bill Scenario

It is now anticipated that the House Ways and Means Committee will meet either Tuesday or Wednesday[2] to take action, one way or the other, on deletion of Title IV. In pursuance of understandings reached with the Speaker and others, a scenario has been developed by Secretary Shultz, STR and myself which hopefully would result in action to eliminate the Title. Failing that, the Administration would have to seek postponement of the entire Trade Bill until next year.

The scenario involves certain actions by you.

—A letter from you to Acting Chairman Ullman requesting elimination of Title IV and giving reasons therefor.

—An approach by you to Dobrynin explaining the necessity for the Administration to suspend approval of new EXIM credits for some six months until Soviet trade legislation has either been successfully secured or, at any rate, amendments to tie credits to Soviet emigration practices have been defeated or finessed. (Under the scenario, Shultz would in writing as well as orally provide assurances to Congress that if the Vanik amendment restricting credits is not enacted, the Administration would not then continue extending new credits.)

—You should approve the scenario (Tab B),[3] including the proposed letter from Shultz on the credit suspension (Tab I of Tab B).[4]

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 403, Subject Files, Trade, Vol. VI, April 8–December 1973. Sensitive. Sent for immediate action. A handwritten notation at the top of the memorandum reads: "OBE."

[2] Tuesday, November 6, or Wednesday, November 7.

[3] Attached but not printed at Tab B is an undated paper entitled "Scenario" that proposes a detailed schedule directed toward securing the deletion of Title IV.

[4] Tab B is attached but not printed. Tab I of Tab B is an undated draft letter from Shultz to Ullman that notes the administration's desire for early passage of the trade bill and the deletion of Title IV "so as to avoid upsetting delicate negotiations now underway," and offers "that *if the Trade Bill is passed by the House as scheduled next week, and if Title IV is dropped from that Bill and no restrictions on credits are otherwise placed in that bill, the Administration undertakes that for a period of six months no new Export Import Bank credits shall be approved for the USSR other than those for which final or preliminary commitments have already been made.*"

Recommendation

1. Approve and sign the letter from you to Ullman (Tab A).[5] (This would be submitted at the Ways and Means Committee meeting, assuming it has become clear that we can get the Title dropped.) Return signed letter to Scowcroft.

2. Call Dobrynin to explain our action on credits in order to get Title IV dropped and prevent crippling Vanik amendment on credits.[6]

3. Approve scenario, including Shultz letter on credit suspension.[7]

Approve

Disapprove

Other

[5] Attached but not printed at Tab A is an undated letter from Kissinger to Ullman that argues the importance of early passage of the trade bill. Noting that "the issues involved in Title IV have proved to be highly controversial" and "that debate of these issues would range over many sensitive aspects of our relations with the Soviet Union," the letter contends "that such a debate at this moment could jeopardize the very delicate efforts currently in progress to assure the termination of the Middle East conflict and achieve its ultimate settlement." In the proposed letter, Kissinger, "certain that the Congress would wish to join the Administration in its desire to see peace and tranquility brought to the Middle East and" would thus "agree that nothing should be done at present that might complicate this task," requests the deletion of Title IV. Kissinger signed the letter. Both pages of the letter have a large "X" drawn through the text in an unknown hand.

[6] *Note:* I understand that Flanigan has been on the phone with Dobrynin to explain, at the latter's request, the press reports that the Trade Bill has been scheduled for floor debate on November 12. Flanigan outlined your understanding on this matter with Speaker Albert. I am *not* aware whether he also referred to possible action on credits. [Footnote is in the original. See Document 196.]

[7] Kissinger did not indicate his approval or disapproval of any of the recommendations.

198. Message From the President's Deputy Assistant for National Security Affairs (Scowcroft) to Secretary of State Kissinger in Rabat[1]

Washington, November 5, 1973.

Tohak 10. 1. Following your conversation with Shultz on the trade bill this morning,[2] he and Sonnenfeldt reformulated the statement on suspension of credits. Shultz then called Dobrynin about 11:30 a.m. and after explaining again our efforts to get Title IV dropped and the reasons therefor read him the revised credit formula: "Since no major Soviet applications of EXIM credits are at present under consideration it is not anticipated that any such credits will be approved by the US in the course of the next six months."

2. Dobrynin, after rehearsing his concern about the impact in Moscow of anything that sounds like a credit suspension and pressure on the USSR in the Middle East context, asked how this formula affects our previous understanding that we were prepared to grant half a billion dollars worth of credit. Shultz explained that counting final and preliminary commitments as well as loans currently in application status the total would come to 470 million, i.e., very close to the half billion dollar understanding. Dobrynin seemed reassured by this. He also understood that in citing applications Shultz was not waiving normal EXIM examination of suitability of these credits but was merely pointing out that the formula to be used on the Hill would not be the cause for any disapproval.

3. Dobrynin said that if we felt that the legislative situation required our going ahead with Shultz' formula he would understand. He would, however, send the formula and the explanations immediately to Moscow and provide any comments as quickly as possible. Dobrynin further said he fully understood our motives in going through this whole exercise and that Soviets would trust the President's judgment of what was required on the Hill to safeguard our trading relationship. In making this point, Dobrynin referred to the President's latest message which had explained our tactical problems on the trade bill. Shultz told Dobrynin that legislative situation was such that we would be proceeding shortly on the Hill with our effort to get Title IV

[1] Source: Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 5, 11/1–8/73. Confidential; Eyes Only. The original is the draft as approved for transmission. Kissinger was traveling in the Middle East and Asia November 5–16.

[2] No record of this conversation has been found.

dropped, in the process using the formula he had provided Dobrynin. Dobrynin again said he understood.

4. The present plan is to approach Ullman some time today, using your letter in which you ask for dropping Title IV on national interest grounds and the above credit formula. Shultz' own proposed letter is being redrafted to reflect the new formulation on credits.[3]

5. Meanwhile, there are indications that Jackson's people are getting to Jewish leaders and that several of the latter are backing away from earlier support for or acquiescence in dropping of Title IV. This reinforces need for speed.

6. If efforts with Ullman and others fail or indicate poor prospects of achieving elimination of Title IV on the floor, the issue of whether then to seek postponement of bill will have to be put to the President. Flanigan says he has assured you that your position on this will be put to the President in the strongest terms. But you would probably also wish to do this yourself. We will start contingency drafting of a statement from you to the President favoring postponement and of a Presidential request to the House. If there are particular points you wish made, we would need them quickly, since this whole thing may precipitate rapidly.

7. Hakto 1[4] received after Shultz approach to Dobrynin but Shultz formula is consistent with it and Dobrynin, from tone and content of what he said to Shultz, seemed quite positive under the circumstances.

Warm regards.

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[3] See Document 197.

[4] Not found.

199. Editorial Note

On November 6, 1973, President's Deputy Assistant for National Security Affairs Brent Scowcroft wrote Secretary of State Henry Kissinger a message about a meeting on the trade bill he had had that morning with Secretary of the Treasury George Shultz, President's Assistant for International Economic Affairs Peter Flanigan, Special Representative for Trade Negotiations William Eberle, Deputy Special Representative for Trade Negotiations William Pearce, and National Security Council staff member Helmut Sonnenfeldt. Scowcroft reported that "Everyone, except us, wishes to proceed with the Bill. We held firm for postponement, and Haig is with us. The scenario as it stands now is that the President will call Albert later on today and request postponement." (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 5, 11/1–8/73) President Richard Nixon did not telephone Albert on November 6. However, he did meet with Albert at a bipartisan Congressional leadership meeting on energy policy in the Cabinet Room on November 7. (National Archives, Nixon Presidential Materials, White House Central Files, President's Daily Diary) According to *The New York Times,* November 8, 1973, page 2, the President handed Albert a note during this meeting that requested a postponement in consideration of the trade bill. Albert agreed.

On November 8, Scowcroft reported on the morning's staff meeting in a message to Kissinger, noting that, "Flanigan, having finally accepted defeat on his position on the Trade Bill, is now changing his tune with respect to his earlier assertions that postponement meant the end of the bill. He is now pointing out that the House now realizes the President means business and that this might generate support, that the Jewish leaders might be prepared to be somewhat more accommodating, and that, above all, you must meet with Jackson immediately upon your return." (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 5, 11/1–8/73)

200. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to Secretary of State Kissinger[1]

Washington, November 28, 1973.

You may have seen this memorandum yesterday at State. Shultz and Flanigan are likely to hit you on it during or after staff meeting this morning.

Flanigan's memo is a pretty straightforward job, but there are a couple of points which I think need to be stressed. The first is the judgment that if we wait until after Christmas, the Trade Bill will be dead. That seems to be the unanimous opinion of the trade people, but I am not convinced of the rigor of their analysis.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 403, Subject Files, Trade, Vol. VI, April 8–December 1973. No classification marking.

Assuming the correctness of the analysis on the effect of delay, however, there is some[2] merit in Peter's argument that we should go ahead in the House on the chance that we may be able to reach a compromise next Spring in the Senate or in conference. If we do not, however, we are faced either with vetoing the bill and thus publicly upsetting our major trading partners, or rebuffing the Soviet Union. Either of these alternatives, it seems to me, is worse than having no bill at all. The decision, therefore, seems to me to turn really on the judgment of the likelihood that some compromise would be possible next Spring—and the affirmative argument seems to rest basically on the feeling that the Jewish community would back off rather than assume the onus of a veto.

I am dubious.[3]

Attachment

Memorandum From the President's Assistant for International Economic Affairs (Flanigan) to Secretary of State Kissinger

Washington, November 28, 1973.

SUBJECT

Effect of No Trade Bill on U.S. Relations with Europe and Japan

Senator Jackson's rebuff of your attempt to work out a compromise *now* on Title IV of the Trade Bill poses a major foreign policy problem.

Two Presidential enterprises are at issue. On the one hand, there is the need to avoid unduly endangering possibilities for constructive cooperation with the Soviet Union, including chances for a cooperative approach to establishing a lasting peace in the Middle East. On the other hand, there is the need to strengthen the marked success of the President's initiatives to redress our balance of payments and to carry forward the momentum thus far achieved toward a lasting reform of the international economic system. Progress of historic significance has been made in both endeavors—but a misstep now in the handling of the Trade Bill would be extremely costly.

[2] Scowcroft inserted "some" by hand.

[3] Scowcroft added this last sentence by hand.

The best time—perhaps the only feasible time—to move the Trade Bill is now. As the 1974 Congressional elections approach, as U.S. economic growth slows, with increased unemployment, and as the coalition of forces supporting the bill erodes from lack of momentum, there will be less and less chance that the Trade Bill can be passed in 1974. Moreover, there is little reason to believe the Title IV problem would be any more manageable in the House in 1974 than it is today. If no action is taken by the House prior to the Christmas recess, the November suspension of the trade negotiations in GATT could become permanent, endangering the movement toward expanded trade in the free world.

Conventional wisdom treats the issue as a trade-off between the Trade Bill and Presidential authority to extend MFN and credit to the Soviets. The real significance of the Trade Bill lies in the foreign policy area. Our NATO relations could be weakened, and the Soviet position throughout the world could be measurably strengthened if, as a result of our lack of a Congressional negotiating mandate, chances were aborted for constructive cooperation with Europe, Japan, and developing countries on trade issues. Both peace and prosperity are at stake. The international economic issues involve the jobs and living standards of hundreds of millions of citizens in the democratic developed world. No issue has a higher general priority throughout the developing world than improved access to the markets of the rich countries. If we do not move the Trade Bill through the House, the fabric of our political and security relations with Europe, Japan, and much of the rest of the world will be damaged to the long-term advantage of the Soviets.

In Western Europe, our friends, working for improved relations in the Atlantic Community and a less protectionist European Community, will be weakened. Those working for an independent and self-sufficient Europe discriminating against our trade, our investments, and our dollar, will be strengthened. Current trade disputes such as those growing out of the enlargement of the Community, are manageable in the framework of major negotiations but might well get out of hand in a context where retaliatory actions seemed to be the only effective response. This could not fail to complicate MBFR, CSCE, and other negotiations, while weakening U.S. domestic political support for our military presence. Working toward a shared economic objective, however difficult to achieve, is preferable to economic confrontation across the Atlantic.

In Japan, multilateral trade liberalization is a major national objective. The political and economic consequences of a forced reversion to bilateralism are difficult to contemplate.

In Canada, there is a marked reluctance to act boldly on bilateral U.S.-Canada trade problems but enthusiasm for multilateral negotiations where solutions may be found.

In the developing world, deep frustrations over U.S. failure to act on generalized preferences would cumulate if broader LDC hopes for improved market access also failed. The reaction in Latin America would be particularly adverse.

In the United States, protectionists would return to the attack with consequent risks to our political posture in the world. The President's signal successes in restoring the strength of the dollar and taking the initiative from the Hartke–Burke forces[4] would be endangered. In trade, if one is not moving forward, special interest pressures inevitably move the country backward.

Finally, no action on the trade bill contradicts the Administration's commitment to 105 nations in the September Tokyo Ministerial Declaration to proceed with multilateral trade negotiations.[5] Passage of the Trade Bill is essential for meaningful negotiations.

There is an unquestionable risk in proceeding with the Bill in the certain knowledge that the House will adopt the Jackson–Vanik amendment, strengthened to include a prohibition on credit. Against the President's commitments to trade reform must be balanced his commitment to the Soviet leaders. However, it should be possible to explain privately to the Soviets a strategy which includes a veto of the final bill if a satisfactory compromise is not reached. Your conversation with Senator Jackson, in which he indicated compromise in the Senate would be possible, could be cited.[6] More important, the political pressures that will build on the Senator to avoid responsibility for provoking Soviet repressive measures reducing Jewish emigration, gives reasonable hope of an acceptable eventual outcome.

Therefore, I recommend to you the following line of action:

(1) Send a letter from the President to the Speaker of the House noting that the immediate crisis in the Middle East has abated and that peace negotiations are likely; asking that the Trade Bill be scheduled before the Christmas recess; specifying the concerns over the potential adverse effects on our relations with the Soviet Union and chances for world peace if the Jackson–Vanik amendment is adopted; urging that the statesmanlike thing to do is to put aside Title IV for the present;

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[4] See footnote 6, Document 153.

[5] See Document 185 and footnote 8 thereto.

[6] Possibly a reference to a meeting between Kissinger and Jackson that took place on November 21 at 7:05 p.m. (Library of Congress, Manuscript Division, Kissinger Papers, Box 438, Miscellany, 1968–1976, Record of Schedule) No memorandum of conversation from this meeting has been found.

and making clear that if a suitable compromise is not eventually reached with the Congress on this issue, the Act will be vetoed.

(2) In a Presidential statement make clear to the Nation why it is essential that the Congress pass a good trade bill without amendments crippling chances for improvement of relations with the Soviets, the PRC, and other Communist States. Perhaps also explain why the Jackson–Vanik amendment does *not* even serve its avowed purpose of advancing freedom of emigration.

(3) Give the Soviets strong private assurances that (a) the President is *not* abandoning his commitments to them; (b) in your judgment, the eventual outcome will facilitate U.S.-Soviet trade and credit relations, especially since without Congressional authority, the President cannot grant MFN and terminate U.S. trade practices that discriminate against the USSR; and (c) the President will veto if, contrary to your expectations, that becomes necessary.

If, on the other hand, you prefer to continue to defer consideration of the Trade Bill, notwithstanding the considerations outlined above and the provisions relating to trade ("active role in GATT negotiations," "multilateral trade expansion," etc.) in the draft U.S.–EC Declaration of Principles,[7] we will need to develop another scenario for fully explaining our position to the Europeans and the Japanese.

[7] See footnote 3, Document 58.

201. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon[1]

Washington, undated.

Meeting with Secretaries Kissinger and Shultz

Monday, December 3, 1973[2]

10:00 A.M. (30 Minutes)

I. Purpose

To discuss some of the major aspects of international economic policy.

II. Background, Participants & Press Plan

A. *Background:* The following are some of the major outstanding economic issues which you may wish to discuss:

1. *Trade Bill:* The issue is whether to let the trade bill go to the House floor now. The problem is that if it goes to the floor, we do not have the votes to prevent Title IV from being included nor the Vanik amendment from being added. Together, these provisions would make MFN and further EXIM credits for the USSR dependent on drastic changes in Soviet emigration and domestic policies. In addition, the debate on these provisions could easily turn into a major critique of our détente policies.

On the other hand, there is widespread agreement, that if the trade bill does not go to the House floor in the near future, the coalition that has backed the Administration, on issues other than those related to trade with Communists, will fall apart and your basic program to improve the trading system will die. In addition, the economic staffs argue that to delay and thus risk losing the trade bill would mean going back on commitments made to the Europeans, Japanese and other trading partners and would prevent multilateral negotiations to reform the trading system.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 290, Agency Files, U.S. Treasury, Vol. IV, Sept. 19, 1973–Dec. 1973. Administratively Confidential. Kissinger did not initial the memorandum. A notation on the memorandum indicates the President saw it.

[2] President Nixon met with Kissinger and Shultz in the Oval Office on December 3 from 10:20 until 11:17 a.m. (Ibid., White House Central Files, President's Daily Diary) No other record of the meeting has been found.

Earlier last month, Secretary Shultz took the position that if it was felt that House action on Title IV and the Vanik amendment would endanger the Middle East cease-fire and follow-on peace talks by inflaming US-Soviet relations, he would support delay on the trade bill. He in fact did. But along with Peter Flanigan and Bill Eberle (your Special Trade Representative) he remains strongly in favor of the Bill and would support floor action now despite the risks vis-à-vis the Soviets.[3]

Supporters of floor action now argue that you could assure the Soviets that you would veto an unsatisfactory bill next year. (Senator Jackson has rejected any compromise on the House bill and, while he might be more flexible next year in the Senate debate, he could prevent enactment of a bill that does not contain at least some provisions linking MFN and credits to Soviet emigration policy.) This, of course, however has the disadvantages that you would be killing an otherwise satisfactory trade bill for "Soviet reasons," with all that implies about choosing between the Soviets and our major trading partners, in a much more dramatic way than if you were to request another postponement now. (While Messrs. Harlow, Laird and Timmons are convinced postponement now would in effect kill the bill, there is of course no way of being wholly certain of this.) Moreover, it is possible that an eventual Senate/House bill might contain MFN-credit provisions that *you* could accept, whereas the Soviets might still find them offensive and they would regard your failure to veto as a breach of faith. This might occur near the time of your next scheduled summit with Brezhnev. It could do more damage to our relations than the absence of MFN.

Your trade advisors also make the point that even if you postpone the trade bill, Jackson et al will find other bills to which to attach the prohibition of Government credits to the USSR and thereby force you to veto those bills.

The choices open to you at this time are thus distasteful. On the whole, in view of the delicacy of the Middle East situation, it is probably wisest to seek a further postponement and make a major effort to keep the coalition behind the trade bill together. Such postponement should not be cast in terms of a decision "for" détente and "against" our major trading partners in Europe and Japan; rather, it should be

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[3] President Nixon met with Shultz on November 30 from 10:05 to 11:34 a.m. "to discuss national and international economic issues." (Ibid.) No full record of the meeting has been found; however, the President made some notes during the meeting: "Shultz. 1) Let it go through House with veto signal— 2) Would veto if Senate acts the same." (National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Personal Files, Box 15, Name/Subject File, Shultz, George)

explained as required by your efforts to achieve a settlement in the Middle East.[4]

2. *Monetary Reform:* Secretary Shultz recently met with the finance ministers of France, the UK, the FRG and Japan to plan the next formal meeting, in January, on international monetary reform.[5] As a result of our problems with the Europeans on other matters, however, he was under guidance to go slow. Because of our improved monetary position, there is little reason for us to change our basic position in favor of flexible exchange rates and against early restoration of convertibility. Our interest in some rules of the game remains but timing of progress in the negotiations should be subordinated to our overall relations with the Europeans and Japanese.

3. *Offset:* We are in the midst of periodic negotiations with the FRG for arrangements to offset our balance of payment losses due to our troop deployments in Europe. The Germans will not agree to "hard" offset for the entirety of our losses and we will require certain loan arrangements with them to make up the total. Treasury has not favored such loans but now appears willing to accept them if they are sufficiently long term and the interest rates are concessionary.

The basic thread running through these and other foreign economic issues is the problem of making our international economic policies responsive to your overall foreign policy requirements. There is both a problem of strategy and of tactics. Thus, the issues described above concerning trade and monetary reform at the moment turn heavily on timing in relation to important foreign policy developments. Organizationally, it is more important than ever that the mechanisms you maintain for dealing with international economic policies are kept in close harmony with the NSC system.

B. *Participants:* Secretaries Kissinger and Shultz.

C. *Press Plan:* None.

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[4] According to *The New York Times,* December 4, 1973, p. 1, President Nixon wrote Albert asking him to schedule a vote on the bill. Drafts of the letter to Albert are in the National Archives, Nixon Presidential Materials, NSC Files, Box 403, Subject Files, Trade, Vol. VI, April 8–December 1973. In a December 3 memorandum to Flanigan, Scowcroft stated: "The only problem which the Secretary has with the attached letter is in the last paragraph, where he does not consider a veto signal to be sufficiently strong. I would suggest perhaps modifying the first sentence of the last paragraph to read something like the following: 'However, should this matter still not reach a satisfactory resolution, I want you to know that I would find the legislation unacceptable.' You may wish to play with those words, but the veto signal should be unmistakably clear." (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 5, 12/1–11/73) Scowcroft, Sonnenfeldt, and Kissinger discussed the letter by telephone on December 3 at 5:20 p.m., and Kissinger noted that in the meeting that morning, President Nixon had decided that the letter should contain "a strong veto signal." (http://foia.state.gov/documents/kissinger/0000C5B5.pdf)

[5] See Document 57.

202. Memorandum From the Deputy Special Representative for Trade Negotiations (Pearce) to the Members of the Council on International Economic Policy[1]

Washington, December 14, 1973.

SUBJECT

Trade Bill: Issues for Senate Consideration

With the important exception of the Title IV—Jackson/Vanik language, the House of Representatives has passed what is on the whole, a very good trade bill.[2] There are many issues that we sought to have resolved differently, but the general policy and tone of the bill is in line with the bill that we proposed.

We are planning our presentation of the trade bill to the Senate Finance Committee to support, at least at the outset, the House bill to the fullest extent possible. It is important to do this for a number of reasons. The Administration may not be present in the conference and we must rely on those members of Congress that have been working towards the same policy objectives that we favor. Moreover, the House bill is the result of a number of compromises in which we modified our original requests in order to avoid seriously detrimental Committee amendments. To seek reversal of some of these decisions in the Senate Finance Committee could lead to results in conference opposite to those desired. Another concern is that opening many issues in the Senate Finance Committee may encourage wholesale changes in the House version of the bill which could be very damaging. It could also delay the bill. While generally supporting the House bill, we will of course be receptive to constructive suggestions from the Senate.

For the reasons stated above, the changes that we consider *must* be made in the House bill should be kept to a strict minimum as listed

[1] Source: National Archives, RG 429, Records of the Council on International Economic Policy, 1971–1977, Box 251, Records of Executive Committee Meetings, 1973–1974, 53179 PMF Executive Committee Meeting of CIEP on December 21, 1973 in Roosevelt Rm 12/13/73. Limited Official Use. Drafted by Jackson, who initialed the memorandum on Pearce's behalf. It was sent under cover of a December 13 memorandum from Flanigan to the Secretaries of State, the Treasury, Agriculture, and Commerce, the OMB Director, the CEA Chairman, the Special Representative for Trade Negotiations, and the President's Assistant for National Security Affairs, outlining the agenda for a December 21 meeting of the CIEP Executive Committee.

[2] The House of Representatives passed the trade bill on December 11.

in Tab A. A second list of issues (Tab B) contains those matters which should be raised, but not pressed if indications are that such effort would be counterproductive.[3] This list includes issues which were not fully aired in Ways and Means. In addition to the items on these two lists, there are a number of changes of a technical nature (including modest substantive improvements) which can be raised in technical work with the Ways and Means Committee staff. Examples would include some time-limit problems and some clarifying provisions to resolve ambiguities.

The lists attached hereto are the result of interagency discussions held by the trade bill working group (those working in support of the trade bill effort on the hill), after consultation by members of that group with their departments.

For your information, Tab C contains a detailed analysis of the differences between H.R. 6767 (the trade bill as sent to Congress in April) and H.R. 10710 (the bill as adopted by the House).[4] A brief review of the major differences is at the beginning of this tab.

Action Recommended: Approve the general approach to efforts to achieve Senate approval of the trade bill, with changes to be sought as outlined in Tabs A and B.

Tab A

Paper Prepared in the Office of the Special Representative for Trade Negotiations

Washington, December 14, 1973.

Improvements To Be Sought in H.R. 10710

In the list below, the first two items are so important that they call for the maximum possible effort. The "next priority" items are significant enough to call for a full effort, but failure to achieve the desired results would, presumably, be tolerable.

Highest Priority

1. *Title IV*—Non-Discriminatory Treatment for Non-Market Countries: The House added the Jackson/Vanik language to condition the

[3] Attached but not printed at Tab B is a December 14 memorandum proposing changes to the provisions on "Non-MFN application of NTB agreements," "Non-MFN BOP surcharge," "Worker assistance," "Firm Adjustment Assistance," "Anti-dumping," "Compensation authority," "Import Relief," "Countervailing duties," and "Patent provisions amending section 337."

[4] Tab C is attached but not printed.

authority to extend MFN treatment and further added comparable limits on the extension of government credits. *Change desired:* Compromise Jackson/Vanik language, or (b) prevent Jackson/Vanik "credit" amendment, or (c) delete Title IV. (p. 129.)

2. *Countervailing duty amendments:* The house established strict time limits within which to act on petitions, and provided for judicial review of the Secretary of the Treasury's decision that a practice abroad was not "bounty or grant." Although some escape from these tight measures is provided during the first four years after enactment by exception for cases which might jeopardize the negotiations, another clause in the House bill limits this escape for the period of only one year in a number of important cases. *Change desired:* Our objectives will be (a) write into the law (which will be fully enforceable with negative judicial review etc. after 4 years) sensible exceptions to countervailing, such as: practices similar to those U.S. engages in, LDC exports, other serious cases causing international strife, certain tax exemptions or remissions; (b) eliminate one year limit on discretion not to countervail against products from plants owned by developed countries. (sec. 331(3), p. 123 line 13 to p. 124 line 4.)

Next Priority

1. *Worker Assistance:* The House bill provides for the total cost of Worker Adjustment Assistance to be supplied out of a "trust fund" composed of receipts from customs tariffs. In effect, this means that the cost will be from the general revenue fund. There are many reasons why at least a portion of the adjustment assistance payments should be funded from sources which would otherwise have to supply funding for regular unemployment compensation. *Change desired:* Change financing to provide "supplemental" approach for federal funding (State Unemployment funds would cover portion they would otherwise cover). Second problem: Legislative history on the eligibility criteria of the bill (§ 222) could lead to interpretations that would cause dangerous cost increases. (See especially the "actual or relative" language used to modify increase in imports, at p. 53 of Ways and Means Committee report.) These criteria should be clarified so that the cost of the program will not get out of hand. (Title II, ch. 2, p. 66 ff.)

2. *Karth*[5] *"Equivalent Competitive Opportunities in Sectors" amendment:* The Karth amendment provides that a principal objective of the negotiations shall be to obtain within each sector of manufacturing and within the agricultural sector, equivalent competitive opportunities in the major trading country markets. It also provides, to the maximum

[5] Representative Joseph Karth (D–Minnesota).

extent appropriate, that NTB agreements be negotiated on a sector basis. Although the seriousness of these provisions is debatable, it seems clear that they will constrain the negotiation and somewhat reduce the opportunities for trade liberalization. *Change desired:* Modify the impact of the Karth amendment to expand flexibility. Equivalent competitive opportunities in sectors should be one of several stated objectives, and should be applied to assessment of negotiation results and should not require negotiations to be primarily on a sector basis. Reporting requirement after negotiations should look towards broader objectives than sectoral balance of market access. (If there is substantial resistance to modifications and danger that existing flexibility would be lost, this issue should not be pressed but existing provisions defended.) (Sec. 102(3), p. 9 line 1 to p. 10, line 3.)

3. *GATT revision requirement:* The bill provides that the President shall, as soon as practicable, negotiate a list of changes in GATT. The bill as now worded, fails to adequately recognize the practical difficulties of achieving some of the results called for, and could be a source of embarrassment at some later time. *Change desired:* Modify to acknowledge difficulty of obtaining reform and modify to allow attainment through means other than formal amendment of GATT. (Tactical considerations would dictate the manner and extent to which this issue is raised. If major efforts would be counterproductive, minor improvements would be sought.) (sec. 121, p. 15 line 4 to p. 16, line 15.)

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203. Paper Prepared in the Office of the Special Representative for Trade Negotiations[1]

Washington, undated.

Trade Negotiations Committee Status

Since the Tokyo meeting there has been one meeting of the Trade Negotiations Committee (TNC). At this meeting in October, no agree-

[1] Source: National Archives, RG 429, Records of the Council on International Economic Policy, 1971–1977, Box 251, Records of Executive Committee Meetings, 1973–1974, 53179 PMF Executive Committee Meeting of CIEP on December 21, 1973 in Roosevelt Rm 12/13/73. No classification marking. It was sent under cover of a December 13 memorandum from Flanigan to the Secretaries of State, the Treasury, Agriculture, and Commerce, the OMB Director, the CEA Chairman, the Special Representative for Trade Negotiations, and the President's Assistant for National Security Affairs, outlining the agenda for a December 21 meeting of the CIEP Executive Committee.

ment was reached on the structure of the working bodies, or their mandates, and it was therefore impossible to proceed with substantive work.[2]

The failure to reach agreement was based upon the European Community's refusal to proceed without agreement by the U.S. that there be a single, separate body to deal with all agricultural matters. This EC position was in turn based upon an 8 to 1 internal position, with France being rigid and the other eight EC members somewhat flexible.

In this context Director-General Long[3] proposed that we begin work with the TNC meeting as a committee of the whole, at the technical level, and proceed with analysis of the issues outlined in the Tokyo Ministerial Declaration,[4] with special reference to the specific issues outlined in paragraph 3. All countries, including the U.S., supported this approach but the EC refused to go along.

The matter was raised by Secretary Shultz and others when Sir Christopher Soames visited Washington at the beginning of November.[5] Nonetheless, the impasse remains. There has been a little progress. Mr. Brungart[6] of the STR Office has had several conversations with Mr. Hijzen[7] of the EC Commission to resolve the question. It has been agreed that an agenda be worked out for six months' work; that the TNC prepare a report in June 1974 of where things stand, and that the EC might make a statement of some kind for the record that would cover its position, but would offer the U.S. and others assurances that agriculture would not be treated as self-balancing in the overall negotiation, but instead commit the EC to the view that agricultural changes in the MTN would be weighed in the context of overall results.

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[2] In telegram 5700 from the Mission in Geneva, October 27, the Mission reported that "TNC unable to reach agreement to begin preparatory work for MTN owing to EC insistence that rigid, permanent separation of industrial and agricultural issues be made now and for all time. Meeting adjourned with EC isolated on this issue with all other dels ready to proceed, and with agreement that TNC Chairman Long will now begin consultations with delegations to seek resolve deadlock." (Ibid., RG 59, Central Foreign Policy Files)

[3] Olivier Long was the GATT Director-General and the Chairman of the Trade Negotiating Committee.

[4] See Document 185 and footnote 8 thereto.

[5] Soames visited the United States from October 28 to November 1 to meet with U.S. officials and members of Congress, as well as address the EC Chamber of Commerce in New York. (Telegram 211831 to USEC Brussels, October 26; National Archives, RG 59, Central Foreign Policy Files) While in Washington, Soames also led an EC delegation in periodic consultations with U.S. officials; a report on the October 29–31 U.S.–EC talks is in telegram 217448 to USEC Brussels, the Mission in Geneva, and all OECD capitals, November 3. (Ibid.)

[6] Robert Brungart.

[7] Theodorus Hijzen.

This U.S.–Hijzen formulation was discussed by the EC Committee 113[8] on Wednesday, December 12. The vote was again 8 to 1, and the French made it clear that their opposition was related to "other political matters" as well as to agricultural trade considerations.

The 113 Committee will meet again on Friday, December 21, to attempt to resolve the issues. The U.S. in the meantime is encouraging the calling of a TNC meeting in mid-January.

[8] The 113 Committee consisted of EC member state representatives who advised the Community on trade negotiations.

204. Memorandum for the Record[1]

Washington, December 21, 1973.

SUBJECT

Summary Minutes of CIEP Executive Committee Meeting, December 21, 1973

ATTENDEES

List Attached[2]

[Omitted here is discussion of the multilateral textile agreement and the GATT Article XXIV:6 negotiations with the EC.]

III. Trade Bill

Mr. Flanigan identified the main issue as the extent to which we accept the changes in our bill made by the House as we move into our presentation in the Senate. He noted that Ambassador Pearce's discussion paper[3] identified three categories into which the extent to which we should press for changes in the House bill would fall. In addition to the items identified in that paper, Mr. Flanigan said that we should add tariff negotiating authority as a matter on which we might seek to

[1] Source: National Archives, RG 429, Records of the Council on International Economic Policy, 1971–1977, Box 251, Records of Executive Committee Meetings, 1973–1974, 53179 PMF Executive Committee Meeting of CIEP on December 21, 1973 in Roosevelt Rm 12/13/73. Confidential. Drafted on December 28 by Morris.

[2] According to the attached list, Shultz, Volcker, Brooks, Eberle, Malmgren, Pearce, STR staff member Herbert Propps, Dent, Fox, Butz, Goodman, Cooper, Dam, Casey, Renner, Stein, Bridgewater, Flanigan, Hinton, Morris, Jayne, Sternfeld, Niehuss, and CIEP staff member Richard Erb attended the meeting.

[3] Document 202.

get Senate support for the original Administration proposal. (Although it was not mentioned we would also seek Senate changes of the provisions in the House bill by which the Congress is seeking to legislate the way in which the President organizes his executive office.)

Ambassador Pearce identified two main areas as "must" changes: Title IV and the section in the House bill concerning countervailing duties. Mr. Flanigan said that he would amend the paper's discussion on Title IV to read that we must either get an acceptable compromise out of the Senate on emigration policies or remove the Title entirely from the bill. Ambassador Pearce said he would review the tactical handling of this matter again in the interagency steering committee. As regards the way in which we handle countervailing duties and negotiating authority, Ambassador Pearce said that the main issue is how to protect adequate flexibility and avoid having the Senate move us even further away from an acceptable position. He regarded this as a tactical matter as we move through the Finance Committee mark-up process.

Moving to the next set of desirable changes, the Committee discussed our posture in the Senate as regards trade adjustment assistance. After some discussion, Secretary Shultz said that if we are going to have to accept a trade adjustment assistance program along the lines developed by the House, its financing would have to be improved as discussed in the Pearce paper, i.e., by limiting the federal financing to the difference between what workers would receive from state unemployment compensation programs and the additional levels provided for in the House. However, he said that we should still call the Finance Committee's attention to our original proposal as a better way of dealing with the problem of employment dislocation caused by imports and do our best to convince the Committee that this would be a preferable alternative. Ambassador Pearce agreed to make such an effort.

Secretary Dent expressed his view that we need a much more highly organized effort to convince not only the Finance Committee but the Senate as a whole that Title IV is unacceptable and to work hard to get an acceptable compromise. Mr. Flanigan said that we are now developing a strategy on this which is broader than that indicated in Ambassador Pearce's paper and that we will be discussing it further as we go along. With the amendments as discussed above, Secretary Shultz said that the Pearce paper was approved.

IV. GATT Trade Negotiating Committee

Ambassador Malmgren reported on the efforts we have been making in Geneva to get the work of the Trade Negotiating Committee under way. The main problem was the EC's insistence that agricultural matters would only be discussed in a special agricultural committee and not in any other committee of the TNC. He noted that the EC Commission was trying to develop an acceptable compromise formula with us according to which the EC would make some kind of statement to the effect that, while the work would be generally separate, the final outcome would have to include agriculture as part of the overall balance in the negotiations. So far, the French have been the major obstacle and their problem is largely political rather than economic. He reported that the French are trying to work out some agreement at the ministerial level within the French Government and that we will have to see how that process develops. There will be another effort made at the TNC level in January to try to get the negotiations under way.

[Omitted here is discussion unrelated to the trade bill or the GATT Trade Negotiating Committee.]

Peter M. Flanigan[4]
Executive Director

[4] Printed from a copy that bears Flanigan's typed signature.

205. Editorial Note

In telegram 379 from the Mission in Geneva, January 22, 1974, the Mission reported that "Meeting of MTN key delegations (Seven and Seven) made concrete progress in resolving TNC impasse. General consensus attained during January 21 meeting TNC should meet on February 7 to approve work program and schedule for next stage of MTN beginning with February 18 meeting of tropical products subgroup followed by meetings on agriculture, NTB and tariffs at one week intervals thereafter. Group found proposed EC unilateral explanatory statement on agriculture balanced and generally acceptable. Work program generally acceptable, but some countries proposed relatively minor changes. All agreed on overriding importance of proceeding with work on TNC and that any proposed changes should not rpt not be permitted to cause delay." (National Archives, RG 59, Central Foreign Policy Files) On February 8, in telegram 815 from the Mission in Geneva, the Mission reported that "TNC adopted work program for preliminary phase of MTN, established working groups, agreed on schedule for first meetings of working groups and determined that GATT Secretariat would provide temporary chairman for working groups." (Ibid.)

206. Editorial Note

On March 8, 1974, during separate briefings of the Cabinet and the Republican Congressional leadership on the Middle East, President Richard Nixon restated his intention to veto any trade bill that came to him with restrictions on credits to the Soviet Union. (Memorandum of conversation, March 8; National Archives, Nixon Presidential Materials, NSC Files, Box 1028, Presidential/HAK MemCons, March 1–May 8, 1974 (3 of 4))

During a March 28 Cabinet meeting, the President asked his Cabinet members to discuss their long-term goals as well as the status of their legislative initiatives. "The Legislative program is completely stalled on the Hill," Nixon said. "It is time to call the leaders down here and put the word to them. But it's not our guys who are responsible—it's the Democrats. Let's draw up a scorecard of where Congress is. Let's put down ten or less issues which are understandable to the public." Secretary of Commerce Frederick Dent began by discussing economic issues, including the trade bill and the Export Control Act. The President responded, "Trade legislation is a loser in the public mind. There's no interest. Fred, you fight all-out so that American interests are not treated in a discriminatory way. State will argue because they have to give it away, but your job is to protect American business. Our candidates might be able to run against the Congress this fall—like the Democrats did in '48." (Ibid.)

207. Memorandum From the Counselor of the Department of State (Sonnenfeldt) to Secretary of State Kissinger[1]

Washington, March 12, 1974.

SUBJECT

Discussions on Title IV of Trade Bill with Senator Jackson's Staff

I have had two extended sessions, one with Bill Eberle present, the other with Bill's deputy John Jackson.[2] I cannot honestly say that we

[1] Source: National Archives, RG 59, Records of Secretary of State Henry Kissinger, Entry 5403, Box 5, Nodis Memcons, 1974. Confidential; Eyes Only. Sent for action.

[2] Eberle's report to Kissinger on his meeting with Sonnenfeldt and Jackson's staff members is ibid., Nixon Presidential Materials, NSC Files, Box 404, Subject Files, Special Assistant for Trade (Ambassador Eberle).

negotiated since Perle and Fosdick essentially took the position that they have the votes to pass their amendment and that they would agree to modify it only if certain very stringent conditions were met. In fact, they would not agree to talk about modifications of the amendment until they first had clear assurances that the demands on emigration would actually be put to the Soviets. (This represented a slight advance over their first position which was that they would talk about changing the amendment only *after* the Senator had received indications of a positive Soviet reaction to the demands.)

The Jackson demands are at Tab A. Originally, Perle gave them to me orally but I urged him to reduce them to paper in the form of generalized principles which would not have the character of direct intervention into domestic Soviet procedures. This resulted in the Basic Principles. But, in addition, there is the memorandum elaborating on each principle.

I pointed out that many of the points in the memorandum in fact described Soviet practices not only toward potential emigrants but their population generally and consequently the memorandum was tantamount to demanding the repeal of the Soviet system. I suggested at one point that perhaps a proper way to formulate the First Principle would be that any requestor for emigration and his family should be treated the same as any normal non-requesting individual and family (Bill Eberle's idea). Perle and Fosdick were reluctant, though not wholly negative.

I repeatedly stressed my view that such a list of demands was non-negotiable with the Soviets. They insisted that the Soviets have an incentive to let out all who want to leave.

After much back and forth, the principal propositions that emerged seemed to be the following:

1. Jackson does not necessarily require a written document by the Soviets.

2. He does require an assurance from the President in fairly specific terms that he has reason to believe the Soviets would permit an increasing volume of emigration and that applicants would not be subjected to discrimination, harassment and indignities.

3. Such a Presidential assurance would have to be in writing with some oral assurance that it was based on explicit discussions with the Soviets of the terms in the Jackson memorandum. There could also be a legislative history indicating the performance standards that would be employed to judge the Soviets.

4. Jackson feels strongly about hard-core cases; hence the requirement to let out first those who applied first. He also feels strongly about "good faith" acts.

5. It is not wholly clear whether Jackson's agreement to a modified amendment and his support of the Bill will depend on Soviet as-

surances (as conveyed by the President) alone or also require immediate Soviet performance. (I pointed out repeatedly that in the unlikely event that the Soviets accepted anything approaching the Jackson list they clearly would condition it on first getting MFN and retaining EXIM credits.) Perle has agreed to set down on paper how Soviet performance might be phased. I drew a careful distinction between assurances as the condition for passage of an acceptable bill and performance as the condition for continued granting of MFN and credits after some specified period of time written into the bill.

6. While Jackson does not insist on an immediate increase to a rate of 100,000 emigrants per year (he thinks there are 500,000 people of all kinds who want to leave and wants the process completed in five years) he does insist on a rapid increase in the rate. 40–50,000 per year is not acceptable. 90,000 may be.

7. A Presidential statement to Jackson that a document similar to the Jackson principles and memorandum has been handed to the Soviets and that the President believes the Soviets understand that retention of MFN and credits beyond a certain time depends on their performance is *not acceptable to Jackson.*

8. In any revised bill, the burden of determining Soviet nonperformance must rest at least as much on the President as on the Congress.

9. While Jackson would not raise the emigration issue in other legislation if he were satisfied with respect to it for the trade bill, he gives no assurance that he will not raise other issues concerning trade and technology transfers to the USSR. On the contrary, he insists on his right to question individual credit grants on grounds of national security, etc.; and on his right to question such projects as the gas deals and deals involving technology. (He plans hearings on technology transfer to the USSR.)

While I can continue, after my return from Europe, to try to whittle down the performance standards to more generalized language, I do not think I can shake the basic position without your having a further talk with Jackson and Ribicoff. I believe that in such a talk you should shoot for a generalized formula that would be put to the Soviets and form the basis of eventual Presidential assurances to Jackson:

1. There will be no interference with the right to emigrate.
2. The flow of emigration shall be steadily increased.
3. Persons wishing to emigrate and their families shall not be subjected to harassment, intimidation, discrimination and other indignities by virtue of their desire to emigrate. In particular, there should be no efforts to prevent applicants from complying with emigration procedures.

If it were possible for you to agree with the Senators that these are the principles, you and they could then instruct me and their staffs to elaborate these principles by about one paragraph each. In addition, you could agree to raise with Dobrynin (not Brezhnev) some of the details in the Jackson memorandum to make the Soviets aware of more particular standards that we would apply in observing Soviet performance.

While I understand that there may be differences between Ribicoff and Jackson, Perle and Fosdick maintain that the two Senators are totally in tandem. You may be able to form some judgment on this point and on whether Ribicoff's man could usefully be drawn into any future contacts.

Recommendation

That you indicate after my return from Europe whether, and if so, along what lines you wish us to pursue this matter with Perle and Fosdick.

Tab A

Basic Principles

Principle I: Persons Wishing to Emigrate Must Not Be Subjected To Harassment or Intimidation

Persons seeking to emigrate shall not suffer discrimination, harassment or intimidation as a consequence of their desire to emigrate.

Principle II: Assuring The Right And Opportunity To Emigrate

Persons wishing to emigrate shall be able to comply with the application procedures without interference.

Principle III: Visas Shall Be Granted In The Order In Which Applications Are Initiated And Without Discrimination

Applications should be processed and visas granted in the order in which they are initiated without discrimination on the basis of race, religion, national origin, place of residence, professional status, etc.

Principle IV: A Good Faith Effort Must Be Made To Assure Freer Emigration

In the spirit of détente and mutual accommodation there must be a good faith effort to assure freer emigration accompanied by immediate positive action.

Principle V: The Rate Of Flow Shall Be Increased To 100,000 Per Annum

MEMORANDUM

Some Points in Elaboration of Principles I Through V

Principle I: Persons seeking to emigrate shall not suffer discrimination, harassment or intimidation as a consequence of their desire to emigrate; for example:

1. Persons desiring to emigrate shall not be fired from their jobs nor demoted to tasks that do not reflect their professional qualifications.

2. Persons desiring to emigrate, or their children, shall not be expelled or suspended from their schools or universities.

3. Persons desiring to emigrate must not be subjected to harassment or intimidation by security authorities, interrogation, surveillance, etc.

4. Persons desiring to emigrate must not be subjected to public recrimination at their place of employment, residence, trade union, etc.

Principle II: Persons wishing to emigrate shall be able to comply with the application procedures without interference; for example:

1. There shall be no interference with the communications necessary to obtain the documents required for filing an application to emigrate. Letters sent abroad for the purpose of obtaining a *Vysov*[3] shall not be intercepted and incoming letters containing requisite documents shall not be withheld from the addressee.

2. Documents required from internal authorities shall not be withheld. There should be no administrative obstacle to the completion of the required application.

3. Travel for the purpose of completing application requirements shall not be prevented.

4. The necessary forms and information necessary to complete them shall be available upon demand.

5. Persons of adult age shall not be required to obtain the permission of parents, grandparents or other relatives in order to emigrate.

6. Persons desiring to emigrate shall not be required to submit character references from their places of employment.

7. Taxes and/or fees associated with applications to emigrate shall be nominal and shall not constitute a barrier to emigration.

Principle III: Applications should be processed and visas granted in the order in which they are initiated without discrimination on the basis of race, religion, national origin, place of residence, professional status, etc.

1. Those who have waited longest should be the first to receive visas. In assuring this, applications should be reviewed expeditiously.

2. Visas should be available equally without regard to race, religion or national origins.

3. Visas should be available equally without regard to place of residence or birth.

[3] A vysov, or vyzov, was an invitation.

4. Visas should be available equally without regard to professional status, job training, employment or education.

5. Persons wishing to emigrate who have been actively engaged in work of a secret nature should be notified upon application as to the earliest date on which they will become eligible to receive a visa.

Principle IV: In the spirit of détente and mutual accommodation there must be a good faith effort to assure freer emigration accompanied by immediate positive action. To this end:

1. There shall be sympathetic and expeditious consideration of any individual case raised by the government of the United States.

2. Those persons presently imprisoned who, prior to their imprisonment, indicated an interest in emigration shall be granted visas upon the expiration of their present sentences;

and

Sympathetic and humanitarian consideration shall be given to the commutation of sentences and/or a general amnesty for those persons.

3. Persons whose applications to emigrate are denied shall be informed of the reason for such denial.

4. The government of the United States shall be supplied with such information as may be required to enable the President to assess the good faith of the implementation of these Principles.

Principle V: The rate of flow shall be increased to 100,000 per annum.

The number of visas granted in recent years suggests that substantial growth in the rate of flow is possible.

100,000 visas per annum would be consistent with a good faith effort to permit substantially freer emigration.

208. Memorandum for the File[1]

Washington, May 23, 1974.

RE

Trade Portion of Discussion at Breakfast, 5/23/74 between the President and Senators Long and Bennett[2]

In response to the President's query regarding progress on the Trade Bill, Long first referred to his belief that the trade statistics were falsely presented in that they included gifts, such as PL 480, among exports.[3] He then said that he believed and he thought Flanigan agreed that any bill should result in improving US exports and insisting on "reciprocity" in terms of trade with other countries. Long further said that so long as we are maintaining a lot of troops abroad and engaging in foreign aid that we obviously had to sell more than we bought and therefore should insist on a system giving the US a trade surplus.

Flanigan pointed out that Commerce's current statistics now show trade figures on the long basis as well as on the current basis to which Long agreed. Flanigan also pointed out that if we could import more than we exported by virtue of investment income that would be all right with Flanigan as long as the basic accounts were in balance. Flanigan further pointed out that by virtue of the President's actions the United States' basic accounts were in balance in 1973 for the first time in 15 years.

Long suggested that short term flows may have caused the 1973 balance (and Flanigan said he did not include such flows) and congratulated the President on having made more progress in the trade field, as well as in the offset field, than any previous President.

The President said he realized that Title IV was a problem. Flanigan suggested that perhaps markup on the other Titles of the Bill could go forward even if Title IV remained unsolved. The President said he expected Kissinger to get to work on Title IV on his return[4] and a con-

[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, Box 94, President's Meeting File, Memoranda for the President's File, Beginning May 19 (1974). No classification marking.

[2] The meeting took place in the first floor Family Dining Room from 8:30 until 9:39 a.m. In addition to President Nixon, Senator Wallace F. Bennett (R–Utah), Senator Long, and Flanigan, Timmons, and Scowcroft attended the meeting. (Ibid., White House Central Files, President's Daily Diary)

[3] On May 24, the Department of Commerce announced that an increase in exports had moved the U.S. balance of trade back into a surplus position in April. (*The New York Times,* May 25, 1974, p. 35)

[4] From May 3 to 31, Kissinger was shuttling back and forth between Damascus and Jerusalem negotiating the Israeli-Syrian disengagement agreement.

versation then ensued on the position of the Jewish community and its leaders on Title IV, including the beginning of a lessening of support for Title IV by some portion of the Senate.

Timmons asked Long if he could complete work in a month on the Trade Bill, assuming Title IV were solved and therefore have it on the Floor by the end of June. Long said he was reluctant to make a commitment on a date but said that at least by the end of that time frame agreement on a good portion of the Bill could be reached and areas of disagreement would be clear.

The President then said that we at least agree that work will begin immediately on the Trade Bill, making clear that this work would precede work on the other issues (health, taxes, energy) by the Finance Committee. Long said that as soon as the Senate comes back from its recess next Tuesday[5] he would "call some executive committee meetings" to begin work. He indicated the desire to talk about the overall direction of the bill. Bennett said he hoped these sessions would not start before his return on June 3, but Long gave no such assurance and indicated his willingness to talk to a White House representative on the overall direction.

The President then pointed out how urgent it was that we have a trade bill not only for resolution of the Title IV problem as it was part of the overall negotiations with the Soviets, but also to give us the tools to negotiate on trade. He made perfectly clear that he shared Long's view that his interest was in the improvement of the American position as a result of the trade negotiations and did not reflect soft heads primarily interested in developing countries, etc. He stressed the fact that without a trade bill we were unable to negotiate in the best interests of the people of the United States.

Long agreed with the President's statement. It was for this reason the President was anxious that work on the markup of the Bill begin promptly and he appreciated Long's agreement to do so.[6]

Bill Timmons is doing a report on material discussed other than trade.[7]

Peter M. Flanigan[8]

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[5] May 28.

[6] In a May 23 message to Kissinger, Tohak 298, Scowcroft reported that the President's meeting with Long and Bennett "went very well. They agreed to begin mark-up of the trade bill immediately following Memorial Day recess, if you would start working with Jackson to attempt to resolve Title IV immediately following your return. There was no discussion regarding the characteristics of a compromise on Jackson–Vanik. Long indicated his feeling that there has been some erosion of support for Jackson–Vanik." (Ford Library, National Security Adviser, Memoranda of Conversation, Box 4)

[7] Attached but not printed is a May 23 memorandum prepared by Timmons covering the portion of the meeting that did not concern the trade bill.

[8] Printed from a copy that bears Flanigan's typed signature.

209. Editorial Note

The oil crisis that followed the October 1973 Middle East war seriously disrupted many countries' balance of payments. Rising oil prices resulted in rising trade deficits for oil importing countries, and thus the possibility that these countries would undertake unilateral actions, such as imposing import restrictions, to protect their balance of payments. At the Organization for Economic Cooperation and Development Executive Committee meeting on April 23 and 24, 1974, member states agreed to work toward a joint declaration disavowing such actions. (Telegrams 10037, 10054, 10070, and 10073 from USOECD Paris, all April 25; National Archives, RG 59, Central Foreign Policy Files; except telegram 10054 which is ibid., Nixon Presidential Materials, NSC Files, Box 680, Country Files, Europe, France, Vol. XII, 1 Jan 1974–)

International negotiations on the declaration's content took place over the next several weeks, and on May 30, it was unanimously adopted by the OECD Ministerial Council. In the declaration, often referred to as the OECD trade pledge, members agreed to adopt a cooperative approach to the troubles besetting the international economy and avoid unilateral actions to protect their balance of payments for one year. Representative to the OECD William Turner reported that "All delegations supported the need for declaration as curb on backsliding measures from current level of trade liberalization and as important step in improving climate for further liberalization in MTN. There was widespread agreement with our characterization of the declaration as an act of 'constructive statesmanship.' " (Telegrams 13380 and 13382 from USOECD Paris, both May 31; ibid., RG 59, Central Foreign Policy Files) The texts of the declaration and the Council communiqué were transmitted, respectively, in telegrams 13246 and 13247 from USOECD Paris, both May 30. (Ibid.) They are also printed, along with the statements by Special Representative for Trade Negotiations William Eberle, Council of Economic Advisers Herbert Stein, and Assistant Secretary of State for European and Canadian Affairs Arthur Hartman to the OECD Ministerial Council, in Department of State *Bulletin,* July 1, 1974, pages 25–33.

210. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Ford[1]

Washington, August 9, 1974.

SUBJECT

Exchanges with Senator Jackson Regarding His Amendment to the Trade Bill

Background

The Jackson amendment to Title IV of the Trade Bill (Tab D)[2] in effect would make it impossible to grant most-favored-nation tariff treatment to the USSR or to continue its eligibility for EXIM Bank credit facilities because it would first require you to make a detailed report on the status of Soviet emigration and a finding that the Soviets do not deny their citizens the right or opportunity to emigrate and do not penalize persons who seek to emigrate. Such a finding could clearly not be made at this time.

For the past several weeks, I have tried to reach an understanding with Jackson (together with Senators Javits and Ribicoff) concerning the standards that we would apply in judging Soviet emigration practices and a means whereby MFN and credits could go forward at least for an initial period so that the Soviets would have an incentive to improve their emigration performance.

In conducting my talks with Jackson I was able to base myself on discussions I had with Soviet Foreign Minister Gromyko and Ambassador Dobrynin. The issue is obviously one of great sensitivity for the Soviets, the more so since they agreed in writing last year to suspend their special emigration tax only to find that it gained them nothing.

Understanding with Soviets

In their talks with me the Soviets agreed that the Administration could provide Jackson with certain broad assurances that any harass-

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[1] Source: Ford Library, National Security Adviser, Presidential Subject File, Box 23, Trade (1). Eyes Only. A stamped notation on the memorandum indicates that Ford saw it. It was sent under cover of an August 11 note from Haig to President Ford that reads: "You may wish to discuss the Jackson position on the Trade Bill in your 9:00 a.m. meeting with Secretary Kissinger tomorrow. The memorandum is lengthy primarily because of the sensitivity of the issue but well worth your detailed reading." Gerald Ford assumed the Presidency of the United States upon the August 9 resignation of Richard Nixon.

[2] Tabs A–D are attached but not printed. Tab C is a tabular presentation of the texts of Kissinger's and Jackson's draft letters (Tabs A and B).

ment, punitive action or unreasonable impediments against those wishing to leave the USSR would be contrary to Soviet law and would therefore not be permitted by the Soviet Government. The Soviet leaders were also willing to have us express the expectation that the emigration flow would increase to 45,000 a year (from about 35,000 in 1973). Jackson and his supporters had demanded an emigration level of 100,000. More recently, the Soviets have backed away from being associated with any numbers.

Negotiations with Jackson

A. *His Terms*

Although the Senators seemed impressed with this movement by the Soviets, Jackson subsequently provided me with a draft of a letter to him from me containing extremely detailed and stringent conditions, although he reduced the number of annual emigrants to 75,000. The problems with this text (which is at Tab B) were its detail, peremptory tone, legalistic formulations and requirement that the Soviets furnish us with all their laws and regulations pertinent to emigration. This not only went far beyond what I could in conscience assert the Soviets had promised, but what any sovereign state would tolerate having another government say about its internal order.

Moreover, the Jackson approach would have left his amendment basically unchanged and merely have added to it a waiver authority for the President in terms such that the President could only exercise it if the Soviets were in full compliance with all the detailed provisions of the Jackson letter.

B. *Effort to Compromise*

Despite these difficulties, I later furnished Jackson with an amended draft letter which retained the substance of Jackson's points but in condensed and less peremptory and legalistic form. This draft also in effect gave 45,000 emigrants as a floor and as our "hope" as a result of Soviet adherence to the standards set out in the letter. (This draft is at Tab A.)

In subsequent discussions with Jackson's staff, they sought to reintroduce many of the details of the original letter. We pointed out that the standards and practices outlined in our letter were already so specific that the Soviets would have difficulty with them, as a matter of prestige even if they were ready to live up to them.

We noted that it would be clear after a few months whether harassments, obstacles and punishments persisted and we could readily monitor the flow of emigration and thus would know whether there was adequate performance.

We would also be ready to have language in the legislation that would permit the President or Congress itself to cut off MFN and credits if after some specified time the Soviets failed to perform. Greater precision would serve little purpose, except to affront the Russians, since we are dealing with readily observable facts. The Jackson people agreed to make an effort to tone down their formulations, but we have not yet heard from them.

Attitude of Jewish Leaders; Issues

Meanwhile, we also supplied our proposed text to three Jewish leaders. They thought it showed substantial progress.

—They were concerned about any *reference to numbers lest it become a ceiling.* More likely, their problem, like Jackson's, is that their prestige is tied to the publicized demand for 100,000. But the leaders have indicated that there might be some private understanding that under conditions of declining restrictions and harassment a rate within the 45–75,000 per year range would be taken by us as a rough performance standard. Jackson, too, is apparently thinking of such a private understanding. This might be a way out on this problem.

—The Jewish leaders also want to see the references to *Soviet practices tied more directly to explicit assurances* from the Soviets. (You will note that in the letter at Tab A, we use euphemisms like "we have reason to believe.") This is also a preoccupation of Jackson's. We might solve this problem by a general statement that all the points in the letter are based on discussions with the Soviets and then use some phrase like "we believe" or even just flat assertions.

—Both the Jewish leaders and Jackson oppose the reference in the first point to the fact that punitive actions against those trying to leave *"according to existing laws and regulations"* would not be permitted by the Soviets. The argument is that as long as we do not have precise knowledge of Soviet laws and regulations this language gives the Soviets a free hand. But the Soviets have made the point to me that they cannot be expected to permit illegal departures. We may have to get the Soviets to swallow omission of this clause.

—Both the Jewish leaders and Jackson still insist on Soviet *performance prior to any exercise by the President of the authority we seek in Title IV.* This is a prestige point for them and Jackson's people have indicated some possibility of flexibility if there is some initial test period.

Next Steps

Although these are the main issues in my current efforts, we must anticipate that Jackson's next draft will still contain more specifics than we, and above all, the Russians will find acceptable. It should also be noted that the EXIM authorization bill will have in it a number of restrictions on credits for the USSR on grounds other than emigration.

Consequently, Soviet incentives to perform on the emigration issue will be reduced.

One possibility, which Jackson's people are considering, is that Jackson might make a *private* response to our letter setting forth particulars, such as numbers, that would serve as more precise performance standards. We could then respond with a brief letter stating that we would agree that these standards would be applied by us also. We have to recognize, however, that there are likely to be disagreements about Soviet performance, particularly if numbers do not rise rapidly.

If another round of exchanges with Jackson, Javits and Ribicoff does not get us within reach of an acceptable set of formulations, we will have to consider whether to deal with other Senators, less driven by concerns with highly committed constituencies. We have after all proposed a set of standards unprecedented in relations between sovereign states and sufficient to judge performance.

211. Memorandum of Conversation[1]

Washington, August 15, 1974, 8 a.m.

PARTICIPANTS

President Gerald Ford
Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Mr. William E. Timmons, Assistant to the President
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

Senator Henry M. Jackson
Senator Jacob K. Javits
Senator Abraham A. Ribicoff

President: The Trade Bill is a matter of highest priority—not only for our own benefit but for all the world.

[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 5. Top Secret; Nodis. The meeting, held in the private dining room at the White House, began at 8:05 and concluded at 9:18 a.m. (Ibid., President's Daily Diary) Brackets are in the original.

Number two is to get a better handle on Jewish emigration from the Soviet Union. As I tried to say on Monday[2]—the House bill. I didn't identify the amendment, but you know what I mean.

Russell Long is going to campaign. I don't know why. Russell tells me everything is going well. If agreement here can be reached he sees little trouble on the floor.

I am familiar with the discussions Dr. Kissinger and Scoop[3] have had on the letters. Dobrynin came in yesterday. He had planned to stay in the Soviet Union until September or October. He cut his stay short in order to indicate their interest in the continuation of their policy. He spent most of the time telling us that Brezhnev said that if harassment and difficulty with numbers continue, Brezhnev could take personal responsibility with the President. The President could complain directly to Brezhnev. Remember, Scoop, they previously said we had to bring it to the proper authorities, but never to Brezhnev.

Jackson: I think we are making good progress. The Russians are giving. The reports back from the Soviet Union are that they now consider there are 300,000 wanting to leave. They could handle that in 4–5 years. We got some letter changes last night. We three are in agreement. I want to touch base in the Senate, and talk to Meany. He is uptight about it. The labor people are fighting the hill.

Javits: The Trade Bill. This indicates their hangup.

Jackson: With this in the bill you will get more support from those who will push it for emigration.

Kissinger: In the text of the letter—we can't bother the President just about a legal clause. For example, it will cause no trouble with the Soviet Union to say "as frequently happened in the past."

Jackson: There are two areas. One is harassment. This is not just for the Jewish emigrants; it's all of the ethnic groups. The others are tough, but not well organized. They are hot on this.

President: I know, I have 5,000 Latvians in my old district.

Jackson: The big problem is harassment. If you apply, you get harassed.

Kissinger: They have specifically said those practices wouldn't take place. They may not keep the agreement, but that is something they have specifically assured us.

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[2] On Monday, August 12, President Ford addressed a joint session of Congress, declaring, "With modifications, the trade reform bill passed by the House last year would do a good job. I understand good progress has been made in the Senate Committee on Finance. But I am optimistic, as always, that the Senate will pass an acceptable bill quickly as a key part of our joint prosperity campaign." For the full text of the President's speech, see *Public Papers: Ford, 1974,* pp. 6–13.

[3] Senator Jackson's nickname was Scoop.

President: I can assure you that, if we get an agreement, if there are violations of it, it won't take me 24 hours to cut it off.

Ribicoff: There has been much quiet cooperation among us. We are at the last issue—the 60,000 figure. Is that realistic?

Kissinger: I am worried. If Jackson's figure is right, it is okay, but we don't know that. They don't want to have to expel people to meet a quota. They say the applications are dropping because of the Middle East situation. Would we know if harassment continues?

Jackson: Not necessarily. The subtle forms are the toughest. They are out to avoid quotas. The scheme is the letter, the response, and the interpretation. Our letter would say emigration would rise promptly from what they were.

Kissinger: That we can live with.

Jackson: This avoids your being associated with a quota. We must have the 1973 figures because this year is lower.

Kissinger: If you relate that to the number of applicants, and if there is no harassment, it should work if they keep their word.

Jackson: They are moving on security clearances. A cable I have here says they could leave after three years. There is general movement, Mr. President, which shows that the Soviet Union is in economic trouble. We don't want to push them into a corner.

MFN is a source of pride to them. The credits are a touchy area because they don't have anything to sell that doesn't require US capital. Oil, aluminum. They have hydroelectric power and Kaiser is putting up a plant. Forty percent of producing an ingot is power. But it is Kaiser capital.

President: If good authority for MFN is given, with Presidential authority to cut it off for violations with the assurances they and I have given, we have a club to insure performance.

Jackson: Yes, what we would do is leave it hang but with waiver authority. [He reads from the draft]. This is enough language. This is also your club with the Soviet Union.

President: Is the House bill a denial of authority?

Javits: The House language is onerous.

President: Let me propose. The general authority would cover all. Then a denial could apply to any one country who denied emigration.

Javits: That's not good either. You don't want to force you or us to break with the Soviet Union. We shouldn't be put in a place where it has to be proved that there are violations. The renewal obligation makes it an affirmative action, not a cut-off.

Jackson: By this method we would share the burden.

President: Let's see, I make a 12-month report and ask for an extension.

Congress approves by a majority vote. How do we avoid a bottle-up?

Jackson: We could write in a must vote within so many days. We would grant it—this is a big concession—immediately. The Soviet Union wants MFN immediately and we make this big concession.

Timmons: It applies to credits also.

Jackson: Everything.

Kissinger: What worries me is this: If Congress has to renew your authority every year, we can have this kind of debate every year.

Javits: We could write a line that the President has the right to waive and then say this will continue for one year.

President: It's a cumbersome procedure which is like the one on chrome.[4] If we go this route we would have to have prompt resolution.

Jackson: We would have provisions to insure prompt action.

Kissinger: We can just get by with the letter. The interpretive statements overload the circuit. We have shown them this letter. There was no disagreement, on what the performance must be, but just on how to write it.

Javits: The interpretive letter is best.

Ribicoff: But Dr. Kissinger has to show it to the Soviet Union.

Kissinger: We have to distinguish between the objective and what we write down.

Javits: Take the non-proliferation treaty. We issued an interpretation about the French and British nuclear forces and the Soviet Union issued just exactly the opposite. Let the Soviet Union say what it wants.

President: How will the one-year affect business contracts?

Javits: Even if we cut it off, contracts made will continue.

President: What worries me is that you identify a particular country by this.

Jackson: No, just non-market states.

Kissinger: How would it apply to East Europe?

Jackson: It's the same for all of them.

Kissinger: How about Romanians?

Jackson: You would have to seek some assurances. The Romanians say they won't have any problem.

President: Supposing Romania performs and the Soviet Union doesn't. How would we handle that?

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[4] A reference to the 1971 Byrd amendment to the fiscal year 1972 defense procurement authorization bill. The amendment permitted the import of Rhodesian chrome into the United States in contravention of the United Nations ban against such imports.

Jackson: We would work that out.

Javits: Abe and I talked to Ceausescu[5] and he said it was no problem. I think they stopped because the Soviet Union didn't want them to set bloc policy. The PRC isn't yet an issue.

Kissinger: Because they want to keep MFN from the Soviet Union. Scoop has a great future in the PRC.

Jackson: They say the threat will come through Europe. Chou[6] wants to talk to Mansfield on this.

Javits: The complaint in the Jewish community is that the Soviet Union has cut the rate and they should restore the rate before we move to show good faith. I said no. The same on the high visibility trials. They also fear numbers, as a possible quota. I don't buy this because with artful language we can make it okay.

Jackson: We don't want a bilateral agreement between West Germany and the Soviet Union to affect this. This argument is for about 1000 a month. We wouldn't want any other agreements to count against this quota.

President: I am worried about the language. I would prefer blanket authority with a right to cut off.

Let's get the technicians together and see if we can't work it out.

Jackson: This is so designed that Congress has to retain some authority.

Javits: I think I can work something out on a waiver if he [Kissinger] believes it is viable to keep the Jackson Amendment with some positive or negative waiver. We need to try this.

Kissinger: How about a waiver subject to Congressional veto? It is the affirmative vote that worries me.

Jackson: Let's go back and work more—We are determined. I am a strong supporter of the trade bill. We are getting strong pressures from pressure groups.

Timmons: I have three points I would like to make quickly. On the other ethnic groups, how does this apply?

Renewal—how would it be done? And what do we say to the press?

President: That it was a very constructive meeting. Momentum is now under way for one of the most important pieces of legislation on the calendar.

[5] Nicolae Ceausescu was General Secretary of the Romanian Communist Party.

[6] Zhou Enlai (Chou En-lai) was Premier of the People's Republic of China.

Jackson: We will praise the President for constructive efforts for a solution. But don't say it is settled. We don't want to let the Soviet Union think we capitulated.

Javits: Also, we are determined, if it is humanly possible, to have a trade bill.

Jackson: You and Abe cover that.

Ribicoff: You are in a great position here with the change of President.

We will have no problem knowing about harassment. The most important thing is numbers. Once we have established that, and the exchange of letters, I am not worried.

Once we know that harassment is ending and people are leaving, we are in good shape. They should go ahead with mark-up and amend on the floor to add the waiver.

Kissinger: If I may summarize, the three Senators are saying that if we keep the Jackson Amendment, they can be flexible on waiver authority. Let us look at this.

Jackson: We will ensure there can be no delay or filibuster. We will get our drafting people on this to get the language right. We had little time and this is only a rough idea and formulation.

President: The ExIm Bank lawyers don't understand all the legislative procedures.

Jackson: We should look at the options.[7]

[7] On August 17, President Ford met with Kissinger: "[President:] I'm glad Scoop moved. Kissinger: We called him yesterday and he was conciliatory. You might consider talking to him again next week. I told Dinitz he had to help us here and that Rabin had to come in early September. President: We have to give Scoop his amendment. Kissinger: If you get waiver authority, that Congress would have to veto, it's okay. President: What he wants is his amendment. The supporters don't understand the waiver amendment. Kissinger: The Soviet Union won't buy going in every year for legislation. They will complain about this, but will go along with it. A Member of Congress last night said they want a compromise. President: If we can pull it off and get the bill, it is the best thing we can do." (Ford Library, National Security Adviser, Memoranda of Conversation, Box 5)

212. Memorandum From Robert Hormats of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Scowcroft)[1]

Washington, September 11, 1974.

SUBJECT

Eberle's Request for Guidance on the Jackson Amendment

Eberle's memo (Tab A)[2] requests guidance from you, HAK, Haig, and Timmons on dealing with the Jackson Amendment. Mansfield, Long, Mills and Albert have agreed to try to move the Trade Reform Act through the Senate and hopefully enact it into law before October 12. To meet this schedule, they want to have a penultimate draft for circulation to Finance Committee members by early next week, which means the Jackson Amendment issues need to be resolved by the end of this week.

There are two issues:

—Will HAK/Sonnenfeldt continue to negotiate with Jackson,[3] or should Eberle be delegated to do so?[4]

—Should the Administration acquiesce to Jackson's proposal[5]—that every year a positive vote of both Houses is required to permit MFN to continue—or should it hold out for a provision which would allow MFN to continue unless either House votes that it should *not?*

Eberle feels strongly that a deal needs to be made as soon as possible. He would like to have HAK, or Sonnenfeldt, take the lead if they can devote sufficient time this week to bring this issue to a conclusion. Eberle is concerned that a delay might mean loss of recent momentum and cause the many Senators now committed to a compromise on the Amendment and to support of the Bill to lose interest. If HAK or Son-

[1] Source: Ford Library, National Security Adviser, Presidential Files of NSC Logged Documents, Box 51, NSC "NS" Originals File, 7404004—Eberle's Request for Guidance on Jackson Amendment. Secret. Sent for action.

[2] Tab A, attached but not printed, is a September 9 memorandum from Eberle to Kissinger, Haig, Scowcroft, and Timmons that reads: "The time is getting short to pull together all parts of the trade bill, including Title IV, as the Senate Finance Committee is winding up its work on the bill and could conceivably finish this week. Therefore, it seems to me the time has come for me to pick up all parts of the bill and try to resolve them this week." Eberle also attached an outline of the issues that had and had not been resolved.

[3] Scowcroft wrote "Yes" next to the sentence up to this point.

[4] Scowcroft underlined the remainder of this sentence ("Eberle be delegated to do so?") and wrote "No" next to it.

[5] Scowcroft wrote "No" next to the sentence up to this point.

nenfeldt cannot devote the time and energy to push this through, Eberle would like to be authorized to do so.

Substantively, HAK and Jackson have apparently agreed on the substance and form of the exchange of letters, on the twelve month waiver of the Jackson Amendment, and on inclusion of some of the language contained in the letters (but *no* reference to the letters) in the Committee Report. They disagree on whether withdrawal of MFN should take place *only* upon a negative vote of either House or (as Jackson proposes) automatically after a year unless a concurrent resolution is passed in *favor* of continuation of MFN. According to Eberle, Jackson believes that the President indicated he could accept his proposal provided that the vote was expedited. Your notes,[6] however, reveal no evidence to substantiate Jackson's belief; although at one point (page 4) the President repeated his *understanding* of (not agreement with) Jackson's proposal.[7] The President was obviously concerned with the issue of a delayed vote (which would mean that MFN would lapse as the result of Congressional inaction) and with the enormous uncertainties for U.S. business and the Soviets in a procedure whereby Congress could, in effect, veto continuation of MFN by simply refusing to act. These concerns can be the basis for a strong argument to get Jackson to compromise on this issue. Nor will such a compromise weaken the hand of Congress; if the case against the Soviets is strong, it should not be difficult to produce a majority vote against continuation of MFN.

Recommendations

1. That you indicate to HAK the importance of reaching accommodation with Jackson as soon as possible, or suggest that he delegate Sonnenfeldt or Eberle authority to promptly pursue this to a conclusion this week or early next week.

2. That you reinforce to HAK and other recipients of this memo the dangers of Jackson's proposals requiring a yearly vote to continue MFN.[8]

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[6] Apparently a reference to Document 211.

[7] Apparently a reference to the President's statement on page 4 of the memorandum of conversation (Document 211): "Let's see, I make a 12-month report and ask for an extension. Congress approves by a majority vote. How do we avoid a bottle-up?"

[8] Scowcroft wrote "Done" and his initials at the end of this memorandum.

213. Letter From Senator Henry M. Jackson to President Ford[1]

Washington, September 11, 1974.

Dear Mr. President:

I am enclosing a draft of legislative language[2] which, together with the language passed by the House and contained in Title IV of the Trade Reform Act, should satisfy your concern that trade benefits granted to the Soviet Union (or other non-market economies) could, if justified, be extended beyond one year in a timely and expeditious manner and without fear of procedural impediments or delay. At the same time, the President could, of course, decide not to recommend an extension beyond one year; or he could terminate any benefits at any time.

Under this proposed formulation the President would be in a position to extend most-favored-nation treatment to the Soviet Union or other non-market economies by waiving subsections (a) and (b) of Title IV in cases where he determines and reports that "the exercise of such waiver will substantially promote the objectives" of free emigration as defined in Title IV. The assurances that have been conveyed in our draft exchange of correspondence constitute an agreed basis upon which to make and report that determination. According to the enclosed formulation, the President could propose annual extensions of the authority to waive subsections (a) and (b). Congressional action on any such Presidential request would proceed according to carefully drawn procedures which, I am confident you will agree, assure timely and expeditious action.

This formulation will enable a first waiver to be extended without a detailed report. Subsequent requests by the President to have the waiver authority extended for an additional year by joint resolution would have to be reported by the appropriate Congressional committee at least 30 days prior to the date of expiration of the previous one year waiver authority and would become the pending business of the house to which reported. Time for action on the floor would be limited to three days; and, in the event of differences between the houses, a conference report would have to be filed within six days and acted upon within three days after the filing. If for any reason there should be a delay, the President would be enabled to extend by Executive Order for up to 60 days the period of the then existing waiver authority.

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[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 18, Jackson/Vanik Trade Bill. No classification marking.

[2] Attached but not printed.

In developing this proposed formulation, which effectively rules out legislative delay, we have sought to safeguard your interest in assuring that there would be no unintended interruption in the authority to continue trade benefits. At the same time I believe that the Congress, within which the effort to associate a free flow of people with a free flow of commercial goods originated, should continue to share responsibility for determining that its legislated purpose will be carried out.

The issue before us is this: should the authority to waive the provisions of the "Jackson amendment" continue indefinitely unless rescinded or should it expire after one year (and annually thereafter) unless renewed by safeguarded, affirmative Congressional action?

In my judgment it would be most unwise for the President alone, without further Congressional action, to assume the burden of deciding each year whether an extension of the waiver is merited. It would inevitably weave the issue of compliance with the humanitarian provisions of Title IV into the whole fabric of bilateral international relations covering a great variety of issues and concerns on which the Administration, unlike the Congress, is involved in ongoing negotiations. It would subject the Administration to great pressure to assess the implementation of the understanding on emigration in terms of unrelated issues.

In my judgment the incentives to live up to the agreement would be greatly enhanced by requiring affirmative Congressional action. At the same time, the temptation of a country to fall short in implementing the assurances would be significantly increased if the country in question had to convince only the Administration that it merited a continuation of trade benefits. The role of the Congress would be relegated to an essentially negative one. The requirement of affirmative action to renew the Presidential authority will strengthen the Administration's hand in securing continuing compliance from the countries in question.

While I am confident that the enclosed formulation guarantees uninterrupted annual re-enactment in cases where the assurances are lived up to, I feel strongly that it is not in the national interest—and certainly not in the humanitarian interest we have sought to secure—to require the Congress, as its only option, to withdraw existing waiver authority from the President in the event of non-compliance. In terms of its impact on our foreign relations there is a great difference between the Congress failing to renew authority, on the one hand, and moving to withdraw it on the other. I hope you will agree that, in the event of non-compliance with the terms of our understanding, it would be far better for Congress to allow the authority to expire than to require that the Congress be forced to the divisive act of removing continuing authority.

Sincerely yours,

Henry M. Jackson

214. Editorial Note

President Gerald Ford commented on Senator Henry Jackson's September 11, 1974, letter (Document 213) in an undated note to his Deputy Assistant for National Security Affairs, Brent Scowcroft, that reads: "This was handled directly. Sen. Jackson gave this to Jack Marsh for delivery to me. This procedure is too cumbersome. Subject to Cong. change etc." (Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 18, Jackson/Vanik Trade Bill) On September 13, President's Assistant for National Security Affairs Henry Kissinger met with the President: "[Kissinger:] The Jackson letter. It is in bad faith. The Soviet Union won't buy it. I don't even know if these could stick. President: In the House, one Congress is not bound by the previous Congress. Kissinger: This procedure means that every year we would go through this. Javits thinks it should be a regular veto by one House. President: He told me that. I wouldn't buy that until we have fought for the other. Kissinger: We could get up a breakfast or just say it is unacceptable and see. President: I would want to know that Ribicoff and Javits are okay. Kissinger: Why don't I call him and meet again before you meet with them. President: We've got to make sure about Javits and Ribicoff. Kissinger: They are afraid to stand up to him. The Jewish community looks okay. President: Can I get the precise language I want before the meeting." (Ibid., Memoranda of Conversation, Box 5)

215. Memorandum of Conversation[1]

Washington, September 20, 1974, 10:15 a.m.

PARTICIPANTS

The President
Senator Henry Jackson
Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

President: It's now down to the last stakes. I appreciate your letter[2] and I have asked Secretary Kissinger to study your suggestion.

The practical problem we face as Americans is that we both want the Trade Bill and Jewish Emigration as high as possible. I think we face two alternatives; one is very good and one is very bad. The worst is if there is no Trade Bill—we would not be able to negotiate with other nations around the world—and to have Jewish emigration turned off. The best thing is the Trade Bill and emigration without harassment with a friendly attitude from the Soviets.

Kissinger: And this you could confirm again with Gromyko.

President: I have had it from Brezhnev through Dobrynin and will do it this morning.

We would have the right to negotiate and to give them MFN without the uncertainty as to what Congress will do substantively and procedurally. But there are smart people up there who can use parliamentary details to stall things. Yours is complicated and highly technical and people would invariably take advantage of it.

The furthest I can go is to submit a report each year straight from the shoulder. If it isn't up to standard I will cut it off, but if I don't, Congress could come with an affirmative vote that the report is not adequate.

Jackson: The ExIm Bank has passed the information around saying we can have credits without the Trade Bill.

To go back a moment, after I sent the letter I went to the Parliamentarian and I think I have a rascal-proof arrangement. I know your concern, and in the spirit of compromise I have drafted something.

[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 5. Top Secret. The meeting, held in the Oval Office, began at 10:20 and concluded at 11 a.m. The President's Daily Diary does not list Scowcroft as one of the attendees. (Ibid., President's Daily Diary)

[2] Document 213.

What this could change is to have our expiration date of April 1, 1976—that would give you a full 18 months. We have limited debate, etc., and provided for a final debate by which it must be voted up or down. This would force adjudication by the House and Seante. I think this would do it. Labor is out to kill the bill, and they will do it if we don't retain some authority.

The only other item is the length of time they can delay in "national security" cases. I would like to have it three years but I could go to four.

Kissinger: The Soviet Union has said it wouldn't be more than one percent of the total. I mentioned three years to them and they haven't answered.

Jackson: Let's leave it at three. I suggest we sit down and hammer out this draft. We must retain some authority. I've gone as far as I can. I am under pressure. I agree there must be a final date for action.

President: That gets back to this: If they modify the rules to accommodate this, they can change the rules back. I can't veto rules changes. I would have nothing to say about rules.

The Congress would have control under our proposal. They can move in in a set period to veto my recommendation. Look what happened yesterday on the pay matter.[3] I want to make both Houses veto, but I will accept a one-House veto but can't accept affirmative action by Congress. That produces too much uncertainty and indecision.

To show our flexibility, I would accept a one-House veto. I am going a long way by this. Look what they did yesterday. This shows they can certainly do it on MFN. You can be guaranteed a veto and I will go half way and say only one House. This is an established procedure. Congress understands and accepts this way.

Jackson: I want to get it settled. Look at the Soviet Union running bulldozers through the art exhibit.[4] I see trouble ahead on this. I see clashes, and the question of duress, and harassment. I see problems for both of us.

Kissinger: I agree with Scoop.

President: You could have a hell of a speech defending my plan and using the example of yesterday.

Jackson: We need more than one half the Congress on ExIm. We took away the veto.

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[3] On September 19, the Senate voted against a proposal backed by President Ford that would have deferred the implementation of Federal employee pay raises for 3 months.

[4] On September 15, Soviet authorities demolished an outdoor art exhibition in Moscow with bulldozers and trucks.

Kissinger: The ceiling bothered us more than the veto.

Jackson: We really worked on this; we had a terrible time. We took out the veto. You have to submit it to the Senate. That veto really would have limited your flexibility. Another would have killed the whole thing. Schweiker[5] wanted the going interest rate. The mood is bad and I must deal with it. What we need to finish in the draft is a final date certain. I see complaints that we have delegated our authority. It is a question of the will of Congress. I understand your position, but I think you are in need of having your hand strengthened by my proposal.

President: I don't mind the heat. I'll take it when I submit the report with my recommendation. Congress would keep control. Look at the pay thing. All I can do is recommend. Congress has negated what I proposed. This is an established procedure and it works. It guarantees a veto and, following this concept, insures that we don't put something over on you.

Jackson: Our concern in the Senate is retaining control. This would give an 18-month trial period; we have protected the credits, and I think we should give my plan a trial. We are so close to a solution.

President: I agree, and we could end up with the worst of both.

Jackson: The feeling on credits in this country is really bad; with the credit situation in this country. Word of the projects proposed would really rile the country. It cuts party lines across the board. The Soviet Union will get credits, and then this bulldozer thing.

Kissinger: You will see Schmidt offering large credits when he goes to Moscow.

Jackson: There is a gap between us and Europe. They can't get our technical forces in Europe.

President: I would hate to have this collapse over the Soviet Union and credits when we need it for broader progress. We can control the credits. Don't forget the Soviet Union can turn off emigration tomorrow.

Jackson: The Soviet Union is in deep economic trouble. We have the chips—the gap between us in science, technology, and business management. It is terrible.

Kissinger: But that is not remedied by any amount of help. You know, their system requires them to specify production goals of, say, locomotives by weight or by number. They base everything on quotas, and so they produce as little as possible to keep quota low, and they stockpile materials.

[5] Senator Richard Schweiker (R–Pennsylvania).

Jackson: They still have terrible agricultural problems.

I have tried to get movement with this proposal. Let me think over the weekend if there is anything else we can do.

Kissinger: It would be good to do it while Gromyko is here.

Jackson: I hope we can act. We ought to act on Rockefeller too.[6] We will, I hope. The House will.

President: Peter [Brennan][7] said he would do his best.

Jackson: I am trying to calm labor down. Meany and Abel[8] are both uptight. It is a Commie issue. The clothing workers—that affects Javits. They want a Congressional tether.

President: Why don't you take credit for having it so that it only takes action by just one House?

Jackson: That isn't really the issue. Most of them think the Soviet Union just can't do those things and they want a short string on it. I think we'll have problems—not with people who get headlines—but the little people.

President: But they can turn it on and off. They will be tough if one doesn't take some affirmative action.

Jackson: Tell Gromyko I played a key role in keeping out with the veto on credits. The credits are what matters—MFN is just face. This gives you the opportunity to negotiate with the Soviet Union.

President: Please think it over. We have made a big concession.

Jackson: I think I have too. We will talk over the weekend.

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[6] Nelson Rockefeller's confirmation as Vice President was pending before Congress.

[7] Brackets are in the original.

[8] Iorwith Wilbur Abel was President of the United Steelworkers of America.

216. Memorandum for the Record[1]

Washington, September 26, 1974.

SUBJECT

Bipartisan Leadership Breakfast with the President—Wednesday [*Thursday*], September 26, 1974

ATTENDEES

President Ford
Secretary Kissinger

Senator Mike Mansfield
Senator Hugh Scott
Senator William Fulbright
Senator George Aiken
Senator Hubert Humphrey

Congressman Thomas O'Neill
Congressman John Rhodes
Congressman Thomas Morgan
Congressman Peter Frelinghuysen

Lt. General Brent Scowcroft
Mr. William Timmons

SUBJECTS

Turkish Aid; Jackson Amendment; Energy Cooperation

[Omitted here is discussion unrelated to the trade bill.]

Jackson Amendment

The President: Let's spend just a minute on Jackson–Vanik. I met with Scoop last Saturday.[2] My position is to have a waiver. If, at the

[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 6. Secret. The meeting took place in the First Floor Family Dining Room. It began at 7:55 and concluded at 10:08 a.m. (Ibid., President's Daily Diary)

[2] September 21. No record of this meeting was found, including in the President's Daily Diary. (Ibid.) President Ford was apparently referring to his Friday, September 20 meeting with Jackson; see Document 215. The President did refer to Jackson during a September 21 meeting with Kissinger and Scowcroft: "[Kissinger, discussing an upcoming meeting with Gromyko:] On emigration, they [the Soviet Union] won't accept the numbers and they won't specify a delay time in national security cases. You might think about getting Javits, Jackson and Ribicoff in before you finalize. Termination in April '76 would be politically hard. Jackson is putting out that we are close to an agreement. President: This morning he said it had broken down. Kissinger: You must be on record with them on what you can do and what you can't do. Gromyko said the Jews are great at raising a public relations crisis for publicity. President: I couldn't see the relationship of the bulldozer story. Kissinger: The Russians are crude boors—but abstract art is banned and it was therefore moved off. You must get it into their heads you are a tough guy. They are measuring you for a crisis. But you should tell them if there is a race [in armaments] we must be first." (Ford Library, National Security Adviser, Memoranda of Conversation, Box 6)

end of the year the Soviet Union hasn't performed, I would kill MFN. The Soviet Union has agreed they wouldn't interfere with applications and that any applicant could leave, except for security cases.

Secretary Kissinger: That's about 1 or 1½% of the total.

The President: And no harassment. If they stick by that, I would so certify and MFN would continue. We proposed to Scoop a procedure like we had on the pay bill. Scoop wants affirmative action by the Congress under a complicated system he says will ensure that Congress will act.

Senator Fulbright: That won't work.

Senator Scott: No, it won't.

The President: Scoop has worked out a complicated procedure, but you know it can be circumvented.

Why, we would even be willing to let it be a one-House veto.

Senator Humphrey: What has Javits said about all this?

Secretary Kissinger: What the President described is what the Soviets have told us. But they won't guarantee a specific figure and they also claim that emigration is down because of the Middle East situation. There is probably something to that. There is a problem in Western Europe already with people wanting to go back. We would communicate all these understandings in a letter to Scoop and he would answer back with his clarifications.

Senator Humphrey: To Scoop? And how about the rest of us?

Secretary Kissinger: Scoop would write back and say he understands that 60,000 is what we could expect as an adequate figure. The Soviets will not agree to that. And you know there is no way for the Soviet Union to live up to every detail of these requirements, so Jackson could use every isolated example to scream bad faith. The Soviets could ask for typed applications. No government could or should live up to this sort of intrusion.

Senator Fulbright: We certainly wouldn't.

Secretary Kissinger: But we would certainly know through the Jewish network about systematic violations if there are any. And Brezhnev has promised to give his personal attention to individual cases. But the Soviet Union has *not* agreed to 60,000, and Jackson at the end of the waiver period could scream trickery. We do not accept his specific number.

[The President mentioned the Kudirka case to show Soviet cooperation.][3]

[3] Brackets are in the original. On August 23, the Soviet Union released from prison Simas Kudirka, a Lithuanian sailor who had tried to defect to an American Coast Guard ship in 1970.

Senator Humphrey: I'm glad to hear they are human. If you think the Greeks have pressure, we have more from the Jews. You've got to get the top Jewish leaders in and tell them what has been done. The President has an ironclad case on this.

Senator Scott: We have made these points to the Jewish Community. The Israeli Government has to . . . (interrupted).

The President: If the Jackson–Vanik Amendment comes up, we can't buy it. So there would be no trade bill and probably no Jewish emigration. The way to go is our way so we can get a trade bill and emigration.

Senator Mansfield: I couldn't vote for the bill as Henry has described the process.

Congressman Frelinghuysen: Would you leave Scoop's letter unanswered?

Secretary Kissinger: We would reply saying we understand this is your view—which is a waffle. But he could always claim trickery.

Senator Humphrey: Why not spell out this to the leadership? Why to Scoop? I am mean too. We know the President won't let non-compliance turn into a political football. It is absolutely safe. Democratic politics will be wild in '76. The President should spell out the understandings—or Henry—but not to Scoop.

Senator Scott: If sentiment here is opposed, just tell Scoop what the leaders think.

Secretary Kissinger: We could put in a letter from me what I have described.

Senator Humphrey: Someone should spell it out to the committees, not to Scoop.

Senator Scott: Tell Scoop there should not be a private treaty.

Secretary Kissinger: There are two choices: If we write a letter to the leadership and he replies, he is just one Senator. But if we write him and he replies, it is part of the legislative record.

Congressman Rhodes: A letter should go to Senator Long.

Senator Humphrey: A letter should go to Long. Then anyone can send a letter back who wants to. If Scoop gets a letter, others who may have certain ambitions will want one.

The President: We brought this up because we are here working hard on this problem and I wanted the leadership to know the precise situation. I hope Scoop won't feel we undercut him.

Secretary Kissinger: The Soviet Union says they can't accept MFN if affirmative action is needed every year.

[Omitted here is discussion unrelated to the trade bill.]

217. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to President Ford[1]

Washington, October 2, 1974.

At Henry's request, I called Dorothy Fosdick in Senator Jackson's office with respect to the Trade Bill. I told her that you had studied carefully Jackson's proposal for handling the waiver/veto procedure, that you had decided that it was not practical, and that the procedure you had outlined to him in your last meeting should be adopted.[2] On the exchange of letters, I told her that, following your discussions with the Leadership,[3] you had determined that two letters rather than three would suffice.

Dorothy called me back to say that Jackson was outraged about what he considers a betrayal on the issue of the three letters. He considers that he had a firm understanding with Henry that there would be three letters and that that understanding had been implicitly confirmed in his meeting with you when there was no disagreement on the three-letter process. She said that Jackson's initial reaction was that this terminated all efforts to get agreement and that he would have no choice but to proceed with Jackson–Vanik without a waiver, and that he had the votes. In addition, he would probably be compelled to go public with the details of how he had been "double-crossed."

I have passed this information to Henry and he asked that I inform you right away.

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[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 18, Jackson/Vanik Trade Bill. Confidential. A notation on the memorandum indicates Ford saw it.

[2] See Document 215.

[3] See Document 216.

218. Memorandum From the Counselor of the Department of State (Sonnenfeldt) to Secretary of State Kissinger[1]

Washington, October 3, 1974.

SUBJECT

Jackson Amendment—Talks with Staff of Senators Javits and Ribicoff

As agreed with General Scowcroft I called Lakeland[2] (Javits' staff) and Amitay[3] (Ribicoff's staff) this morning.

I told Lakeland we wanted to be sure Javits understood that the position as conveyed to Jackson's staff by Scowcroft the other night and yesterday[4] was the President's position. In reply to his question about the change in the third letter, I explained the distinction that had always been made between the first and the second letters as regards Administration commitment to them. Lakeland said he thought the letters had long since been agreed. I pointed out that you had taken specific exception to the numbers in Jackson's letter in your last breakfast with the Senators.[5] I said it was to avoid any subsequent misunderstanding that the third letter had been redrafted.[6] I also reminded Lakeland of Javits' view that the key to the whole arrangement was not the precise wording but the President's commitment to the assurances concerning no harassment and no punishment and to withdrawal of trade advantages in case of non-compliance.

Lakeland asked where we go from here since it looked like there would be no Trade Bill. I said I hoped they would reconsider their view of the third letter since it really did not affect the Administration's basic position as set forth in the first letter. Lakeland said he had not seen the new third letter (!) and would look at it.

Amitay was much more agitated when I called him to say that there should be no question about the President's role and position in

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[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 18, Jackson/Vanik Trade Bill. Eyes Only.

[2] Peter Lakeland served as an aide to Javits.

[3] Morris Amitay served as an aide to Ribicoff.

[4] See Document 217.

[5] See Document 216.

[6] On October 2, Scowcroft sent a revised draft of the third letter to Dorothy Fosdick in Jackson's office. The draft reads: "Dear Senator Jackson: I have noted the views set forth in your letter of (date). The President will consider them in determining whether the purposes sought through Title IV of the Trade Bill in regard to emigration practices of non-market economy countries are being fulfilled and in exercising the authority provided for in Section ____ of the Trade Bill." (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 8, 10/1–9/74)

regard to the waiver issue and the third letter. Amitay said there had in fact been some concern that the President had not focussed on Jackson's waiver compromise because of the economic summit[7] and Mrs. Ford's operation[8] so he was glad to hear that the President had done so. However, this was now a dead issue because of the third letter. Ribicoff had been "flabbergasted" when the third letter was first withdrawn and then changed since the letters had been agreed as a package at the meeting with the President. I said there had always been an issue about the second letter because it contained specifics that might be reasonable interpretations of the first letter but could not have the same Administration commitment as its own first letter. I pointed out that you had explicitly stated that the numbers in the second letter could not be an Administration responsibility.

Amitay said this situation had not changed and it had never occurred to Ribicoff that the text of the three letters would be reopened after they had been agreed to. I said the text of the third letter only was being changed to avoid any possible later misunderstanding about the status of the second letter. Amitay said "will consider" was totally unacceptable since it made the whole correspondence vague and meaningless. I said this could hardly be the case since the Administration would put its name to the first letter with its far-reaching statements.

Amitay said their only conclusion could be that they had been led down the garden path on the whole operation and that the Administration never had shown or had agreement on the letters with the Soviets. It was inconceivable to renegotiate the letters with so little time before the recess. He said it looked like there would be no bill. Ribicoff, he repeated, was flabbergasted by what had happened.

I concluded by saying in answer to his question that I could not tell him what the next steps in regard to the Bill would be but that I hoped they would look again at the text of the third letter and recognize how far-reaching the first letter together with the sanction of nonrenewal at periodic intervals were. He said he had only heard the third letter read out over the phone (!) and would take a look at it. But he remained negative.

Both Lakeland and Amitay said there would be an explosion in the Jewish community over what had happened and charges of bad faith would be hurled at you. I said I hoped they would not foster this

[7] A conference on inflation was held in Washington from September 27 to 28. At Camp David, G–5 Foreign and Finance Ministers gathered for talks over the weekend of September 28 to 29.

[8] On September 28, First Lady Betty Ford had a mastectomy to remove a cancerous tumor in her right breast.

since far from bad faith the effort was to be clear now and avoid charges of bad faith later. Lakeland said Javits obviously would not himself foster the charges and Amitay said it was beyond their control. I told both of them again that they had far-reaching assurances in the first letter, unaffected by the wording of the third letter, and this would be clear to whoever read them.

219. Memorandum From Secretary of State Kissinger to President Ford[1]

Washington, October 8, 1974.

SUBJECT

Jackson Amendment to the Trade Bill

I had a session with Senators Jackson, Javits and Ribicoff[2] following your speech at the Capitol today.[3]

On the matter of the third letter acknowledging Jackson's interpretations of the Administration's assurances, the Senators agreed to drop such a letter. Instead they presented a modification of the basic Administration letter in which it would be noted that Senator Jackson had submitted certain guidelines and in which the Senator would be advised that these guidelines would be "among the considerations" to be applied by the President in exercising a waiver authority. In short, the Jackson letter would not constitute a commitment on the part of the Administration.

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[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 18, Jackson/Vanik Trade Bill. No classification marking. A notation on the memorandum indicates Ford saw it.

[2] On October 7, Kissinger met with President Ford: "[Kissinger:] On the Jackson Amendment. He [Jackson] is saying you agreed to three letters and therefore this is my change. But we never agreed to the numbers—if we had, we wouldn't need a third letter. The President: The change was because of a strong representation by the Democratic leadership. We never agreed to the numbers. I remember that clearly. Kissinger: I asked Javits to get a meeting and we will try to get a letter which does not commit us. The President: Jackson must know the leadership reaction. Kissinger: His response is they didn't understand and we ran it quickly by them. Gromyko said he would disavow it if *we* put out any numbers. The President: I don't think we should panic. Jackson must be under pressure from the Jews." (Memorandum of conversation, October 7; ibid., Memoranda of Conversation, Box 6)

[3] On October 8, the President spoke to a joint session of Congress on the economy. See *Public Papers: Ford, 1974*, pp. 228–238.

Concerning the number of emigrants, we agreed that it should correspond to the number of applicants and that good faith Soviet performance on the assurances we have received would have to result in substantial increases in applications.

Jackson pressed hard on the question of Soviet use of security clearances as an impediment to emigration. I pointed out that we had received no assurances on that point, but were, of course, in a position to use the appeals procedure with the Soviets if it appears that security clearances were being used unreasonably to prevent emigration.

I believe the letters as now drafted are acceptable. They are attached at Tab A.[4] I recommend your approval.[5]

On the question of the waiver procedure, I pointed out your strong reluctance to accept Jackson's proposal for Congressional initiative. I also noted your concern that the Jackson "compromise", whereby his procedure would be used after the initial 18 months and the veto procedure thereafter, could result in major controversy in the middle of the 1976 Presidential primaries.

It was left that Jackson would be authorized by the two other Senators to take this matter up directly with you.

[4] Attached but not printed. The draft letters are essentially the same as those eventually signed; see Document 223. The only substantial difference between these draft letters and the ones that were signed appears in Kissinger's letter to Jackson: the draft contains no mention of Jackson's status as sponsor of the Jackson Amendment, whereas the final version does.

[5] The President did not indicate his approval or disapproval.

220. Editorial Note

President Gerald Ford and Senator Henry Jackson met in the Oval Office on October 11, 1974, from 3:55 until 4:15 p.m. (Ford Library, President's Daily Diary) No other record of this meeting has been found. A briefing memorandum for the President for the meeting is ibid., National Security Adviser, Scowcroft Daily Work Files, Box 8, 10/10–13/74.

In an October 15 message to President's Assistant for National Security Affairs Henry Kissinger, President's Deputy Assistant for National Security Affairs Brent Scowcroft wrote: "The Parliamentarian has informed the President that his scheme for getting rid of Jackson's waiver provision in conference in favor of ours is not possible. The

President told me to call Jackson, tell him that, and explain that the President thought he had done his best and he now recommended that Jackson accept his (the President's) waiver procedure with a one-house veto. Jackson said that he wanted to check the Parliamentarian's findings but that he thought the President should accept his waiver procedures, with an 18-month initial period, and he proposed that he, Javits and Ribicoff meet with the President on Thursday [October 17]. The President had departed on his campaign trip before I got this response from Jackson." (Ibid., 10/14–18/74)

221. Memorandum of Conversation[1]

Washington, October 18, 1974, 10 a.m.

PARTICIPANTS

President Gerald Ford
Henry A. Kissinger, Secretary of State and Assistant to the President
Senator Henry M. Jackson (D.–Wash)
Senator Jacob Javits (R.–N.Y.)
Congressman Charles Vanik (D.–Ohio)
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

President: Is the Congress going to quit today?

Jackson: We are already out. We passed the continuing resolution on a voice vote. We didn't have a quorum.

[The press comes in and takes photographs and is then dismissed.]

President: I understand we initially are over the brink.

Jackson: I understand there is one question on whether Congress should act in 30 or 90 days. Let's compromise on 60.

Vanik: We can't turn around in 30 days.

President: In a compromising manner let's make it 45.

Jackson: There is a growing feeling we will get a reaction on this. Byrd is increasingly opposed.

Vanik: We can't make it in 30 days.

President: But 45 days is a month and a half.

[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 6. Top Secret. The meeting, held in the Oval Office, began at 10:02 and concluded at 10:25 a.m. (Ibid., President's Daily Diary). All brackets are in the original.

Javits: The first period is long. Let's make it 45 days, since it is in full career. After that, when it is an annual matter, make it 60 days.

Jackson: You would change the 90 to 45 days in the first time around, and have the periodic vote at 60 days?

Javits: Yes. Is that okay, Mr. President?

President: Let's run through the paper.[2]

Jackson: Paragraph 1. If Congress hasn't acted within the 18 months, you can extend to 60 days. Then if Congress doesn't act it will continue unless there is a veto within 45 days. Thereafter it is annually.

Javits: Then it would be 60 days. In paragraph 5.

President: And 45 days in paragraph 4.

Kissinger: Really 60 days and 45 days in paragraph 4.

President: What is the procedure in the Senate? Will this be done in committee or on the floor?

Jackson: I will offer this on the floor.

President: You will chair with Mike and you [Javits] with Hugh.

Jackson: Yes.

Javits: Yes.

President: What about Long?

Jackson: There is no problem with him. The problem is the trade bill itself.

President: You can help there.

Jackson: I have kept Long informed and Javits has Bennett. If we did it in Committee, it would get botched up.

President: You will let us see the language?

Jackson: We will work it out together.

President: It is complicated and we have to make it foolproof.

Javits: We will call a meeting of all our co-sponsors to explain this. Then we will do it in the House and Vanik can explain that.

Jackson: It strengthens the bill in the Senate.

President: I have to send a request 30 days before expiration. Then you must act within 60 days.

Javits: Yes, and if Congress doesn't act within 45 days, after 45 days after the 60 days . . .

President: Then if we get by that, the 12 months start after the 45 days?

Javits: Yes.

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[2] Document 222.

President: Then it goes back to 60 days as a regular matter.

Jackson: The whole thing is for five years.

Javits: This is historic. It's like Moses leading his people out of bondage. It's not only that Scoop made this, but it's a whole change in Soviet policy to open this to us.

President: I would like to thank Secretary Kissinger for working this out with Scoop. I agree it is a breakthrough. But this deal with Brezhnev . . .

Jackson: I won't bring the Soviet Union in. I will talk about you and Dr. Kissinger. Brezhnev didn't help with that foul statement.[3]

It is the first major effort in bipartisan policy in your Administration. You deserve a lot of credit.

I will make an opening statement, then Jake and then Charlie.

Vanik: I have been having my own problems.

[The conversation ended.]

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[3] At an October 15 dinner given in Moscow for Secretary of the Treasury Simon and visiting American businessmen, General Secretary Brezhnev warned that the imposition of "utterly irrelevant and unacceptable" stipulations on U.S.–USSR trade relations did "nothing but harm, including the trade and economic relations between our two countries." (*The New York Times,* October 16, 1974, p. 59)

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222. Agreed Paper[1]

Washington, undated.

Principles of Agreement on Proposed Waiver of Jackson–Vanik Amendment

1. 18 month authority in trade bill to waive Jackson–Vanik amendment on determination and report to Congress that waiver with respect to any country will substantially promote the objectives of the Jackson–Vanik amendment (trade bill section 402).

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[1] Source: Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 18, Jackson/Vanik Trade Bill. No classification marking. A notation on the paper indicates Ford saw it. The paper was attached to an October 18 memorandum from Jones to Scowcroft that reads: "The attached was returned in the President's outbox and is forwarded for your information."

2. After the 18 months, the waiver authority shall be renewable only upon adoption of a concurrent resolution extending the authority for one year. If an extension is desired, a request shall be made by the President no later than 30 days prior to the expiration of the 18 month period.

3. In the event the Congress has not acted by the end of the 18 month period, the President may extend the waiver authority for up to 60 days after the end of the 18 month period.

4. In the event that Congress fails within 60 days after the expiration of the 18 month period to adopt a concurrent resolution on the issue of extending the authority, the authority will nevertheless continue in force unless either House of Congress (within 45[2] calendar days of the expiration of the 60 day period) passes a simple resolution of disapproval of the waiver authority of continuation.

5. The waiver may be further extended by executive order at one year intervals upon a Presidential determination and report to Congress that such extension will substantially promote the objectives of the Jackson–Vanik amendment, provided neither House of Congress (within 60[3] calendar days of the issuance of the executive order) adopts a resolution of disapproval of the extension.

6. The statutory language to implement this proposal shall permit the concurrent resolution or the simple resolution of disapproval to exclude one or more countries from the extensions of the waiver authority. In addition, the concurrent and simple resolutions provided in the draft shall include procedures designed to expedite a vote by each House of Congress.

7. The statutory language of the proposed amendment will be drafted in concert by the Congressional and Executive Branch staff and an agreed statement of legislative intent reflecting the procedures outlined here will be formulated and made part of the record.

[2] The number "45" was substituted by hand for the original number "90." See Document 221.

[3] The number "60" was substituted by hand for the original number "90."

223. Editorial Note

On October 18, 1974, President's Assistant for National Security Affairs Henry Kissinger and Senator Henry Jackson exchanged two letters on Title IV of the trade bill. Jackson's letter to Kissinger listed understandings with respect to Soviet emigration practices. Kissinger's letter to Jackson outlined the "criteria and practices [that] will henceforth govern emigration from the USSR" and affirmed that the understandings in Jackson's letter would "be among the considerations to be applied by the President in exercising the authority provided for" in the Title IV. Copies of the letters are in the Ford Library, National Security Adviser, Kissinger–Scowcroft West Wing Office Files, Box 18, Jackson/Vanik Trade Bill. The letters were published in *The New York Times,* October 19, 1974, page 10.

On November 26, the Senate Finance Committee favorably reported out the trade bill; the full Senate passed the bill on December 13. On December 20, both houses of Congress approved the bill, as amended in conference. On January 3, 1975, President Gerald Ford signed the bill, known as the Trade Act of 1974, into law. For the President's remarks on signing the legislation, see *Public Papers: Ford, 1975,* Book I, pages 2–3.

The Trade Act of 1974 was a wide-ranging piece of legislation that covered more than most-favored-nation status for and trade with Communist countries. It also granted the President the authority to negotiate tariff and non-tariff barriers, including the power to lower or raise tariffs, and to conclude trade agreements with other countries. Temporary corrective measures, such as import surcharges or quotas, to address serious balance-of-payments deficits became mandatory, unless the President determined that such measures would endanger the national interest. The conditions for receipt of import relief and adjustment assistance were liberalized, and the President was given the authority to impose retaliatory measures against countries engaged in unfair trading practices. The President was also authorized to establish a Generalized System of Preferences, which would eliminate tariffs on specified products imported from eligible less developed countries. Ineligible LDCs included those that accorded reverse preferences to other developed countries and members of the Organization of Petroleum Exporting Countries or other cartels that worked to raise the price or restrict the supply of a specific commodity.

224. Telegram From the Department of State to Selected Diplomatic Posts[1]

Washington, January 28, 1975, 2217Z.

20100. Subject: MTN and Agriculture. Ref: (A) EC Brussels 637,[2] (B) Geneva 421,[3] (C) Geneva 290.[4]

1. TNC scheduled begin February 11 will launch actual negotiating stage of MTN. Discussions with EC officials in Brussels and Geneva (reftels) reveal that US–EC differences on how to handle agriculture in MTNs remain unresolved and threaten impasse with serious political connotations which could stalemate negotiations. Repetition of October 1973–January 1974 deadlock on this issue must be avoided.[5]

2. Principal difficulty arises from EC continuing rigidity in insisting that there can be only one body to the exclusion of all others to deal with the whole range of agricultural issues, tariff and non-tariff. EC negotiating mandate for TNC will not be finally approved until February 10 Council meeting and, according to 113 Committee report

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[1] Source: National Archives, RG 59, Central Foreign Policy Files. Limited Official Use; Priority. Drafted by Glitman, Acting Deputy Special Representative for Trade Negotiations Kenneth Guenter, and Kelly; cleared in Treasury, Commerce, Labor, Agriculture, and by International Resources and Food Policy Office staff member Michael Boerner and Director of the Office of OECD European Community and Atlantic Political-Economic Affairs Ernest Preeg; and approved by Malmgren. Sent to USEC Brussels, Bonn, Brussels, Copenhagen, Dublin, The Hague, London, Luxembourg, Paris, and Rome; sent for information to the Mission in Geneva, USOECD Paris, Ottawa, and Tokyo.

[2] In telegram 637 from USEC Brussels, January 23, the Mission described talks between U.S. and EC officials on January 21 and 22 that covered a variety of trade issues. On the structure of the trade negotiations vis-à-vis agriculture, the telegram reported: "It was clear from the discussion that unless substantial progress is made on this issue before the TNC meets on February 11, there will be a rapid stalemate." (Ibid.)

[3] In telegram 421 from the Mission in Geneva, January 27, the Mission reported: "In private meeting with U.S. reps to Geneva 7 plus 7 meeting, EC Commission reps reconfirmed EC hard line on having separate and exclusive group for all MTN agriculture negotiations." The telegram continues: "U.S. side stated present EC position unacceptable and stressed need for some flexibility on part of EC. Both sides saw issue as not resolvable except at highest political levels, given current positions, and agreed that settlement highly desirable within next two weeks to avoid blowup over future course of MTN at 11 Feb meeting of Trade Negotiations Committee." (Ibid.)

[4] In telegram 290 from the Mission in Geneva, January 20, the Mission reported that although "there is not yet a firm decision by the EC Council of Ministers on how to handle agriculture in the MTN, Luytn, the EC Geneva Commission representative, stated today that there is not the slightest doubt that the Community will insist on all issues pertaining to agriculture being under the supervision of a special agriculture group." (Ibid.) Apparently a reference to Paul Luyten, EC Representative to the GATT Trade Negotiations Committee in Geneva.

[5] See Documents 193, 203, and 205.

given us confidentially, French are member state primarily insisting that mandate spell out MTN structure in above terms.[6]

3. Moreover, past EC statements including French have also noted importance of "parallel" progress and "balance" among all aspects of MTNs. It is clearly important to satisfactory resolution of agriculture/MTN issue that EC Ministers meeting February 10 result in sufficient flexibility to avoid rigid formulation re MTN structure.

4. *For US Mission EC Brussels:* Ambassador should at earliest opportunity approach Soames and make following points:

A. EC, US and world trading community will be losers, particularly in current international economic situation, if long-awaited MTN bogs down right at the start over issue related to procedures of negotiation. Temptation to resort to unilateral restrictive measures and destructive bilateralism can only be intensified by such a result.

B. US Trade Act, Sec. 103, states that "to the maximum extent feasible, the harmonization, reduction, or elimination of agricultural trade barriers and distortions shall be undertaken in conjunction with the harmonization, reduction, or elimination of industrial trade barriers and distortions." Need for US to obtain package in MTNs which includes agriculture is clear. Congressional and US agricultural community interest in negotiation as per Section 135 of Trade Act insure almost immediate political repercussions in US if there suspicion that it EC intention to exclude agriculture by insisting from outset on a structure which led to limited negotiations in agriculture in Kennedy Round.

C. EC has also spoken of need for balance in negotiations. "The representative of the European Economic Community concluded by saying that of course, the Community did not intend to isolate the negotiations on agricultural products from the rest of the negotiations. In this connection, in conformity with the positions it had taken and its undertakings, and in particular with the Tokyo Declaration of Ministers, the Community considered the multilateral negotiations to be a whole, the various elements of which shall move forward together, and the reciprocity it was seeking would be judged on an overall basis." (MTN/P/2, March 4, 1974.) If we to take EC statement at face value, we find it difficult to understand why they are rigidly adhering to a position on structure which will make it virtually impossible move all elements forward together and which brings about US–EC confrontation.

D. We clearly need develop MTN structure which is most likely to achieve above aims. US mandate in form of Section 103 of Trade Act

[6] As reported in telegram 448 from USEC Brussels, January 17. (National Archives, RG 59, Central Foreign Policy Files)

permits us approach problem on flexible pragmatic basis designed achieve this result providing EC mandate is also flexible in this direction. It is therefore important that EC mandate allow flexibility in this area as contrasted to present rigid formulation now being considered by EC and cited by EC spokesman as likely outcome of February 10 Council meeting.

E. If asked about US initiative on grain reserves discussions (initial meeting scheduled for February 10–11 in London), you may say that focus of these discussions is on food security. To extent that trade issues emerge, these will need to be related to MTN, with nature of relationship open to discussion in reserves and TNC meetings.

F. We strongly urge Soames to use his personal offices in working for a flexible EC mandate which will allow us to find mutually acceptable solution and avoid impasse which is in neither US or EC interest.

5. Mission may assure Soames that we will do our utmost keep issue out of the public domain. We are, however, given time pressures also raising this issue in EC capitals with the expectation that this will support efforts on his part. We would be prepared to try to resolve structural issue in a way which prejudices neither EC or US positions on final outcome of negotiations.

6. Other action addressees should approach appropriate high level host government officials drawing on points in sub-paragraphs A through E above, noting time pressures. You should not mention points covered in sub-paragraph F or paragraph five. Your approach should be tailored to known views of host government. For instance Bonn and London could refer to German and British interest in improvement in EC agricultural policies which might possibly result from MTN negotiations and the concern that any separate agricultural group risks being dominated by LDC interests. Dublin may wish note that current Irish chairmanship of EC Council provides them opportunity to use their influence in seeking satisfactory resolution this problem. Paris may wish note US-French agreement at Martinique[7] to seek resolve issues between ourselves and France in spirit of cooperation and consultation. Request you report host government views as soon as possible.

Kissinger

[7] See Document 80.

225. Memorandum From the Assistant Secretary of the Treasury for Trade, Energy, and Financial Resources Policy Coordination (Parsky) to Secretary of the Treasury Simon[1]

Washington, February 3, 1975.

SUBJECT

Treatment of Agriculture in the Multilateral Trade Negotiations

Issue: The U.S. and the European Community are heading toward a confrontation on the treatment of agriculture in the MTN which could stalemate the negotiations. We need a policy level decision on the degree of flexibility which should be allowed our negotiators. Bill Eberle is sending the problem to the Economic Policy Board for consideration next week.

Recommendation: When the matter is brought up in the EPB, I recommend that you seek agreement on the flexible approach outlined in Option 4 of the attached paper (Tab 1).[2]

Background: The European Community, supported by Japan and others, believe the trade issues associated with agriculture are sufficiently distinct to require separate attention in the upcoming Multilateral Trade Negotiations (MTN). The U.S., with varying degrees of support from Australia, New Zealand, Canada, and Argentina has taken the position that many of the questions encountered in agriculture are no different from those in the industrial sector and should therefore be treated together on a functional basis in the MTN. A solution to this issue must be found before the February 11, 1975, Trade Negotiations Committee meeting (TNC) if we are to avoid a deadlock on further discussions which could risk the success of the Negotiations.

The U.S. position has been based to a large extent on USDA's strong opposition to separate industrial and agricultural negotiations. It is USDA's belief that little if any progress was made on agriculture in the "Kennedy Round" because these items were treated separately. They feel that by not treating industrial and agricultural questions together in the upcoming MTN, U.S. bargaining leverage to obtain agricultural

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[1] Source: Ford Library, L. William Seidman Papers, Box 77, Economic Policy Board Subject File, Multinational Trade Negotiations (1). No classification marking. Drafted by Treasury staff member E.A. Greene on January 31; reviewed by Treasury staff member J.E. Ray on January 31. Simon wrote at the top of the memorandum: "To Bill Seidman—this should be discussed @ EPB early next week. Agree? Bill."

[2] Tab 1 is printed as Tab A of Document 226.

trade liberalization will be diminished—resulting again in little if any progress on agricultural matters.

We do not share USDA's assessment of the situation. Events of the past year have clearly shown that there are certain unique agricultural issues which must be dealt with in an independent group. We could still reach our goal of assuring that

> "To the maximum extent feasible, the harmonization, reduction, or elimination of agricultural trade barriers and distortions shall be undertaken in conjunction with the harmonization, reduction, or elimination of industrial trade barriers and distortions"

if agricultural and industrial issues were treated in separate but closely linked negotiations which would assure comparable progress in both areas. We believe therefore the U.S. should be prepared to support a flexible approach which would encourage the inclusion of both areas in the overall negotiations while recognizing the need in certain instances for separate, but coordinated treatment of unique agricultural questions.

I am attaching a copy of an Agricultural Negotiations Options Paper drafted by STR and USDA (Tab 1) along with a copy of a memorandum from Bill Eberle to the President dealing with this question (Tab 2).[3] Eberle's memorandum favors Option 4. Commerce and State also favor Option 4. I agree.

Eberle's staff has told us that he will forward his memorandum and the Options Paper to Bill Seidman today. The issue should then be discussed at the EPB early next week.

[3] Tab 2, attached but not printed, is the memorandum from Malmgren, as the Acting Special Representative for Trade Negotiations, to the Executive Committee of the Economic Policy Board, attached as Tab B to Document 226.

226. Memorandum From the Executive Director of the Economic Policy Board (Seidman) to the Executive Committee of the Economic Policy Board[1]

Washington, February 4, 1975.

SUBJECT

Negotiations on Agriculture in the Multilateral Trade Negotiations

Before the Multilateral Trade Negotiations can proceed, an issue that must be resolved is the format for conducting agricultural discussions. There is disagreement among U.S. agencies on the substantive importance of the procedural issue and over the degree of flexibility U.S. negotiators should have in resolving the issue with the European Community.

The position of the European Community has been to maintain an independent focus in agricultural policy negotiations, but they are prepared to meet before February 10 in an attempt to work out an acceptable compromise. Lack of flexibility in the U.S. position would threaten to deadlock negotiations.

From the U.S. point of view, avoidance of a sectoral emphasis in negotiations is important in view of the language of the Trade Bill, a possible adverse reaction by the American farm community, and the unfavorable negotiating position of the U.S. if agricultural issues are not considered together with industrial issues.

—An options paper on the issue is attached in Tab A.

—Discussion of the issue by STR and Agriculture and letters from the State, Agriculture, and Commerce Departments are attached in Tab B.[2]

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[1] Source: Ford Library, L. William Seidman Papers, Box 77, Economic Policy Board Subject File, Multinational Trade Negotiations (1). No classification marking.

[2] Tab B, attached but not printed, includes an undated memorandum from Malmgren to the EPB Executive Committee; a January 30 memorandum from Butz to Simon and Seidman enclosing an undated paper entitled "USDA Comments on the STR Options Paper on Negotiations on Agriculture in the MTN" and a revised options paper, January 30, entitled "Options Paper Favored by USDA"; an undated memorandum from Robinson to Seidman; and a January 31 letter from Dent to the President.

Recommendations

—STR and Commerce favor option 4.

—Agriculture favors option 3.

—The State Department favors seeking a compromise solution with either of the following acceptable:

(a) Agreement to accept whatever compromise is possible, or
(b) Reserve the right to judge the acceptability of the compromise achieved.

Tab A

Agricultural Negotiations Options Paper[3]

Option 1

We would insist that the negotiations be conducted on a functional basis, with agriculture and industry both included in overall tariff and overall nontariff barrier groups.

Pros

1. It would create the presumption at the outset that any negotiated liberalization should cover all trade, industrial and agricultural.

2. It would assure the domestic agricultural sector that the totality of U.S. bargaining leverage would be brought to bear for agricultural trade liberalization.

3. This would be the most practical way to conduct the negotiations on many issues such as subsidies and countervailing duties, where the Trade Act and other domestic law do not make any distinction between agriculture and industry.

Cons

1. It would delay substantive negotiations for which the U.S. would have much of the blame, and should the EC become more flexible, we would get all the blame if we remained inflexible.

2. If the EC is totally uncompromising, it could lead to a possibly acrimonious and costly confrontation.

Option 2

Continue to work on the basis of the organizational compromise which was in effect during the prenegotiation phase, in which agriculture was largely treated separately. Under this option, all negotiations on agriculture would take place in a separate committee.

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[3] According to Document 225, this paper was prepared in the Office of the Special Representative for Trade Negotiations and the Department of Agriculture.

Pros

1. Would enable substantive negotiations to begin February 11.

2. While the organizational structure will influence the outcome of the negotiations, the ultimate settlement will depend on political realities.

3. Continuation of the previous organizational structure may be flexible enough in any case to permit a coordinated discussion of agricultural and industrial trade issues on a selective basis.

Cons

1. We would not have the same iron-clad assurance of equal progress as we would if we were successful under Option 1.

2. We would be more likely to get into a situation where industrial negotiations were moving along faster than agricultural negotiations, and agriculture would come unhooked from industry as happened in the Kennedy Round.

3. The Administration could be accused by the farm community of a sell-out.

Option 3

Be prepared to agree to a compromise which while providing for inclusion of agriculture and industry together in overall tariff and overall nontariff groups, would also provide for the formation of special review groups to look at certain products—industrial as well as agricultural. The purpose of such groups would be to isolate and examine the special characteristics of such products, if any, and to determine whether any special treatment within the overall negotiating framework is required.

Pros

1. Would permit selective commodity discussions which certain negotiating partners and certain of our own domestic interests will undoubtedly insist upon.

2. Would permit discussion of potentially troublesome product issues to proceed, while enabling the overall negotiations also to proceed.

3. Such a compromise would probably be acceptable to the farm community and also to important segments of the industrial community.

Cons

1. Countries who do not want to see rapid progress in the negotiations may find that even this option is not acceptable.

2. Could result in certain product areas not sharing fully in the benefits of these negotiations.

Option 4

Seek a compromise along the lines of Option 3, but be willing to settle for other compromises in order to avoid a stalemate and a breakdown of the negotiations. Such other compromises should assure as provided in Section 103 of the Trade Act that "to the maximum extent feasible [that] the harmonization, reduction, or elimination of agricultural trade barriers and distortions [is] undertaken in conjunction with the harmonization, reduction, or elimination of industrial trade barriers and distortions."[4]

Pros

1. Would give U.S. negotiators more flexibility than Option 3 to find a formulation acceptable to the EC and thus to avoid a confrontation.

Cons

1. Would give us an organizational arrangement that could be viewed by the farm community, as less favorable than Option 3.[5]

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[4] Brackets are in the original.

[5] On February 6, the EPB Executive Committee discussed this options paper and decided "that a confrontation with the Europeans should be avoided and that Ambassador Malmgren should seek a compromise with the Europeans as close as possible to option 3. Whatever compromise is reached must be cleared with the EPB." (Minutes of the Economic Policy Board Executive Committee Meeting, February 6; Ford Library, U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 57, Economic Policy Board Meetings, EPB—Feb 1975 (1))

227. Telegram From the Mission in Geneva to the Department of State[1]

Geneva, February 12, 1975, 1223Z.

902. Subject: Grain Reserves Negotiations and Structure of TNC. Ref: (A) State 31753;[2] (B) London 2147.[3] For Seidman, White House from Malmgren.

1. Hijzen, chief EC negotiator, explained to Malmgren late last night that on basis Malmgren–Soames discussion in Brussels Sunday,[4] EC Council had dropped concept that all of agriculture had to be dealt with exclusively in one agricultural body in the Trade Negotiations Committee (TNC). It was consequently made possible to allow USG and other nations to discuss whole of tariff schedule, including agricultural chapters, in a tariff group, and general trade questions, including agriculture, in NTB groups. However, under this compromise proposal the EC had to have the right to ask for special consideration of the agricultural issues from time to time in an agricultural context. This would ensure for the USG the right to discuss the whole range of trade issues in each body, but also ensure the right of the EC to look at agricultural elements of each issue from the point of view of special aspects of agriculture.

2. Malmgren and Hijzen then, ad referendum and on personal basis only, agreed on creation of tariff working party, standards working party, subsidies working party, and other substantive issues working parties, to be determined by summary of TNC Chairman Long. In addition, at Hijzen's request, it would be noted that discussion was needed of certain agricultural product areas, such as grains, meat, and dairy, and for this special groups would be needed. (*Comment:* This, of course, was consistent with standing Washington position allowing establishment cereals and meat groups, and also of compromise propos-

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[1] Source: National Archives, RG 59, Central Foreign Policy Files. Confidential; Flash. Repeated Priority to London and USEC Brussels.

[2] In telegram 31753 to the Mission in Geneva, February 13, the Department agreed to the desirability of maintaining the separation of the London grain reserves talks from the Geneva multilateral trade negotiations for the present, "with eventual link between the two to be established at a later time." The Department also instructed: "Should EC or others raise subject of a separate grains group in MTN, U.S. Del to TNC should reserve its position, pending further consideration of this issue by Washington agencies." (Ibid.)

[3] In telegram 2147 from London, February 11, the Embassy reported on a February 10 grain reserves meeting and discussed the relationship between the London grain reserves meetings and the Geneva trade negotiations. (Ibid.)

[4] February 9.

als of USDA. *End comment*) Hijzen said he had to have commodity groups for purpose of compromise. To allow special agricultural reviews to take place from time to time, there would be, in parallel with all other working parties, working party on agricultural problems, primarily but not solely concerned with sub-group activities on grains, meat, dairy, etc.

3. This compromise met U.S. instructions by ensuring non-exclusive, parallel treatment of agriculture. It ensured that agriculture would be dealt with in conjunction with industry, as provided in Section 103 of the Trade Act.

4. New instructions from Washington (reftel A) explained by phone during night. Malmgren met with Hijzen at 7:30 GVA[5] time to persuade Hijzen to give up requirement of grain group. Hijzen conceded he could give up, for the moment, establishment of cereals group if no other sub-groups in agriculture established at that time. Instead, he could keep to compromise formula above if agricultural working party established, without saying now much about its future work. He suggested, in this case, to ease objections of French, that we set up one NTB working party, to meet on series of NTB's (perhaps in sub-groups) as decided by Director General Long. Nonetheless, tariff and NTB working parties would be allowed to go into agricultural aspects, and U.S. would retain its basic position.

5. We strongly recommend approval this procedure. It meets all of U.S. objectives, including desire in most recent instruction to avoid establishment of grains group. Malmgren believes no other possible arrangement is any longer negotiable, and further believes confrontation would be undesirable since all U.S. objectives are met.

6. Require guidance or approval by no later than 0900 Washington time, or 1500 Geneva time today, Wednesday, February 12.

Dale

[5] Geneva.

228. Telegram From the Department of State to the Mission in Geneva[1]

Washington, February 12, 1975, 1940Z.

32200. Subject: Structure of TNC. References: (A) State 31753; (B) London 2147; (C) Geneva 902.[2]

1. Procedural suggestions approved subject to following conditions:

(A) Discussions on agricultural tariff and nontariff barriers will go forward in tariff group and NTB group.

(B) Agricultural group would not have veto over work of tariff or NTB group on agricultural matters. It is further expected that agricultural issues will be negotiated primarily, if not entirely, in the tariff and NTB groups. In case of conflict between tariff or nontariff barrier group and agricultural group, matter will be resolved by TNC.

(C) It is understood that agricultural group(s) established for "special consideration" reasons outlined in reftel could be either for discussion or negotiation purposes subject to mutual agreement.

(D) Options re-establishment of a grains or other subgroups under agricultural group should be left open pending further consideration.

Ingersoll

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[1] Source: National Archives, RG 59, Central Foreign Policy Files. Confidential; Immediate. Drafted by Yeutter and Guenther; cleared by Chief of the Trade Agreements Division William Barraclough, CIEP staff member Wayne Sharp, and Worthington; and approved by Guenther. Repeated Priority to London and USEC Brussels.

[2] See Document 227 and footnotes 2 and 3 thereto.

229. Telegram From the Mission in Geneva to the Department of State[1]

Geneva, February 13, 1975, 2015Z.

972. For Seidman, White House. Subject: TNC Conclusions on Agriculture. Ref: State 032200.[2]

1. *Summary.* U.S. succeeded in TNC in obtaining its major objectives:

A) Launching of barganing stage of MTN so that negotiations on concrete issues can begin;

B) Avoiding conclusion in TNC that requires "exclusive" negotiations of agricultural issues in an agricultural group;

C) Options concerning establishment of grains or other subgroups under agricultural group left open.

2. Final compromise procedure outlined Geneva 902[3] adopted. U.S. preserved position on breadth of coverage of tariff and non tariff groups. We assume that EC will continue to seek to move agricultural issues of importance to EC to agricultural groups. Further discussion of the jurisdictional issue will probably occur in context of working parties which begin to meet in March, but deadlock in TNC limelight was avoided.

3. In keeping with reftel, U.S. preserved its position and retained ability to resist EC should organizational issue be raised again. Final statements of Mexicans, Indians and other delegations suggest we will not be alone on this issue in future. *End summary.*

4. Malmgren agreed midafternoon Wednesday with EC on agricultural paragraph in TNC Chairman Long's summary on basis telcon with Washington prior receipt reftel, and in furtherance of U.S. position underlying reftel.

5. After receipt reftel (8:00 a.m. Thursday, February 13) U.S. (Wolff, Glitman, Goodman, Konig, Kelly) met with EC (Hijzen, Abbott, Pizzuti) prior to final TNC session to reiterate our understanding of compromise reached with EC Wednesday, February 12. Hijzen stated EC member states could not subscribe to all our points, particularly in the matter [*manner*?] in which they were stated in reftel. However Hijzen

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[1] Source: National Archives, RG 59, Central Foreign Policy Files. Confidential. Repeated to Bern, Bonn, Brasilia, Brussels, Buenos Aires, Canberra, Copenhagen, Dublin, The Hague, London, Luxembourg, Mexico City, New Delhi, Ottawa, Paris, Rome, Stockholm, Tokyo, Wellington, USEC Brussels, and USOECD Paris.

[2] Document 228.

[3] Document 227.

acknowledged U.S. right to its interpretation on basis of anticipated summation by TNC Chairman. Hijzen said that if U.S. were to make statement at TNC with specificity contained reftel, EC would be compelled to make sharp counter statement that would create public confrontation and possible breakdown of MTN before it really began.

6. On the other hand, Hijzen did not challenge right of U.S. and others to negotiate on agricultural tariffs and NTBs in tariffs and NTB groups. He further acknowledged that in cases where agricultural group might concern itself with agricultural issues being considered in tariff and nontariff groups, it could act in a consultative role and need not be a negotiating forum. He also did not exclude the possibility of joint tariff or NTB and agriculture working parties.

7. Hijzen was in sum (a) prepared to acknowledge above to us personally, (b) prepared in a nonconfrontational way to agree to disagree publicly where ambiguities existed, and (c) prepared to accept fact that both parties could interpret Chairman's summation in a manner not prejudicing each party's own position. Upshot was that U.S. and EC agreed to make concluding statements contained septel[4] in effect preserving position in areas of ambiguity which might arise while agreeing to let negotiations begin without provoking major confrontation at outset.

8. Next series of group meetings will begin to set precedents which will determine actual functioning of MTN structure. In the meetings, EC will very likely try to strengthen their own bargaining position via procedural maneuvers. Order in which groups are scheduled to meet (done at U.S. request) should help us in this regard.

Dale

[4] Telegram 1016 from the Mission in Geneva, February 14. (National Archives, RG 59, Central Foreign Policy Files)

230. Memorandum From the Special Representative for Trade Negotiations (Dent) to the Executive Committee of the Economic Policy Board[1]

Washington, undated.

SUBJECT

Agricultural Stalemate in the MTN

Over seventy countries met during the last week in March to organize the work of the MTN Agriculture Group. The U.S. and the EC reached a deadlock on how to proceed, and the meeting was recessed until April 15. In itself, the recess is not damaging, but reconvening in the absence of reaching a compromise would prevent work from taking place in the MTN on agriculture, would continue the deadlock on the wheat reserve talks in London, and may cause the EC to delay other work moving forward in the MTN.

New EPB guidance is needed to enable a practical solution to be worked out with the EC.

Attached are an options paper on the issues raised as well as background materials.[2]

I would hope that these questions can be resolved on Monday, April 7, so that there is enough time to work with the EC on these questions before the April 15 Agriculture Group meeting.

Attachment

CURING THE MTN IMPASSE ON AGRICULTURE

Problem

The United States and the European Communities (EC) have come to a procedural impasse on how agriculture should be dealt with in

[1] Source: Ford Library, L. William Seidman Papers, Box 38, Economic Policy Board Subject File, Agriculture—Multinational Trade Negotiations. No classification marking. Sent through Seidman. Neither Dent nor Seidman signed the memorandum.

[2] The background materials, which are attached but not printed, consist of the following: telegram 2082 from USDel MTN Geneva, March 25; telegram 2167 from USDel MTN Geneva, March 27; telegram 902 from the Mission in Geneva, February 12; telegram 32200 to the Mission in Geneva, February 12; telegram 43473 from London, March 20; telegram 2409 from USEC Brussels, March 19; telegram 1862 from USEC Brussels, March 4; the September 14, 1973, GATT Ministerial Tokyo Declaration; telegram 972 from the Mission in Geneva, February 13; and the February 14 proposals by the Chairman of the GATT Trade Negotiating Committee. Telegram 902 is Document 227; telegram 32200 is Document 228; telegram 972 is Document 229; for the Tokyo Declaration, see footnote 8, Document 185.

the Multilateral Trade Negotiations (MTN). This stalemate, if allowed to continue when the Agriculture Group meets in Geneva on April 15, poses a significant risk to the successful negotiation of agriculture issues in the MTN and may endanger overall progress in the MTN. Either of these results would have significant political and economic costs, both at home and abroad.

Issues

I. *MTN Structure for Dealing with Agricultural Issues.*[3]

The United States has taken the position that there should be no difference between the treatment of barriers affecting agricultural trade and the treatment of barriers affecting industrial trade. The United States therefore wishes negotiations to take place first on general rules in the Tariff and Nontariff Measures (NTM) Groups that would not differentiate between industrial and agricultural products.

The EC has argued that the agricultural sector has special characteristics which makes it necessary to negotiate agricultural trade barriers separately. It therefore insists that agricultural issues be dealt with almost exclusively by the Agriculture Group. The bureaucratic division within the EC Commission and the tenor of negotiating mandate approved by the member states makes likely continued EC insistence on a separation of agricultural issues.

The first issue is, therefore, *what the relationship should be between the functional (Tariff and NTM) groups and the Agriculture Group.*

II. *Organization of the Grains Negotiations.*

The U.S. position has been that the highest priority ought to be assigned to the establishment of better world food security, as agreed at the World Food Conference,[4] and that ongoing negotiations on a new International Wheat Agreement under the auspices of the International Wheat Council (IWC) provides the most convenient institutional context for achieving this objective. It has also been the U.S. position, decided previously by the EPB, that any discussion in the MTN of commercial provisions affecting grains should be delayed until progress has been made on the negotiation of a food reserve agreement in London.

The EC position has been that negotiation of an international agreement on grain reserves cannot be separated from the negotiation of agreements covering commercial or concessional trade in grains.

[3] A background paper is attached which explores in greater detail the substantive interests which underlie these procedural issues. [Footnote is in the original. The "Background Paper on the Current Impasse on Agricultural Questions in the MTN" is attached but not printed.]

[4] The World Food Conference convened in Rome November 5–16, 1974.

Moreover, the EC points out that it has a current mandate from the member states to negotiate agreements in the context of the multilateral trade negotiations, but that it does not currently have a mandate for the negotiation of a new international wheat agreement. The EC has withheld active participation in London and insisted that the negotiations take place solely in the MTN.

The issue posed is *what the relationship should be of negotiations affecting grains in the MTN and the negotiation on grain reserves.*

Options

Issue I. *MTN Structure for Dealing with Agricultural Issues.*

Option A. Accept the EC position that agricultural negotiations should be primarily, if not entirely, within the jurisdiction of the Agriculture Group.

Pro

1. The procedural impasse would be broken and work could proceed on all aspects of the negotiations as this option would be accepted by most countries in order to get work underway.

2. The battle lines could be drawn on specific substantive issues with positions being taken by the U.S. which would find greater support among other countries.

Con

1. Agriculture would be treated as an exception from general trade liberalization rules from the outset, leading to isolation of agricultural questions from general rules directed at trade liberalization, thus making it more difficult to achieve U.S. objectives in agriculture.

2. Could lead to separate, independent negotiations on industrial and agricultural issues (thus, having two, parallel MTN's).

Option B. Maintain U.S. position unchanged that all negotiations (including those on agricultural issues) take place primarily, if not entirely in the functional groups (the Tariff and Nontariff Measures Groups).

Pro

1. This option promises the greatest tie to the work of the Tariff and Nontariff Measures Groups and therefore can best lead to the applicability to Agriculture of general rules directed at the reduction of trade barriers.

2. Other agricultural exporting countries have expressed some sympathy with this approach (if it were generally acceptable).

3. This option best fosters trade-offs between industry and agriculture, necessary to obtain U.S. agricultural goals, because industry and agriculture would be treated in the same forums.

Con

1. Neither the EC nor Japan will accept this limitation on the competence of the method of operation of the Agriculture Group. Would likely result in a continuation of the impasse at the resumption of the meeting on April 15.

2. Other delegations have clearly stated that they will not support the U.S. organizational approach if it cannot be adopted by consensus, even though there is some sympathy for the logic of the U.S. position.

Option C. Seek compromise formula which allows complementary work to go forward both in the Tariff and Nontariff Groups and in the Agriculture Group. Such a formula might include the concept that the Agriculture Group would facilitate and complement the work in the functional groups by making timely inputs into their work, and by working in conjunction with these groups. The overall Trade Negotiations Committee (TNC) could coordinate these work programs.[5]

Pros

1. This is the most likely way to resolve the procedural issue so that work can proceed. It would allow U.S. and EC to continue to interpret respective positions in a non-prejudicial manner.

2. Would receive support from our trading partners (including Japan which has supported the EC regarding the competence of the Agriculture Group).

3. Would be consistent with our policy objective of treating agricultural issues in conjunction with other issues, and would make it easier to achieve our objective of liberalization for agriculture as well as industry.

Cons

1. We may not succeed in persuading EC to avoid duplicating the Tariff and NTM work in the Agriculture Group.

2. Even if they accept a compromise, EC nevertheless may try to block or delay progress in the Tariff and NTM Groups by resorting to delaying tactics in these groups in efforts to shift agricultural aspects to the agriculture subgroup.

Issue II. *Organization of the Grains Negotiations.*

Option A. Accept the EC position that while some technical discussions might take place in London, negotiations on all grains questions must take place solely in the MTN in Geneva.

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[5] If this were acceptable, we could push further to develop an explicit understanding that from time to time the Agriculture Group might meet with the Nontariff Measures Groups to review work progress and provide amplification of those characteristics and problems peculiar to aspects of agriculture. [Footnote is in the original.]

Pros

1. This would allow MTN work to proceed on all agricultural issues as well as on grains, including reserves.

2. This would give assurance that commercial grain issues would be given early attention in the MTN.

Cons

1. The U.S. has been more interested than the EC in obtaining an early agreement on food reserves, and therefore has resisted a tie between the negotiation of a stockpiling agreement and the MTN negotiations which could last several years.

2. The U.S. wants to minimize the extent to which the negotiation of a reserve agreement gets tied into the conflict between the EC view of organizing world trade in grains on the basis of government agreements and the U.S. view of reduced government intervention in world grain trade. Tying these issues together can complicate and delay negotiation of an agreement on reserves.

Option B. Maintain without change the U.S. position that work on grains in Geneva cannot begin until there is progress in London.

Pro

1. This will keep the pressure on the EC to participate actively in the negotiation on reserves.

Con

1. There is no indication that the current impasse will be broken if the U.S. maintains its position unchanged on this procedural question.

2. Ultimately the U.S. has no support for this position. Canada, Australia and New Zealand—those closest to us—do not see grains work in Geneva as inhibiting reserves negotiations in London.

Option C. A pragmatic compromise should be worked out allowing the MTN agriculture work to move forward without prejudice to, and if possible fostering, early work on reserves, and taking advantage of the work which has been done by the International Wheat Council.[6]

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[6] This could involve (1) an interim agreement involving reserves at an early stage in the negotiations, prior to final negotiation of all issues involving grains; (2) continued IWC involvement in London and/or Geneva; and (3) formation of an MTN grains group now, with an understanding that this would not prejudice reaching an early agreement involving reserves. [Footnote is in the original.]

Pros

1. This will allow the negotiations on agriculture to proceed, and presents the best chance for obtaining early results on reserves.

2. This option gives the EC the optics of having a grains subgroup, as well as removing their concern that they will be asked to negotiate twice on grains, and thus it provides the basis for a compromise.

3. There is wide support for this position among third countries, and the EC and Japan have given preliminary indications that they can accept it.

Cons

1. The EC may be unwilling and/or unable to agree at this time to reaching an early agreement involving reserves.

2. The EC may insist that any early agreement on reserves include elements of specific interest to them, such as market stability or supply access.

231. Editorial Note

The options paper on the role of agriculture in the Geneva trade negotiations circulated by Special Representative for Trade Negotiations Frederick Dent (Document 230) was reviewed by other U.S. Government agencies. On April 5, 1975, the Office of Management and Budget sent a memorandum to President's Assistant for Economic Affairs L. William Seidman which criticized the paper for advocating options that were "so broadly defined as to provide little real guidance to the negotiators." The problem was, according to the OMB, that U.S. positions had yet to be firmly established on either "the relative priorities among trade concessions in the agriculture and non-agricultural area and the probable trade-offs between these objectives" (Seidman highlighted this paragraph and instructed Economic Policy Board Executive Secretary Roger Porter to follow up on this point) or on "a clear objective in the grain reserves area or any interagency agreement on the details of a reserves scheme." OMB asserted: "Until there is a clearer idea of US objectives, priorities, and trade-offs, it is very difficult to make intelligent decisions on the essentially procedural options presented in the papers." The memorandum recommended that Seidman "suggest that STR prepare a basic options paper for the President on negotiating priorities, recognizing that this may not be possible by April 15th when the US meets with the EC and other countries in

Geneva to discuss these issues." (Ford Library, L. William Seidman Papers, Box 38, Economic Policy Board Subject File, Agriculture—Multinational Trade Negotiations) Gary Seevers, on behalf of the Council of Economic Advisers, called the compromises presented in the options paper "largely window dressing," and suggested "*that the United States offer to shift the discussion of the grain reserves into the MTN in exchange for a concession that all negotiations take place primarily, if not entirely, in the functional groups.*" (Memorandum from Seevers to Seidman, April 8; ibid.)

On April 7, the options paper was considered by the Economic Policy Board Executive Committee, which "agreed that it was necessary to determine our substantive priorities with respect to U.S. interests and goals in both the MTN and the grain reserves discussions." As a result, Dent would "call a meeting this week to consider: (1) the procedural issues involved in the MTN and agriculture; (2) the coordination of our position in the MTN with our position in the grain reserve discussions in London; and (3) undertaking a preliminary review of our substantive priorities with respect to U.S. interests and goals in the MTN." (Ford Library, U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 58, Economic Policy Board Meetings, EPB—April 1975 (1))

On April 11, Dent convened a meeting of the Cabinet-level Trade Policy Committee to consider a draft of the memorandum he had been instructed to prepare at the April 7 EPB Executive Committee meeting. He also submitted for consideration memoranda on "Background for Presidential MTN Objectives Paper" and "Grains and the MTN." (Ibid., L. William Seidman Papers, Box 38, Economic Policy Board Subject File, Agriculture—Multinational Trade Negotiations) The draft memorandum to the President is a longer version of the one that was eventually sent to President Gerald Ford (Document 232). In the sections on "Tariff Barrier Objections," "Nontariff Barriers," "Negotiating Objectives as Regards Commodities in Short Supply," and "Safeguards," the final memorandum contains only the first paragraph of each of these sections in the draft. The section on "Implications for U.S. Foreign Economic Relations" was revised somewhat for the final version of the memorandum, while the section on "Agriculture" was substantially redrafted.

232. Memorandum From the Special Representative for Trade Negotiations (Dent) to President Ford[1]

Washington, April 11, 1975.

SUBJECT

U.S. Objectives in the Multilateral Trade Negotiations

We are presenting herewith for your approval a broad statement of our objectives in the MTN. More definitive objectives must await the advice to be given you after public hearings by the International Trade Commission and other advisory groups established pursuant to the Trade Reform Act. The advisory process will take until early fall.

Tariff Barrier Objectives:

In the tariff area a broad U.S. objective is to try for general agreement on a substantial reduction in trade barriers aimed particularly at the common external tariff of the European Economic Community (EC) and the disproportionately high duties of Canada and Japan.

Nontariff Barriers:

The primary NTB objective should be to create freer and fairer trading conditions through the negotiation of new or revised rules that would apply to various nontariff measures. Such rules, or codes of conduct, would apply to both industrial and agricultural products.

Agriculture:

The objectives we are pursuing in the negotiations for agriculture are:

• to improve the competitive climate in world markets where buying and selling are based on productivity, efficiency and consumer choice which will lead to a more rational use of the world's agricultural resources.

• to achieve substantial expansion of trade in all agricultural products through negotiations to reduce measures which restrict and distort trade. For grains our first priorities will be to reduce subsidized competition in third country markets. The longer term objective is to improve market access for grains as well as all other U.S. farm products.

[1] Source: Ford Library, President's Handwriting File, Subject File, Box 45, Trade. No classification marking. A notation on the memorandum indicates Ford saw it. Sent under cover of an April 21 note from Rumsfeld to Ford that reads: "Although the first sentence of the attached memorandum mentions that it is for your approval, it is an information memo only." Ford initialed Rumsfeld's note.

Negotiating Objectives as Regards Commodities in Short Supply:

The United States will approach these negotiations as an "honest broker," with balanced interests as both a major exporter and a major importer of primary products.

Safeguards:

An essential element of the negotiations is the development of an effective multilateral safeguard system to ease the impact of adjustment to import competition. The provisions and procedures of GATT Article XIX, which were intended to serve that purpose, have not proven satisfactory.

Institutional Reform:

The General Agreement on Tariffs and Trade (the "GATT"), which sets forth the ground rules for the conduct of international trade, has served the international trading community well for over 25 years. In certain respects, however, the GATT has become outdated. Efforts should therefore be made in the MTN to revise the GATT, either directly or indirectly, to better meet present conditions of world trade. Section 121 of the Trade Act identifies 12 specific areas in which the Congress believes the GATT should be improved.

Implications for U.S. Foreign Economic Relations:

Europe continues to go through the agonizing process of economic and political unification and this creates a conflict between the needs of internal adjustment to new common policies and continuing external adjustment to the rest of the world. The multilateral trade negotiations can provide an important counterbalance to the temptation to focus primarily on internal problems to the detriment of Europe's international responsibilities as a major economic entity.

The other major industrial countries—Australia, Canada and Japan—have traditionally insulated their economies to varying degrees from external competition. These negotiations provide a unique opportunity for encouraging them to evaluate these policies during this time of severe economic difficulty.

The U.S. can seek to facilitate a wider participation by the developing world (LDCs) in the world trading system through this round of negotiations. LDC participation is important to the success of the negotiations. The implementation of our generalized preferences scheme will provide another means for increasing such LDC participation.

The era of détente has raised the possibility of closer economic links between the Communist countries and the rest of the world. The multilateral trade negotiations have an important role to play in assuring that the expansion of such trade takes place smoothly, on the basis of mutually acceptable rules and concessions. The rules of the game for trade between Communist countries and market economies is still at a very rudimentary stage, and therefore the further development of these rules is important for the United States.

Fred Dent

233. Memorandum From the Chairman of the Trade Policy Committee (Dent) to the Trade Policy Committee[1]

Washington, May 12, 1975.

SUBJECT

Agricultural Organization in the MTN

The Trade Policy Committee met on April 11, 1975 to discuss two difficult problems that had been preventing progress on agricultural issues in Geneva and had prevented work on grains from going forward in London.[2] I am pleased to report to you that on May 8, the MTN Agriculture Group adopted a decision in this area, that allows these negotiations to move forward, consistent with our objectives.[3]

The text was worked out through weeks of effort by Secretary Butz and myself, and members of our staffs, and representatives of other countries and the European Economic Community. It is a compromise that depends on further goodwill for its implementation. Its significance is that it does recognize that the Tariff and Non-Tariff Measures Groups have the competence to evolve general rules which can govern industrial and agricultural products alike. This will strengthen our hand in keeping agriculture from being isolated.

Furthermore, the text recognizes that the agricultural aspects of general rules, when they are dealt with by the Agriculture Group will be undertaken in conjunction with the work of Tariffs and Non-Tariffs Measures Groups. This folding back in of the work on the agriculture side is in direct furtherance of the negotiating objectives contained in Section 103 of the Trade Act.

A copy of the text is attached.

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[1] Source: Ford Library, L. William Seidman Papers, Box 38, Economic Policy Board Subject File, Agriculture—Multinational Trade Negotiations. No classification marking.

[2] See Document 231.

[3] Telegram 3369 from USDel MTN Geneva, May 9, reported on the meeting. (National Archives, RG 59, Central Foreign Policy Files)

Attachment

May 8, 1975 Text of Summing-Up by the Chairman of the Agriculture Group

1. The Group met from 24 to 27 March, from 15 to 17 April and 8 May 1975 and took the following decisions. The Group agreed that the Group should be chaired by the Secretariat. It invited the Secretary General of UNCTAD or his representative to attend this session of the Group as an observer.

2. The Group agreed that it would treat Tariff and Non-Tariff Measures relating to agricultural products. It was noted that matters of a global nature including Tariff and Non-Tariff Measures affecting agriculture would be taken up in a number of contexts within the overall framework of these negotiations. In such cases, the Group and its Sub-groups will concern themselves with the agricultural aspects of these matters and will treat them in conjunction with the work of the Tariffs and Non-Tariffs Measures Groups and the results of this work will be communicated to other Groups concerned with a view to arriving at the harmonious and balanced development of all the elements subject to negotiation in furtherance of Paragraph Number 8 of the Tokyo Declaration.

3. There have been discussions of whether it was necessary to create Sub-groups on some tariffs or non-tariff measures and the Group has agreed to come back later to this question.

4. The Group agreed that some agricultural products which represented a large share in world trade and were widely traded might lend themselves to multilateral solutions. With this in view it agreed to address itself initially to grains, dairy products and meat. It was understood that other products might be added at a later stage.

5. The Group agreed to establish negotiating Sub-groups, dealing with all the elements relevant to trade in these products, for the following sectors:

(a) *Grains.* It was understood that governments participating in the Multilateral Trade Negotiations which were also participating in the work recently started in the framework of the International Wheat Council would continue actively to pursue that work also. At the appropriate time, the Sub-group shall consider how best to integrate into its work any results of the work at present going on in the International Wheat Council.
(b) *Dairy products.*
(c) *Meat (including live animals).*

6. The Group agreed the above Sub-groups would themselves organize their work.

7. The Group emphasized the importance of the application of differential measures to developing countries in ways which will provide special and more favorable treatment for them, especially in the agricultural negotiations, in accordance with the principles and objectives embodied in the Tokyo Declaration.

8. The Group agreed that the Sub-groups below should hold their first meeting on:

—Sub-group on grains	May 26
—Sub-group on meat	June 16
—Sub-group on dairy products	June 23

234. Memorandum From the Special Representative for Trade Negotiations (Dent) to the President's Assistant for Economic Affairs (Seidman)[1]

Washington, October 9, 1975.

A few days ago you raised the question whether the long-term contractual arrangements on grain sales to the Soviet Union and other countries might call for changes in our agricultural negotiating strategy. We have considered that possibility, and have concluded that the long-term arrangements will not have much effect on negotiations conducted elsewhere.

We now have a long range understanding with Japan, a good possibility for some kind of accord with the Soviet Union, reasonably well defined commitments from Romania and Poland, and private sector agreements of this type with Norway and Taiwan. Others may develop in the future. We certainly consider long range contracting to be a beneficial marketing mechanism from the standpoint of the U.S. Even though some of these commitments are relatively loose, they do provide a strong indication of anticipated future demand, and this helps to lengthen the planning horizon of U.S. farmers.

[1] Source: Ford Library, U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 59, Economic Policy Board Meetings, EPB—Oct 1975 (2). No classification marking. Seidman initialed the memorandum, indicating he saw it. Under cover of an October 13 memorandum to EBP Executive Committee members, Seidman forwarded Dent's memorandum for the members' information.

The one major customer, however, with which we do not yet have such an arrangement is the European Economic Community. Because of the characteristics of the EC's common agricultural policy, it is unlikely that we will be able to negotiate such an arrangement with them. They too have expanded their interest in long-term contracts, but only as a seller—not as a buyer. In addition, the common agricultural policy probably does more to destabilize world agricultural markets than any other man-made institution. The basic purpose of the CAP is to isolate the EC from supply and demand fluctuations; in other words, the burden of adjustment to such fluctuations falls entirely on the rest of the world, and particularly on us. For this reason, at least some adjustments in the border [*broader*?] effects of the CAP must remain as one of our high priority objectives in the MTN at Geneva. On the export side, we hope to curb the EC's subsidy practices by development of an international-subsidy countervailing duty code. On the import side, we hope to negotiate at least some curbs on the EC's variable levy system.

We also have some major negotiating objectives with Japan. Though the Japanese are excellent customers, particularly in grains and soybeans, they still have a list of about 22 trade barriers to other U.S. agricultural products. Japan uses a variety of quota and licensing systems to severely impede the importation of products such as beef, and many of the fruits and vegetables that offer export potential from our west coast. We have a long way to go in resolving some of these problems.

We likewise have some significant agricultural issues with Australia and Canada. Both countries often use export subsidies to compete with U.S. producers in a number of world agricultural markets. Here again, we hope to curb such practices through the development of an international code of conduct. Beyond that, the Canadians have a whole host of restrictive practices that impede U.S. imports. Over the past year or so, we have had a lengthy battle with them over restrictions against U.S. beef and live cattle imports. A few weeks ago they established additional restrictions against the imports of U.S. eggs; a proposed retaliatory action is now being processed by us under Section 301 of the Trade Act. They also have a number of restrictions against fruit and vegetable products.

Among the lesser developed nations, we have major disputes with both Mexico and Brazil. Both countries have customs and licensing procedures that make it very difficult for U.S. agricultural products to penetrate their markets. At the same time, both solicit duty-free treatment on their exports to the U.S. under our Generalized System of Preferences.

Finally, we would still like to negotiate an international agreement on food reserves that would transfer some of the burden of holding reserves from the U.S. to other nations of the world. Efforts in this regard are underway in the International Wheat Council in London, the one international forum in which the Soviets are participating. We hope that they will go beyond any long-term contractual arrangement that might be worked out with the U.S., by also joining in an international reserves program that would require them to meet certain storage commitments. We would like to get the EC and Japan, among other countries, also committed to holding reserves, though this may be even more difficult. The EC would much prefer to move the entire negotiation away from London to Geneva, where they would hope to entice us into an international commodity agreement on grains. Their hope is that in such an agreement the U.S. can be induced to compensate them for holding reserves. This will be a long and difficult negotiating battle.

There are a number of other agricultural negotiating issues not mentioned, but I thought you might appreciate the flavor of what is taking place at the moment. It is obvious that we still have a long way to go on a host of these issues, some of which must be dealt with bilaterally, and others in a multilateral context.

235. Memorandum of Conversation[1]

Washington, October 13, 1975, 11:45 a.m.

SUBJECT

U.S. Protectionism[2] and East-West Trade Legislation

PARTICIPANTS

The Secretary
Secretary Simon, Department of the Treasury
Helmut Sonnenfeldt, Counselor
Arthur A. Hartman, EUR
William Clark, Jr., EB, (notetaker)

The Secretary: There are two things I wish to discuss today. The organization for the Economic Summit must get underway.[3] We need some instrument to pull together the work being done. I think it would be useful to set up a small working group. In that connection, Simon and I might meet on the priority matters to be considered. When we don't have this type of planning we don't have good meetings.

Secretary Simon: I would suggest that we set up a group similar to the one we had at the time of the Energy Conference.[4] We could meet twice a week at 6:00 in the evening.

The Secretary: I don't want a series of bilateral arrangements. I think it is important that we get in early and assure that everyone is kept informed.

Sonnenfeldt: Seidman's operation is already beginning work on the papers that will be required. This should assure that we are fully included in the preparation.

The Secretary: I still believe we should set up a small group and I assume that Treasury feels that same way.

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[1] Source: National Archives, RG 59, Central Foreign Policy Files, P820123–2170. Confidential; Nodis. Drafted on October 14 by the Chief of the Special Trade Activities and Commercial Treaties Division, William Clark, Jr., and approved in S on October 16. The meeting took place in Kissinger's office.

[2] Hartman and Enders raised the issue of U.S. protectionism and the multilateral trade negotiations, with particular emphasis on Dent's role therein, with Kissinger at a September 11 Department of State staff meeting. Kissinger, opining that "Dent is not an unreasonable man," requested a paper on the issue as well as an interdepartmental meeting, suggesting that "we ought to try to get together with Simon and Butz and then see if we can't agree on a strategy that we can pursue." (Ibid., Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Entry 5177, Box 8, Secretary's Staff Meeting, September 11, 1975)

[3] The first international economic summit was held at Rambouillet, France, November 15–17; see Documents 122–125.

[4] The Washington Energy Conference took place February 11–13, 1974.

Secretary Simon: Yes. I believe that Yeo and Parsky would be sufficient for a group on our side.

The Secretary: We will probably need about three people from our shop—Sonnenfeldt, Hartman and Enders. However, I want meetings set up on a formal basis so that everyone knows the preparation and in particular so that I know what is being prepared. In this way, we can assure that things get done and get done well.

Secretary Simon: I would like to talk about protectionism. I have talked recently with the Germans—Apel and Poehl—and the automobile case is of primary concern to them at this time. Treasury must make a determination by February 6. We have to look back at the previous procedures in countervailing duties and anti-dumping to understand the attitudes in this case. Treasury had previously taken the position that if it held off on some cases, they would go away. The industry was aware of this and at times there were two or three secretaries under fire. The Congress put a stop to such activity in the Trade Act of 1974. It in effect told the Secretary what he could do and what he could not do, and exactly what criteria had to be met before countervailing duties could be waived. Treasury will bend over backwards not to make a finding that countervailing duties are assessable or that dumping exists if there is any legal loophole which it can grab hold of. There is currently a steel case involving countervailing duties on the EC rebate of value added taxes under a complaint filed by U.S. Steel. This case is complicated by two one hundred year old cases in which the Supreme Court said that favorable tax policies by governments for exporters would constitute a bounty or grant and could be countervailed. Treasury has disagreed with this position and, in fact, has gone in the face of it. Up to the present time the Treasury position has never been challenged and we have not been sued. I have told Assistant Secretary McDonald that in the current case on steel we will take the position that we disagree with the Supreme Court decision, although it will not be made that explicit, and that we will follow the 70 year old Treasury policy and not accept the petition that would hold that the value added tax is countervailable. In doing this we have to realize that we may be sued, but I believe it should help in our relations with our European allies.

The Secretary: I want to discuss some method by which we can avoid having to face these individual issues. It would be useful if we had a small group to determine an overall strategy in this area. I have been told that Ambassador Dent's Deputy has expressed the view that the more cases that we can pile up, the stronger it will make our negotiation position in Geneva.

Secretary Simon: I could argue the other side of that proposition. Nothing could be more disastrous in my view. If we find that automobiles are being dumped, it will blow the multilateral trade negotiations out of the water.

Sonnenfeldt: We would have Schmidt on the warpath at exactly the wrong time.

The Secretary: Let's take Brazil as an example. In 50 years Brazil should have achieved world power status and it is now a key country in Latin America. Yet every time I see the Brazilian Foreign Minister, there is another of these cases that I don't know about which is bothering him.

Secretary Simon: Everyone in Treasury knows of my very close relationship with Finance Minister Simonsen of Brazil.[5] We pick up the telephone all the time to discuss these cases and I believe he is fully satisfied with the way we have worked them out.

The Secretary: The Foreign Minister is not as satisfied. As you know, Brazil is eager to achieve a special status with the United States and we must do what we can to bring Silvera[6] along. If your contact is happy, then I would like to get in on these problems early so that I can bring my counterpart along as well. This is not in any way a complaint. I have had no complaints from our people. As you know we do not want any foreign policy problems. You, of course, have your own charter. What I want to do is have an early look at a strategy on protectionism. It is increasingly apparent that the Europeans and, to some degree, the Latin Americans are viewing the Trade Act as a protectionist act and not one being used for the liberal purposes for which we had intended it. We should have had Fred Dent here today, however, I understand he is not in town.

Hartman: If we could go back to the steel case for a moment, I wonder if there would be some value in talking to U.S. Steel about it. They have a great deal to lose if the world should adopt a protectionist bent as a result of actions we are taking.

Secretary Simon: That is settled. I have just told you that we will not accept the petition and will be prepared to have them (U.S. Steel) sue us if that is what they wish to do.

Hartman: There is a collateral problem as I understand it. If the finding in the lower court goes against Treasury, it would be necessary to withhold the assessment of duties on steel imports. This could have significant trade impact upon our suppliers.

Secretary Simon: No, I do not believe that is correct. I will have to talk to our lawyers about it. The case will undoubtedly take years to

[5] Mario Henrique Simonsen.

[6] Antonio Azeredo da Silveira was the Foreign Minister of Brazil.

settle and we cannot leave it in limbo for that time. The steel companies, of course, talked to Treasury prior to filing of this complaint and only filed it as a last resort.

The Secretary: Why did they take that action at this time?

Hartman: It is possible that they wish to have a voluntary restraint agreement on steel.

Secretary Simon: Sure, that may be what they are after. They may in fact want to go to court and it's possible they will go to court. We still can't keep the case in limbo and we can't assume that U.S. Steel will take the Treasury Department to court; this would be a very serious step on their part.

Hartman: There will be a lot of pressure in an election year. We also have, for example, the case on hams from the EC.

Secretary Simon: This is a damned important case. For example, Denmark is very closely involved.

The Secretary: I do not believe that we can expect the Europeans to go along with another cheese type confrontation[7] in this matter.

Secretary Simon: The solution will be similar to cheese. We will ask the Europeans to make a 20% reduction in their present subsidy payment and to agree that if the corn hog ratio slips we will have to review the question further and perhaps they will have to reduce or remove their remaining subsidies. I believe that the State Department has agreed with this position.

Hartman: This will be very difficult for the EC to do but I believe we have to make the offer. What we need are international rules covering this type of action.

Secretary Simon: We must avoid the problem of everyone harping on our being lenient in the past with our trading partners. This was what was behind the Congressional move to put our feet into the fire by limiting discretion on the part of the Secretary. In this regard, I think it is important that we move the MTN forward.

The Secretary: It is part of the same miasma that they have on many issues in Congress. They think everything is a unilateral favor which we grant to others. They do not realize that if we get a wave of retaliation started, the U.S. will have to pay a great deal as well as the others.

Sonnenfeldt: We have a meeting between Soames and Robinson next month and unless we have something positive to say which will

[7] In April 1975, a longstanding dispute over EEC subsidization of cheese exports to the United States was resolved when the EEC agreed to eliminate some of its subsidies while the United States agreed not to impose countervailing duties against those EEC cheese exports that continued to be subsidized.

smooth over the problems we now have with the European Community, those discussions could very well turn into a brawl.

The Secretary: That is why I think it would be useful if we had a meeting—Simon, Fred Dent and who else.

Hartman: Butz might have an input in some of the cases.

The Secretary: I don't think we necessarily need him at all times.

Hartman: No, but we might use him on the ham case. For example, hog prices are currently up and yet we are contemplating an action which can only raise the price of pork products to the consumer.

The Secretary: You, Fred Dent and I need to get together to develop a strategy on this matter. I don't want to run it from this building but I do believe we must be in agreement on what we are to do in this area. Only in this way will it be possible for me to avoid the Foreign Ministers beating up on me. I have to know what the other agencies are doing and why these things are being done.

Secretary Simon: I agree. Our problem is that years of inactivity have led Congress to do what it can to tie my hands on these matters.

Hartman: The Europeans see the major requirement as injury and we do not have an injury requirement; this needs to be changed.

The Secretary: Why did we not fight to get it changed?

Secretary Simon: We did fight to get what we could, in fact we had to make an agreement on dairy to get the waiver provisions that we have in the Trade Act at present. This agreement came back to haunt us during our confrontation on cheese with the EC when we had to go back to Mondale and Nelson[8] in order to exercise discretion.

Sonnenfeldt: STR is also apparently hogtied by the Senate Finance Committee. They cannot make a move without its approval.

The Secretary: I have a letter from Ambassador Ramsbotham.[9] Have these been circulated?

Sonnenfeldt: No, I sent the only copy directly to you.

The Secretary: Well have copies made and I want to give one to Hartman, Sonnenfeldt and one to you Bill. These are considered the top British concerns and they ask that they be raised with the President and with me. I asked that they be prepared in writing and this was done in the form of a letter to me from Ambassador Ramsbotham.

Secretary Simon: Will these be issues to be raised at the Summit?

The Secretary: They could be raised as issues in our foreign policy approach.

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[8] Senator Walter Mondale (D–Minnesota) and Senator Gaylord A. Nelson (D–Wisconsin).

[9] Not found.

Hartman: The Brits are under increasing pressure from the left to take their own protectionist actions.

Secretary Simon: In fact the pressure is so strong they may well have to do something in this area.

The Secretary: In the large part, this is probably due to Healey. Healey is a shit who can't be trusted.

Secretary Simon: Healey now has the Prime Minister glint in his eye.

Sonnenfeldt: Healey is not acceptable to the left anymore and is now officially off the national executive.

The Secretary: However, who else in that age group would compete with him; I don't see anyone.

Sonnenfeldt: Callaghan is a possibility. He might take over.

The Secretary: Callaghan is in his sixties and Wilson is younger than he is. It just can't happen for more than a year or so. What are your views on the Russian oil deal and the grain talks now that the matter has come out in the press?[10]

Secretary Simon: My views agree completely with yours. We should have stayed until we got agreements on both.

The Secretary: With the press leak that has occurred it now appears impossible.[11]

Secretary Simon: I still think we should stay until we come back with both agreements. The problem is that everyone here expects us to do that. If we come back with just a grains agreement there will be a number of people saying that it is another giveaway. However, I agree that as a result of the article, an agreement now appears to be a dead duck.

The Secretary: Who is the SOB that leaked the story to the press?

Sonnenfeldt: Looks like FEA since the article quotes from the telegrams.

The Secretary: Why did we send telegrams out? We are not a lending library.

Sonnenfeldt: Bell from FEA wrote the telegram[12] and the story either came out of the telegram or out of someone who was present at the talks.

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[10] In October 1975, U.S. negotiators were engaged in talks in Moscow concerning the conclusion of agreements for long-term grain sales to the Soviet Union and oil purchases from the Soviet Union.

[11] Apparently a reference to an October 12 *New York Times* article that reported that an oil deal with the Soviet Union had become less likely, given the Soviet rejection of an American proposal to purchase oil at a discounted price.

[12] Not further identified.

The Secretary: In either case that would be Bell.

Secretary Simon: Robinson should go back[13] and try to get something, if only an option to buy oil at some time in the near future.

The Secretary: That is my view as well.

Secretary Simon: No matter what we get it will make the farmers unhappy. They don't want any deal at all.

Sonnenfeldt: To them it will look again as if some extraneous concern is holding up a deal which they very much want.

The Secretary: The stupid bastards, what are they unhappy about; they have a corner on the market.

Secretary Simon: They don't want to be in the position of being residual suppliers again.

The Secretary: Why not, they're in a very strong position.

Secretary Simon: The problem with being a residual supplier in the present market is no problem at all. However, a residual supplier must also operate in a market that is going down as well as up.

The Secretary: I don't see what their problem is. The Soviets don't have any other place to get the grain.

Secretary Simon: The farmers are just a suspicious lot. They have been unhappy over past years and will continue to be unhappy with whatever we bring back.

The Secretary: Yes, that's true, but I still don't see a need for the unhappiness.

Hartman: They want to sell more.

The Secretary: They not only will be selling to the Russians but they also have the Japanese. Between the two they can sell as much as they want. How much does Japan buy currently?

Secretary Simon: I believe it's somewhere in the neighborhood of 10 to 12 million tons.

The Secretary: The Japanese can't get it anywhere else either. Thus, the farmers stand to sell somewhere in the neighborhood of 18 million tons.

Hartman: The Japanese buy soybeans as well. The farmers will also be in a good position if we get a grain reserves agreement.

The Secretary: I really do not concur over the advisability of having the Russians holding grain reserves. I disagree with Enders on this point. I think it is in our advantage for them not to have grain reserves.

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[13] On October 11, Robinson, the lead U.S. negotiator for both the grains and oil talks, left Moscow for Paris to attend a preparatory meeting for the December Conference on International Economic Cooperation. See Document 300.

Sonnenfeldt: It doesn't appear to be an issue at this point. Their reserves are so low that they will be merely replenishing them over the next two or three years.

The Secretary: On protectionism I want to have a meeting between Simon, Dent and myself when Dent gets back.

Secretary Simon: You can be assured on that topic when you talk with the Foreign Ministers that Treasury will bend over backwards to exercise whatever flexibility we have.

The Secretary: It would still be very helpful if we have a developed strategy on how to deal with these matters.

Secretary Simon: I agree, it would be useful not to treat them on a case-by-case basis.

The Secretary: Yes, that's the only way we can do it. I hear nothing about these cases and then Silvera is on the line complaining about something. We need a strategy for our overall approach.

Hartman: If we had a strategy on how to handle each case and what arrangements could be made we would be in a better position. I realize it won't be possible to get an international agreement in an election year, but we can talk about it.

Secretary Simon: That's what Ambassador Dent has been doing. We need to put this issue on the front burner. We have to tell industry that we are working for an interdependent, open world trading order, and that is part of our strategy to attain such open world trading order.

The Secretary: This in a world with 123 dictatorships.

Hartman: Still we need an overall strategy to deal with the matter.

The Secretary: We will also need to get started on what we want the content of the discussions to be at the Summit. Can we get a list of headings as to what might be considered? If it does not follow an agreed plan, the Summit may lead to less confidence rather than more. There is also the possibility that if it becomes too economic, we will not be able to pull our own weight.

Sonnenfeldt: I will send you a copy of the preparations already under way by Seidman and we will get the group together that you have already talked about.

The Secretary: That's right. We need a small coordinating group to work on the overall strategy and at the same time we can begin to get the papers written.

Sonnenfeldt: I think we should give some attention to modifications we might want in the Trade Act with regard to dealing with the USSR.

Secretary Simon: The USSR has what we need to get passage of any changes in Jackson–Vanik. What we need is some improvement in the figures.

The Secretary: I don't think it is possible that we will get any such changes. I don't think they can do it.

Secretary Simon: They have the message we have told them what is needed and they have taken it down. If they let one or two of the more visible go, it would help. They wrote down the names of people we are most concerned about.

The Secretary: I have to give you one word of warning on this. As soon as you get any improvement, those birds out there will get you a new list of ten more people. The Congress and the Jewish groups are always prepared to come back with more demands. We took a list of 700 hardship cases with us and I believe at the present time 400 or 500 have been released. The whole issue at first started over the question of the education tax. That has now been suspended and it was done in writing.

Hartman: Yes, and at that time we were up to 34,000 being released and now we are down to somewhere in the neighborhood of 10,000.

Secretary Simon: Well, there are two ways we can handle this. We can do nothing and see what happens, or we can move ahead with proposals of our own. I favor the second. Up to the present we have restricted our Congressional initiative to Ribicoff and Javits. I believe at this time we should broaden it out and take in others.

The Secretary: I think we should start in on Cranston.[14] He has a good head for counting noses and appears willing to work with us.

Secretary Simon: After we do our work with Congressional contacts, we must get the legislation up to the Hill.

The Secretary: What do you think the legislation should say?

Secretary Simon: I think we should go for the whole modification. We may have to take less, we may have a compromise. But if we start with less as our initial position, then we can do nothing but end up with an even more reduced package.

Sonnenfeldt: If we go up then the Russians may be inclined to do something that will help us during the heat of the debate.

The Secretary: Who do you think should do the Congressional liaison work?

Secretary Simon: Well it could be done by Simon–Kissinger or it could be done at one step lower by Parsky and Sonnenfeldt. I don't see why the initial contacts can't be at the level just below the Secretaries and then the big guns can move up in the end.

Sonnenfeldt: That's OK with me. Vanik is going to Moscow and he wants more publicity. He's unhappy with the amount of publicity

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[14] Senator Alan Cranston (D–California).

Jackson has received and the fact that people seem to be talking more to Jackson than they are to him on the issue.

The Secretary: I don't think Jackson has done himself any good with his work on the Trade Act.

Sonnenfeldt: I think there are a number of Congressmen who want off this hook and they are looking for us to find them a way to do it.

The Secretary: When should we put up the legislation?

Secretary Simon: I think we will probably need a month.

The Secretary: I think we might need to move more quickly. Why not go up with a change on a quicker timeframe.

Secretary Simon: It might be possible to go up in two weeks, but we would need to do our Congressional liaison first.

The Secretary: How about disentangling Stevenson from the other issues. I think that that might be possible.

Secretary Simon: That would be OK if they go forward together.

Sonnenfeldt: Well, we will still have to get the EXIM problem solved at the same time, so Stevenson alone might not be that valuable.

236. Memorandum of Conversation[1]

Washington, October 27, 1975, 4–5 p.m.

SUBJECT

GSP, Protectionism and the Multilateral Trade Negotiations

PARTICIPANTS

Department of State
The Secretary
Deputy Secretary Ingersoll
Under Secretary Robinson
Thomas O. Enders, Assistant Secretary for Economic and Business Affairs
Arthur A. Hartman, Assistant Secretary for European Affairs
Carl W. Schmidt (EB Notetaker)

Department of the Treasury
Secretary Simon
Gerald L. Parsky, Assistant Secretary for Trade, Energy, and Financial Resources Policy Coordination
David R. Macdonald, Assistant Secretary for Enforcement, Operations, and Tariff Affairs

Office of the President's Special Trade Representative
Ambassador Frederick Dent
Ambassador Clayton Yeutter

National Security Council
Robert Hormats

Secretary Kissinger: I thought we should have a discussion today of how to handle the problem of protectionism.

Secretary Simon: Yes, that is why I've brought Dave Macdonald with me in addition to Jerry. Dave is my expert on countervailing duty problems. He's a very compassionate man—he hasn't countervailed anyone all day.

Secretary Kissinger: I don't know what we should do about the question of protectionism. The Trade Act is increasingly being perceived not as a device for trade liberalization but rather as a mechanism for advancing protectionism. It seems that almost every country I deal with is raising complaints along these lines. Very often I don't hear about these complaints in advance. I'm not saying that they are right or wrong in their specific complaints about our countervailing

[1] Source: National Archives, RG 59, Central Foreign Policy Files, P820123–2332. Confidential; Nodis. Drafted on October 28 by the Director of the Office of International Trade, Carl Schmidt, and approved in S on October 29. The memorandum of conversation is marked "Draft." The meeting took place in the Kissinger's conference room.

duties and other issues. But I believe that we need to work out an overall plan to deal with these problems.

Secretary Simon: I think that everyone will agree that our recent decision on the steel countervailing duty complaint[2] has helped improve the atmosphere tremendously. We are going to expedite the auto case which in my view is the only other major case we still have—the others beyond that all seem to be nits and gnats. I would like to know if there are other problems which could come up—aside from ham—whose outcome and our handling of them could have an impact on Fred Dent's negotiations. What can we do over the next few months to help him? Are there other positive steps we can take to show that we are not protectionist?

Ambassador Dent: Well, next month we have decisions coming up on the implementation of GSP which is then to go into effect in January.

Secretary Simon: I would like to see that the U.S. has the largest possible list for GSP. According to what my staff tells me, our list is probably larger than Fred's list.

Secretary Kissinger: I have trouble believing anyone could have a smaller list than Bill Simon's.

Assistant Secretary Enders: The point is that there remain some 450 items in dispute. If these items come off of the final GSP list, we will not have a credible system.

Ambassador Dent: That is not a fair statement. The product list which has been approved up to now compares favorably with the GSP systems of other countries. There are some problem items still to be reviewed and these will be considered in two meetings this week. These problem items will be wrapped up this week.

Secretary Kissinger: How does what you say meet Bill Simon's need to make the list as big as possible?

Ambassador Dent: Ambassador Yeutter will first chair a group this week to look at these problem items and then I will chair a group to look at what they have come up with. The views of all of the agencies concerned will have to be considered.

Secretary Kissinger: Does that mean any one agency can knock off a product from the list?

Ambassador Dent: No, it does not mean that. But we should be clear that we are limited by law to exclude the sensitive items and we must recognize that there has been a surge of interest recently across the land in GSP and the general thrust of this interest has been nega-

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[2] On October 20, the Treasury Department announced its finding that the value-added tax rebates given by the EC to its steel exporters were not a subsidy and that there was thus no need for the United States to impose countervailing duties.

tive. Our list at present is comparable to those of other nations. We will be looking this week to see if we can bend a little more to include some additional products. But we must be careful we not be bent too far, otherwise we will get snapped back by the Congress.

Deputy Secretary Ingersoll: This is true but I'm afraid some of the agencies have gone too far in their objections.

Secretary Simon: I think this fits into the general problem of protectionism and how other countries see us. We will be seen as protectionist if we chop back our list.

Deputy Secretary Ingersoll: Yes, and we should also keep in mind that the Congress has already excluded a healthy number of products and has built in $25 million ceilings as a safeguard.

Ambassador Dent: Yes, there are competitive need ceilings. But the law requires that import sensitive products be excluded. The ITC and the Administration have held public hearings to receive the advice of the public sector and there is now considerable interest and attention on GSP. Unfortunately, this view tends to be negative and this extends to the Congress as well.

Deputy Secretary Ingersoll: I have noticed that a lot of the agricultural items are in trouble. All it seems to take is for one Congressman to object to an item being on the list.

Ambassador Dent: We should remember that the UNCTAD decisions concerning GSP were to make GSP a system for industrial products and not agricultural. There already are too many agricultural items on our list.

Secretary Kissinger: How will the list be preserved in such a way so that we will have a credible system? I haven't seen the list so I can't really comment on what is on it and what is not.

Ambassador Yeutter: The list of products which has been agreed to so far amounts to about $2½ billion in duty-free trade, covering roughly 2,600 items. This represents a very substantial list already. In dispute are items covering almost another billion dollars in trade.

Ambassador Dent: Many of those items which are still in dispute are items which have been earmarked by the Congress.

Assistant Secretary Enders: It is one thing to exclude those products which Congress has earmarked but it is something else again to have products excluded by administrative decisions. This seems to me to be the core of the present problem. If positive action is not taken, we will be perceived as having gone much beyond what was required by the Congress in excluding products from GSP coverage.

Ambassador Dent: If you call heeding the ITC advice administrative decisions then I can't agree. We have got to be responsive to the requirements laid down by the Congress.

Secretary Kissinger: Does private sector advice mean that the private sector has a veto over what we can do?

Ambassador Dent: I am not saying that it has a veto, but we must decide what advice that has been received is reasonable and what is not, and act accordingly.

Ambassador Yeutter: Of the items still under discussion, Commerce objects to practically all of them being included, Agriculture has its objections, Labor has 15–20 items it feels should come off, and STR has internal differences of view.

Ambassador Dent: USDA sent a very pared list to the ITC and then has pared it down still further. We should recognize, on the other hand, that almost the entire list of industrial products went to the ITC.

Assistant Secretary Parsky: Your reference to $2½ billion being comparable to other countries' programs is somewhat deceptive. We should look at the total U.S. imports from LDCs, which is some $18 billion. If you look at the total potential, then our GSP coverage is less proportionately than that of other countries.

Assistant Secretary Enders: In the aftermath of your speech for the 7th Special Session,[3] Mr. Secretary, and those initiatives, I think we can anticipate even more expectation on the part of LDCs on our GSP system's coverage.

Assistant Secretary Parsky: I think that's true.

Ambassador Dent: Nevertheless, GSP will be seen on the Hill as a $2½ billion giveaway.

Secretary Kissinger: What I want to know is can we continue to employ our 7th Special Session strategy of splitting away the moderate LDCs from the others? Will we be able to use our GSP for this purpose?

Ambassador Dent: If I recall my figures correctly, Mexico will get the highest percentage of its request list of any major country—some 88 percent.

Under Secretary Robinson: I have recently been meeting with our Economic Officers in Western Europe and they say that it appears to

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[3] Kissinger had been scheduled to deliver an address entitled "Global Consensus and Economic Development" to the Seventh Special Session of the United Nations General Assembly on September 1. However, encouraging developments in the Middle East in the second half of August prompted a change in his plans, such that he was shuttling between Jerusalem and Alexandria from August 21 to 31, negotiating the Egyptian-Israeli disengagement agreement that was signed on September 1. In his absence, Daniel Patrick Moynihan, U.S. Representative to the United Nations, delivered Kissinger's speech to the Seventh Special Session. For the text of the speech, see Department of State *Bulletin*, September 22, 1975, pp. 425–441. Excerpts were printed in *The New York Times*, September 2, 1975, p. 20.

them—and to the Europeans—that we increasingly are using the Trade Act and such moves as the possible removal of items from our GSP list as threats to improve our negotiating leverage. But they are fearful that this tactic will unleash the wrong responses, that is, retaliation and a backing away from the negotiations by our foreign partners.

Secretary Kissinger: Yes, that's my impression too.

Ambassador Dent: I met with Soames last week in Brussels and we had a very good discussion concerning agriculture in the negotiations, ham, and a whole range of problems.[4] Wellenstein, Gundelach, Rabot and Hijzen[5] also took part and the talks couldn't have been more constructive. There was concern on their part about protectionism in the United States but they now have lessened their decibel level. We should recognize that Soames will always complain because that's his job.

Secretary Kissinger: As I see it, we have two problems to deal with. We must reduce the short-term complaints that are arising, and we must develop a long-term strategy to deal with trade issues. I agree that our purpose is not to make Soames happy. He will continue to defend the interests of the Community as we do ours. The question for us is can the United States exercise leadership at this time. There is no one else around who will if we don't.

Ambassador Dent: If we look back, we can see that when we learned of the filing of countervailing petitions on steel, we notified the EC and others in advance that this was coming. We have been trying to inform other countries that these issues are being advanced here from the private sector. As to whether we can control the private sector, we can discuss their problems with them and try for their restraint. We can appeal to their own selfish interests and point out that we have many cases where restraint would help us achieve something in the end which would be of greater benefit to them than short-term actions. Shoes is one example where the U.S. has suffered 48 percent market penetration whereas U.K. market penetration has only been 23.4 percent. Here we are consulting with other governments in anticipation of whichever way the ITC ball bounces.

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[4] Dent met with EC Commission representatives in Brussels on October 17. Reports on their talks are in telegram 9368 from USEC Brussels, October 17; telegram 7926 from USDel MTN Geneva, October 18; and telegram 7927 from USDel MTN Geneva, October 18. (All in the National Archives, RG 59, Central Foreign Policy Files)

[5] Edmund Wellenstein was the EC Director General for External Relations; Finn Olav Gundelach was an EC Commissioner; Louis-Georges Rabot was the EC Director General for Agriculture; and Theodorus Hijzen was the EC Deputy Director General for External Relations.

Ambassador Yeutter: It seems clear to me that the whole effort to paint the U.S. as protectionist is a well thought out and well orchestrated campaign by the EC.

Under Secretary Robinson: But the U.S. private sector isn't doing anything to help prevent this campaign.

Secretary Simon: What if we were to really seize the initiative and propose going to zero duties? We would put this on the table and even if others wouldn't pick it up it would be clear that the U.S. was not protectionist.

Ambassador Dent: The French would immediately say that you're attacking EC agricultural policy and that this was heresy.

Secretary Simon: How would you feel about dividing agriculture from industry if it meant getting some progress?

Ambassador Dent: Whether I do or not, the Congress has mandated in the law that there be linkage between the two.

Secretary Simon: Ok, then let's say we're going after all barriers to trade, then table our proposals. At least we'd have a proposal on the table.

Assistant Secretary Parsky: The maximum we can cut tariffs under the Act is 60 percent.

Ambassador Dent: At the July Trade Negotiations Committee meeting we made some milestone proposals for progress.[6] But we need to see that while trade represents 7½ percent of U.S. GNP, it is 20–50 percent in EC countries. The record shows that the U.S. was playing a leadership role in July but that we and others have been held back by the recession and now by the attitude of the French, which is threatening to block movement in the MTN. I hope that positive results will come from the Summit meeting next month.[7] This could be especially useful since Giscard was at Tokyo for the signing of the Tokyo Declaration in 1973. Now the French are threatening to pull down the negotiations because of agriculture. It would be good to make sure Giscard knows what his people are causing.

Secretary Simon: Yes, what you've said complements my suggestion. Let's use the Summit meeting to move ahead. What kind of proposals do we need to make there which would help the Geneva talks?

Ambassador Yeutter: We will be making proposals for tariff reductions soon after the start of the new year at Geneva.

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[6] Telegrams 5616, July 16; 5680 and 5681, July 17; and 5712, July 18, from USDel MTN Geneva report on the July meeting of the TNC. (All in the National Archives, RG 59, Central Foreign Policy Files)

[7] Reference is to the economic summit at Rambouillet; see Documents 122–125.

Ambassador Dent: The big substantive results which should come from these negotiations is in the NTB area. Tariffs have been cut down pretty well already. Our biggest problem is countervailing duties, according to our negotiating partners. And we say that it's negotiable. But it's clear that to solve this issue we're going to need to deal with the problems of subsidized exports to this market and third-country markets. Without this, we're not going to be able to get anywhere on countervailing duties.

Ambassador Yeutter: We recently put some initial proposals for a subsidy code on the table at Geneva and there will be a meeting in a few weeks to discuss these problems. Dave and Peter[8] have been working hard on this. There also are other areas in the negotiations such as standards, government procurement, and tropical products. All of these negotiations are also proceeding at their pace.

Assistant Secretary Enders: Isn't our real intent here to use the Summit to push forward the tempo and conclusions of the MTN? I would suggest we identify specific proposals which could be put forward at the Summit to achieve these goals.

Ambassador Dent: There are two things which can be done at the Summit which would be helpful to the MTN. First, the others want to hear the President say that the U.S. is not protectionist. And then we should use the meeting to make clear to Giscard what the French position is doing to the negotiations.

Assistant Secretary Parsky: It seems to me that if we just say we want to talk, or talk more, in the negotiations, it won't work. It seems we must have some major new proposals from the U.S. at the Summit if we are to make the EC move.

Ambassador Yeutter: It looks more and more as though the French don't want to negotiate within the framework of the MTN.

Secretary Kissinger: Wouldn't it be best to force them to negotiate by putting out some proposals, in which we would have many other countries on our side, and thus get them to come along?

Ambassador Dent: Many other countries are more hard hit than we with inflation and recession. World trade is off 10 percent this year. Under these circumstances, it's very hard to capture the imaginations of other countries.

Secretary Kissinger: If their trade is down and ours is up, I would think we would now be in an excellent position to capture their imagination with some new proposals for results.

[8] Not further identified.

Secretary Simon: Can't we propose we go to zero tariffs in all items under our GSP, provided that other countries will do the same?

Ambassador Dent: Let me stress that GSP is not part of the Geneva negotiations.

Mr. Hormats: But couldn't we go faster on tropical products within the MTN? This would be a helpful proposal.

Ambassador Dent: Yes, we have recently agreed to table offers early next year on tropical products. We are moving now in that area as well.

Assistant Secretary Enders: I suggest a variant of Bill Simon's suggestion, that is, we go to zero on some industrial products with built-in safeguards.

Secretary Kissinger: Can't we make some proposals in the negotiations which spell out what we are prepared to do and what we cannot do because of domestic legislation? Then everyone will know the rules of the game. I admit I haven't followed these negotiations. I don't know whether I know what I'm talking about or not.

Deputy Secretary Ingersoll: The fact is, we haven't had much in the way of negotiations as yet.

Ambassador Dent: We believe that the Summit can be very helpful for the negotiations. Therefore we prepared some papers with suggestions as to what might come from the Summit and these were looked at on Saturday[9] in the Seidman group. When I was in Europe last week I sounded out the people whom I met about what should come from the Summit. For example, Olivier Long felt that there should be a broad endorsement of the objectives of the negotiations and a call to push ahead, but that we should not go into details.

Secretary Kissinger: We can't just have the President state platitudes that we are not protectionist. If we can make some solid proposals, and if it looks plausible that we mean it, then Giscard and the others can instruct their Ministers to move ahead and to work out the details.

Ambassador Yeutter: We can't expect those at the Summit to go into details but we can ask the leaders to state the basic objectives for the negotiations.

Secretary Kissinger: It will be important not to get into details. We cannot afford to take the President beyond the things which he can reply to in the give-and-take.

[9] October 25.

Ambassador Dent: Another problem at the Summit is that of representation. Not all of the key countries nor the EC Commission will be represented. Therefore, there will be problems in agreeing and making broad commitments in the absence of the EC Commission, which is empowered to do the negotiating.

Secretary Kissinger: This should not be an insurmountable problem. Tom, what do you think?

Assistant Secretary Enders: I am taken by Bill Simon's proposal which in effect would be to capture the imagination of other participants by making new proposals and exercising a leadership role. It has been a long time since the Tokyo Declaration and a good deal has happened in terms of the energy crisis, following exchange rates and the like. I think we can use the Summit to give some new direction to the MTN, not by making specific negotiating proposals but rather by stating more sweeping goals.

Secretary Kissinger: Art, what do you think?

Assistant Secretary Hartman: I agree that it would be useful to restate some of our negotiating goals. For example, it would be helpful if the leaders at the Summit identified a subsidy code as an item for priority negotiations. More work could be identified in the sectors area, which could be given a little broader treatment now in the light of floating exchange rates. We could also get from others positive response to our request to include agriculture in the negotiations.

Secretary Kissinger: We really have two problems which we need to deal with. First, what can we do about protectionism problems at the Summit, and second, how do we develop a strategy for the longer term? It's hard to discuss these in the abstract and therefore I suggest we form a working group. We should look at what the President should say at the Summit and how would these statements be helpful to Fred Dent in the MTN. The United States now has the strongest position of any democracy whereas it's clear to me that other democracies are in deep trouble. In almost every European country there is a domestic tendency toward paralysis. What is needed is to create a situation in which these countries can again feel that they are able to control their own destinies. I don't see anyone except us in that position. It is much like the immediate post-war period except we can't pour in massive amounts of funds. Our economy appears to be getting stronger but their's are not. Therefore, the United States must act as the leader. I understand, Bill, that you're making good progress in the monetary area.

Assistant Secretary Parsky: It will be of particular importance to show some progress in the Summit in the trade area. It will be difficult for us to respond to the other countries in other areas—for example, to their urgings that we reflate for them. Thus, we need to come forward in the trade area, in part to offset the other areas.

Secretary Simon: I think the pressure from others on us to reflate will soon be over. I recently found out that Chancellor Schmidt was misinformed at the time he was last here[10]—he thought the most recent figure for the U.S. growth rate was 3 percent. When we got home, he was briefed and was told that our performance was up to 8.2 or 8.3 percent. As a result of this, I think he'll relax the pressure.

Ambassador Yeutter: We agree that trade issues deserve treatment at the Summit and have prepared some papers in this regard. I think they can be incorporated into our efforts.

Secretary Kissinger: You and some of the others here in a working group should put together the various ideas for Fred to look at in terms of what would be useful for the negotiations.

Ambassador Yeutter: We must handle this very carefully, however, since Congress is a full-scale partner of ours in the MTN.

Ambassador Dent: I think it should be known that the Europeans proposed steel talks last week with the idea of placing further restrictions on trade. There is a very pessimistic cast over the European trade position at the present time. Therefore, we must design an instrument which is credible to the Europeans in the current climate.

Assistant Secretary Enders: In addition to setting goals for trade to be used for the Summit meeting, we also need to talk about setting ground rules for countervailing duty cases. Can we agree that all possible flexibility and discretion that we have at our disposal will be used?

Secretary Simon: I have already done this in instructions to my people. In fact I have gone even further in private talks with the Germans.

Assistant Secretary Enders: I would suppose then that the President could go this far in his talks at the Summit?

Secretary Simon: Yes, but no further than that. There would be hell to pay if this were to leak to the press and on the Hill.

Ambassador Dent: Aside from this, we also must recognize the position of the AFL/CIO and of the Congress.

Ambassador Yeutter: Yes, we can't in effect just tell the Europeans that they can hit us between the eyes for the next two and one-half years on subsidies.

Secretary Kissinger: I think that is understood. Tom, would you and the others who have ideas on what we've been discussing form a working group. Let me thank you for coming in today.

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[10] Chancellor Schmidt was in Washington for meetings with President Ford and U.S. officials on October 3.

237. Memorandum From the Special Representative for Trade Negotiations (Dent) to the President's Assistant for Economic Affairs (Seidman)[1]

Washington, November 26, 1975.

SUBJECT

Memorandum for President Ford

On October 17th I reached an agreement with Sir Christopher Soames, Vice President of the EC, regarding the impasse which the agricultural negotiations in Geneva had reached.[2] On October 20th, implementation of this agreement was held up by the French and the impasse has continued from that time on. Currently, all other members of the EC are willing to proceed but the French adamantly resist. I anticipated the results of the Rambouillet conference[3] might change the attitude, but apparently the message of Rambouillet has not been carried from the President to the appropriate French Ministers.

To resolve this matter, I am forwarding herewith a suggestion for the President's consideration.

Enclosure

Memorandum From the Special Representative for Trade Negotiations (Dent) to President Ford

Washington, November 26, 1975.

SUBJECT

Suggested Letter to President d'Estaing of France

I was very gratified with reports of your leadership at the Rambouillet Summit in the field of international trade. The comments made on this subject in the statement issued at the conclusion of the conference also gave much hope to those interested in resisting protectionism at the present and improving the world trading system for the longer term.

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[1] Source: Ford Library, L. William Seidman Papers, Box 69, Economic Policy Board Subject File, Giscard d'Estaing, Valery. No classification marking.

[2] As reported in telegram 7926 from USDel MTN Geneva, October 18. (National Archives, RG 59, Central Foreign Policy Files)

[3] See Documents 122–125.

As you know, the French negotiators have been particularly resistant to progress in the Geneva negotiations and have undercut two agreements which we reached with the EC negotiators for moving the agricultural negotiations forward. We had anticipated a change in their attitude following the Rambouillet meeting, but unfortunately this has not yet materialized. I believe that this lack of progress could be due to the fact that President d'Estaing has not taken the initiative in communicating his international trade views to the appropriate Minister for subsequent communication and execution by his department.

I therefore recommend you consider sending the enclosed letter to President d'Estaing which is designed to carry the consensus reached at Rambouillet into the implementation stage.

Enclosure

Draft Letter From President Ford to French President Giscard

Dear Mr. President:

Our discussions at Rambouillet were not only enjoyable but I believe hold the promise of improving economic conditions both within our own countries and the rest of the world as we carry forward into execution some of the ideas which we developed during these discussions. Upon my return to Washington, I had my appropriate Cabinet Members briefed on the results of the talks within their particular area of responsibility and urged them to see that the substance and spirit of our talks were carried into execution in the days ahead.

I have been particularly disappointed to note that there have been continuing reports of possible protectionist attitudes, and want to assure you that in the international trade field in particular, I have urged my Cabinet Members to place new emphasis on the success of the Geneva talks to provide leadership at the forthcoming Trade Negotiations Committee meeting[4] and to cooperate with our trading partners in furthering the improvement and expansion of the international trading system. A spirit of compromise is essential to assure avoidance of protectionism and future progress.

Your interest in providing leadership for discussions such as those at Rambouillet is clear evidence of your interest and concern in these matters. Any additional suggestions which you would care to pass on

[4] The TNC met December 9–11 in Geneva.

as a result of your own efforts to achieve implementation of our discussion would be most welcome.

Sincerely yours,

Gerald R. Ford[5]

[5] There is no indication as to whether the President signed and sent this letter. On November 29, Seidman sent Dent's November 26 memorandum to the President and the draft Presidential letter to Scowcroft and Robinson for their comments. No responses have been found. (Ford Library, L. William Seidman Papers, Box 69, Economic Policy Board Subject File, Giscard d'Estaing, Valery)

238. Briefing Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Greenwald) to Secretary of State Kissinger[1]

Washington, February 14, 1976.

Monthly Report

Protectionism in an Election Year

It is a truism in the trade area that standing still is not an equilibrium position; either we move forward or we will be pushed back. At the present moment, the balance is tilting backward. While we are inching forward in the multilateral trade negotiations in Geneva, the pressures to push us back at home are strong.

Petitions to restrict imports will be decided this year in cases that involve more than $10 billion of trade and affect our principal trading partners in Europe and Japan, and important developing countries, Brazil, Korea, Taiwan among them.

Trade quarrels can be bloody. Some cases in the past involving import restrictions, such as bicycles, carpets, glass, and cheese, and the notorious chicken war, were poisonous to our foreign relations. Even when at long last these cases were terminated, a residue of bitterness has remained.

The cases awaiting decision this year involve major domestic industries like steel, as well as traditionally weak and sensitive indus-

[1] Source: National Archives, RG 59, Records of Secretary of State Henry Kissinger, Entry 5403, Box 14, Briefing Memos, 1975. Confidential. Drafted by the EB staff.

tries like shoes. How these cases are decided can affect not only the tone of our relations with the countries concerned, but also, in the case of Europe and Japan, their cooperativeness in the Multilateral Trade Negotiations and their continued observance of the OECD trade pledge. Pressures for protection are no less strong abroad than here and U.S. weakness in the face of these pressures will make it harder for others to resist. In the case of the developing countries, adverse decisions can dull the luster of the Seventh Special Session and give aid and comfort to the radicals in the North/South dialogue.

Experience in 1975

The experience last year was favorable notwithstanding the great concern of our trading partners. The number of petitions to restrain imports under the various provisions of the Trade Act—escape clause, countervailing duty, anti-dumping, unfair trade practices—led our partners to believe that the long awaited Trade Act was simply a vehicle for protection. In fact, of thirty-four countervailing duty cases decided in 1975, duties were imposed in only four, and the imposition of duties was temporarily waived in six, most importantly in the cheese and ham cases against the European Community. The U.S. International Trade Commission in its first three decisions on petitions for relief from increased imports found no injury to U.S. industry as a result of imports. And only one anti-dumping case was decided adversely, Polish golf carts, and that only after extensive discussions with the Poles which moderated their unhappiness.

In short, the U.S. performance in 1975 demonstrated the ability of the Administration to exercise its powers under the Trade Act reasonably.

Favorable Factors in 1976

The upturn in the U.S. economy appears to be broad-based and sturdy. With the prospect—and the fact—of increasing sales in the domestic market, U.S. firms will be less impelled to hit out against imports. We can expect the number of new complaints which U.S. industry will file under various provisions of the Trade Act to be lower this year than last.

Moreover, *the trade surplus of 1975*—in excess of $11 billion—was the largest in our history and attributable to our competitive strength in manufacturing as well as to our good performance in agricultural trade. With the recovery of the U.S. economy, imports will increase and the trade surplus diminish, of course, but the price position of U.S. manufacturers compared to their major competitors is much more favorable now than in past years. The greatly improved competitive position of U.S. producers of manufactures should make the U.S. market less vulnerable to import pressures in the upturn.

Furthermore, *the trade surplus in 1976,* while less than in 1975, should still be substantial. Psychologically, a large trade surplus is important for business and labor confidence. The declining trade surplus in the late 1960s and the traumatic trade deficit in the early '70s—first in this century—led to widespread defections of labor and business leaders from the cause of free trade and swelled the clamor for permanent import quotas and "orderly" marketing arrangements.

The fact that the *Multilateral Trade Negotiations* are in progress may also be a plus. It can be argued that protectionist action would hurt the negotiations. In addition, it gives us a forum for consultation and resolution of especially difficult cases—steel may be such a case.

We also have going for us the *commitment of the President at Rambouillet.* In talking to the other Heads of State about domestic pressures for import restraint, he said, "Where flexibility exists under domestic law and procedures, I am prepared to exercise it." In the same context he said, "We should agree to resort to limited emergency trade measures only in particularly acute or unusual circumstances." These commitments by the President should strengthen the State Department's hand in interagency negotiations and give added weight to foreign policy considerations.

1976—An Election Year

This is, however, an election year and in an election year foreign policy considerations tend to be less compelling than near-term domestic concerns.

One of the most serious problems we will face this year will be pressure within the Administration for actions aimed at short-term political gain rather than at achieving the long-term economic and foreign policy objectives of the United States. We have only begun to hear from some quarters that there will be a political need "to do something" for the parties at interest in several cases during this election year.

Congressmen will be on the hustings and will find it irresistible to espouse the cause of their labor and business constituents and to make promises on their behalf. While the President can discourage—and veto—special interest bills that Congressmen may drop in the hopper, he will himself find it harder to resist the pressures.

Moreover, the Trade Act gives the Congress important new powers to override the Executive. Thus, in escape clause cases, if the President does not follow the recommendation of the International Trade Commission, his decision can be overturned by a simple majority of both Houses of Congress. In countervailing duty cases, the Secretary of the Treasury may waive the duties under certain circumstances (as he did in 1975) but either House of Congress can by majority vote override a Treasury waiver. In an election year, the Congress will be under pressure to use its power to override.

The Tough Cases

The most serious cases we will face this year—filed in 1975—are shoes and steel.

Shoes: On February 20, 1976, *while you are in Latin America,* the International Trade Commission will decide on the petition for import relief filed by the U.S. shoe industry. The petitioners have a strong case. Imports have increased steadily since the early 1960s, and since 1968 domestic production has declined here, total employment has dropped, and plant closings have far exceeded openings.

The principal suppliers are Italy, Spain, Taiwan, Brazil, and South Korea. All told more than thirty countries are exporters of shoes to this market. The value of the trade involved, more than $1 billion in 1975, is by far the largest in any escape clause case.

The Commission is almost certain to find injury and recommend relief. The domestic industry maintains that adjustment assistance—our preferred solution—will not solve its problems. A positive finding by the Commission calling for tariffs or quotas will provoke an immediate adverse reaction of major proportions in the exporting countries.

Steel

The International Trade Commission on January 16, 1976, found injury to U.S. industry and recommended quotas limiting stainless and alloy tool steel imports. The President must decide by March 16 whether to support, reject, or modify the Commission's recommendations. The Congress can override a Presidential decision that differs from the recommendation of the ITC.

The value of trade involved is $185 million; the countries affected are Japan, Sweden, Canada, France, Belgium, the UK and West Germany. They are of the unanimous opinion that the alleged difficulties of the U.S. specialty steel industry have not been caused by import competition but by the cyclical nature of the steel industry to which foreign as well as domestic producers are subject. In our view the ITC recommendation is not economically justified.

The specialty steel case cannot be looked at in isolation. U.S. Steel is intending to challenge in court the refusal by Treasury to hold that the remission by the EC of the value-added-tax on steel exports is a subsidy.[2] (We too remit indirect taxes on our exports.) U.S. Steel may

[2] See footnote 2, Document 236.

well win in the lower court. After an adverse finding in the lower court, this $2 billion steel trade would be seriously disrupted.

Some elements of the EC steel industry are pressing for protection. The Japanese have their problems and have agreed to restrain steel exports to the EC market. It may be that the steel sector is in need of international attention.

Conclusion

There are many more cases than these that are of lesser trade magnitude but that cumulatively could reinforce or undercut our foreign policy purposes, depending on how the President uses the leverage and discretion he has. In inter-agency councils, we hope Elliot Richardson will make the Commerce Department less protectionist. We can expect help from the Treasury in those cases that do not involve the application by them of the law (anti-dumping and countervailing duty cases require Treasury findings). In the final round with the President, Brent Scowcroft can be helpful behind the scenes. But the main burden will necessarily fall on you to defend our foreign policy interests in an election year.

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239. Memorandum From the Special Representative for Trade Negotiations (Dent) to President Ford[1]

Washington, March 22, 1976.

SUBJECT

Trade Policy—Six Months Projection

Overview

Over the next six months the Administration will be required to make decisions on petitions by some key U.S. industries for remedial trade action under the escape clause, countervailing duty, antidumping, and unfair trade practices provisions of U.S. law. Most of these cases are the result of efforts by U.S. private sector interests to test provisions of the Trade Act of 1974 relating to potential remedial actions.

These potential actions come at a sensitive time. Domestically, we have a continuing concern over unemployment, which is expected to

[1] Source: Ford Library, L. William Seidman Papers, Box 91, Economic Policy Board Subject File, Special Trade Representative, 3/21–31/76. Confidential.

remain relatively high despite the modest recovery of the U.S. economy which has been forecast. At the same time, as the U.S. economy proceeds in its gradual recovery, the U.S. trade balance is expected to decline, going from a $3.8 billion surplus on a CIF basis last year to a possible deficit this year.

The current political and economic situation is even more delicate abroad. The recovery of the major foreign economies is expected to lag behind that of the U.S. economy and this can be expected to make them quite defensive in their reactions to what they perceive as a shift to a protectionist trend in the U.S. This attitude is likely to be reinforced by exchange rate instability of some major currencies.

The convergence of a series of potential U.S. trade actions under U.S. domestic laws and heightened foreign sensitivity is likely to strain international cooperative efforts such as the multilateral trade negotiations in the GATT and the pledge of OECD countries to avoid trade restrictive actions. At the same time, it will be more necessary than ever to achieve positive results in these efforts as an effective demonstration that the world is not going protectionist.

Trade Act Remedies

The most pressing of our problems during the next six months will be in the area of managing bilateral trade problems under the relief provisions of the Trade Act.

Automobile Dumping Case. By far the largest pending case is the antidumping complaint against all major foreign producers of automobiles, involving $7.5 billion in U.S. imports. The tentative decision of the Secretary of the Treasury due May 11 is whether foreign producers have sold automobiles in the United States at less than fair value. Before any dumping duties are imposed, the U.S. International Trade Commission (USITC) would have to find injury (at the latest by November 11). While any public determinations on May 11 will thus not be final, appraisement will be withheld, and the decisions will have a sizeable effect on our trading relations. This issue is complicated by the existence of a massive backlog of customs entries which could get caught by an eventual dumping finding, with extremely grave consequences for some manufacturers. Customs is working on this problem.

Import Relief—Shoes. The President must decide by April 20 whether to impose restrictions on $1.1 billion of shoe imports, the largest escape clause case ever brought. The USITC was unanimous in its finding of injury. The EC is the largest supplier by value, with $380 million in exports to us in 1975. Taiwan is the largest supplier by volume. Depending on what kind of relief is given, the impact would fall unevenly on Italy, Spain, Brazil, Taiwan, and South Korea. This case has the potential of being a major irritant in our relations with any or all of these countries, not to mention smaller suppliers.

Import Relief—Specialty Steel. At the same time as the above matters are being dealt with, we will be attempting to negotiate orderly marketing agreements with the major suppliers of specialty steel, to avoid the imposition of quotas no later than June 14 for three years on $200 million of trade (primarily from Japan, the EC, Sweden and Canada).

Import Relief—Other. On February 28, the USITC found injury to domestic producers of stainless steel flatware. You must decide by April 30 whether to provide relief. Imports of $52 million (1975) are involved. The major suppliers are Japan, Taiwan, and South Korea. ——— On March 17, the USITC found that imports are causing injury to domestic producers of mushrooms (1975 imports, $41 million). Only adjustment assistance can be provided to mushroom growers, as this is the remedy recommended by the USITC. Your action is due on this case by May 15. ——— The next large cases which are coming up are shrimp (1975 imports, $346 million; USITC decision due May 17) and stainless steel wire (1975 imports, $39 million; USITC decision due June 12). Major suppliers of shrimp are Mexico, Panama, India and Ecuador, and of stainless steel wire are Japan, Sweden, West Germany, and France.

Section 301 Cases. The Trade Act also provides for a new complaint procedure under which U.S. exporters can seek remedial action against unfair foreign trade practices. Cases filed with STR are now pending against many EC agricultural practices, including subsidization into foreign markets in which the U.S. and EC compete, minimum import prices, and other EC agricultural restrictions. It is likely that a case will be filed against the EC's recently instituted nonfat drymilk mixing regulations, estimated to cause a loss to U.S. soybean exports of approximately $90 million per year. The EC has so far refused to discuss section 301 cases, rejecting the legitimacy of this process. Action in any of these cases can be particularly acrimonious due to the very fact that there is Presidential discretion as to how and when to exercise this authority.

Countervailing Duty Law. The implementation of our countervailing duty law, which now has a time limit on Treasury action, is for the first time fully responsive to legitimate domestic complaints against foreign subsidization. It also provides us with a major irritant in our relations with other countries, particularly as we do not require an injury finding as a prerequisite.

There has been a court challenge to a negative Treasury determination in connection with border tax remissions on steel imports from the EC. There is also likely to be an appeal to the courts from a negative determination with respect to exports of approximately $1 billion of electronic products from Japan. Both of these cases involve the broader question of treatment of indirect tax rebates. There is also a challenge to the Treasury's decisions on the extent to which regional development schemes should be countervailable. Each of these issues is potentially explosive. While court decisions will not be reached for some time, the cases will be a source of continuing concern to our major trading partners.

Another serious problem is a number of countervailing duty cases involving Brazil. Decisions have been reached on footwear, leather handbags and castor oil, and petitions are pending on scissors and shears, and cotton yarns. Other petitions may follow. This is the most significant issue in U.S.-Brazil trading relations. A major question in the coming months will be whether the countervailing duty waiver provision will be exercised in these cases.

International Cooperative Efforts

Multilateral Trade Negotiations. The MTN is in an early stage of the negotiating process. The more difficult decisions will generally not have to be made until early 1977. Early decisions will be required, however, with respect to tropical products and a general tariff cutting formula.

—*Tropical Products.* On March 1, the U.S. offered to cut tariffs on $1 billion of our imports, in exchange for appropriate trade commitments by developing countries. Decisions on a final tropical products agreement will be required in the course of the summer, though the agreement is not expected to be implemented until later.

—*Tariffs.* On March 23, the U.S. is tabling an initial U.S. proposal for an across-the-board tariff cutting formula. Our goal is to achieve international agreement on such a formula within a six month period.

OECD Trade Pledge. During the last two years, the United States and other OECD countries agreed to avoid trade restrictive actions to deal with disruptions caused by large oil price increases and the world recession. The current OECD trade pledge will expire in May, and a decision will be required on whether or not it should be renewed. Mr. Van Lennep, the head of the OECD, has suggested that restrictive U.S. trade actions are likely to lead to foreign resistance to a renewal of the pledge.

Other Trade Issues

DISC. On March 16, a GATT Panel first met to review a complaint by the EC against the DISC (Domestic International Sales Corporation) provisions, alleging a violation of GATT rules governing subsidies, and counter-complaints by the United States against similar tax practices of France, Holland and Belgium. The work program of the GATT Panels currently calls for final deliberations beginning July 26, which would be likely to result in a finding (to be referred to the Contracting Parties) by the fall. Given domestic industry support for the DISC, the

GATT review will generate considerable interest. If the panel finds that the DISC violates the GATT, there will be a serious inconsistency between U.S. practice and the international rules.

Jackson–Vanik Waiver. The key Trade Act issue with respect to non-market economies during the next six months will be the renewal of the waiver provision of the Jackson/Vanik amendment, which expires on July 4. In the absence of the renewal, it is possible MFN would have to be revoked from Romania, and there would be little possibility under the Trade Act freedom of emigration requirements to extend MFN to other communist countries. The President must request renewal of the waiver no later than June 3. The Economic Policy Board recommends that an extension be sought. The issue is being prepared by the East-West Trade Board for your consideration in early May. While the extension may be non-controversial, it may also develop into a major political fight affecting our relations with Eastern Europe.

Textiles. The Multifiber Arrangement (MFA) expires on December 31, 1977. Extension of the MFA is strongly supported by the U.S. textile industry and the Administration has decided in favor of seeking renewal. Efforts to build international support for extension of the MFA must begin shortly.

The Peoples Republic of China has a growing export trade in textiles to the United States, particularly in cotton (for which it is the second largest supplier). This has been a matter of increasing concern to the U.S. domestic industry, the Congress, and the Administration. At its February 4 meeting, the Textile Trade Policy Group agreed that Ambassador Dent should raise the matter with Secretary Kissinger with a view to finding a solution satisfying our domestic interests, our bilateral trade relations with the PRC, and our equity obligations with third countries under the MFA. I have raised the matter by memorandum to Secretary Kissinger and the problem is now under consideration.

Generalized System of Preferences. GSP is now in effect, covering some $2.5 billion of LDC exports to the United States. The granting or denial of duty-free treatment can be the subject of public petition. Requests for reviews of individual items are likely to result in recommendations to you for removal of a few items from GSP in the near future, with another general review by July 1. There has so far not been a broad domestic reaction against the program, however. A GSP issue that may become significant is whether the Trade Act will be amended to allow the OPEC non-embargoers (primarily Venezuela and Ecuador) to receive GSP.

Palm Oil Imports. Increasing shipments of palm oil to the U.S. have caused concern among U.S. producers and processors of oilseeds, as well as strong Congressional concern. Imported palm oil now accounts for about 8 percent of the U.S. market for edible oils. However, there already exists productive capacity in Malaysia and Indonesia, the major producing countries, to double shipments by 1980. A substantial amount of developing country productive capacity has been financed by the international lending institutions, which derive major financial support from the United States.

Japan: Citrus Fungicide Regulations. Japanese health and sanitary regulations currently prohibit the use of fungicides (TBZ and OPP) which have been utilized on shipments of U.S. citrus to Japan. These fungicides are necessary to inhibit deterioration of the fruit shipped to Japan, and are generally accepted for use internationally. Results from a testing program on the fungicides now underway in Japan are due in May or June. If Japan does not approve these fungicides for use at that time, the industry will be likely to request retaliatory action under Section 301 of the Trade Act of 1974. The U.S. market for fresh citrus in Japan is currently about $80 million.

EC: Cognac–Poultry. If negotiations with the EC to improve access for U.S. turkey and turkey parts are not completed by June 30, the U.S. could take action to restore the penalty tariff rates on imported cognac. This action, which would require a Presidential proclamation, could exacerbate already tender U.S./EC relations in the trade area.

Tariff Items 806.30 and 807.00. Under these items, U.S. goods are shipped abroad for further processing or assembling, and the U.S. components are exempted from duty upon re-importation. U.S. labor strongly supports repeal of these provisions. On Wednesday, March 24, the Administration will be testifying before the Green Subcommittee on items 807.00 and 806.30. On March 17, the Trade Policy Staff Committee agreed on a policy statement supporting retention of these items and opposing the numerous bills which have been introduced to abolish or amend them. The basis for this position is that elimination or amendment of these items will result in a net economic loss for the United States, particularly in regard to the number of jobs affected.

U.S. Meat Imports. The U.S. is currently attempting to negotiate voluntary restraint agreements to limit shipments of beef to the U.S market in 1976. The VRA approach is designed to prevent beef imports from exceeding the trigger level set by the Meat Import Act of 1964. A number of the countries concerned, particularly Australia and the Central American countries, have objected to the size of their export allocations, and it is not clear at this time whether negotiation of agreements will be possible. Imposition of quotas under the Meat Import Act would place us in violation of our GATT obligations and have an adverse effect on our efforts to resist protectionism and expand trade through the MTN.

Relations With Developing Countries. Over the next six months, our relations with LDCs can be expected to be characterized by their increased frustration with what they regard as the rigidities of the international trading system. The system does not provide the special and differential treatment that they feel is their due. Our longer run solution is to negotiate in the Multilateral Trade Negotiations limited special and differential treatment in exchange for the most advanced developing countries accepting increased obligations in the trading system. The increased economic opportunities and the reduction of pressure for import barriers resulting from the expected upturn in the economy may ameliorate, but will not eliminate, this problem.

Conclusion

Despite the favorable outlook for economic recovery in the United States, the next six months will present a series of trade problems which must be dealt with carefully in order to avoid serious repercussions. This problem is aggravated by the fact that economic recovery abroad is lagging behind our own. In addition, there is the continuing danger that monetary conditions, which have a strong influence on trade flows and public attitudes toward trade, will be used abroad as a reason for restrictive trade measures or avoidance of trade liberalization.

There are several actions that can be taken to assist in managing these trade problems:

—Administration spokesmen should take full advantage of opportunities to explain to the American public the importance to our economy of trade—the advantages derived from our exports as well as the essentiality of our imports (e.g. 25% are petroleum products).

—Consideration should be given to holding public hearings through the mechanism of the interagency Trade Policy Committee to investigate the broad aspects of U.S. foreign trade policy. Such hearings could serve to place the issue of trade policy into a broad national perspective, rather than being dominated by an accumulation of individual grievances which leave an impression of growing protectionism.

—We can reinforce the belief abroad that expanding U.S. imports are an important aid to the economic recovery of our trading partners. For example, as our monthly trade statistics are announced, we should note the countries enjoying expanded sales to the U.S. as well as the products involved. Moreover, the Department of Commerce, in reporting monthly on the U.S. Balance of Trade, should stress the balance based on a CIF valuation (i.e. cost includes the value of freight and insurance) of imports rather than the FAS (i.e. free along ship at foreign port) balance which would also be reported. This would more accurately reflect comparisons with our trading partners, and would correct an overstatement of a surplus U.S. trade position.

In what promises to be a trying period of bilateral trade problems, it is important that the United States continue its strong world leadership for continuing an open and free market oriented trade policy. We must at the same time continue to carry out the mandates of the Trade

Act in order to sustain public and Congressional support for this policy.[2]

[2] Attached but not printed are two annexes. One describes two upcoming meetings where trade issues would be discussed (the May UNCTAD meeting in Nairobi and the June OECD meeting in Paris); the other consists of charts outlining pending escape clause actions, pending antidumping cases, pending Section 301 cases, pending countervailing duty actions, unfair competitive practices in import trade, and the principal suppliers affected by pending trade actions.

240. Memorandum From the President's Assistant for National Security Affairs (Scowcroft) to President Ford[1]

Washington, May 5, 1976.

SUBJECT

International Trade: Impact of Recent Trade Act Decisions

The Trade Act of 1974 substantially liberalized the conditions under which American manufacturers may seek relief from competition from imports. The International Trade Commission (ITC), which evaluates the claims of injury filed by U.S. firms, has generally recommended a more "protectionist" line than is consistent with your international trade position. This has presented the government with a basic question on the overall direction of U.S. trade policy and you with some difficult individual decisions on the specific cases which have come before you. The Presidential discretion provided by the Trade Act has made it possible for you to avoid the possibility of a "trade war", which could have slowed worldwide economic recovery and possibly wrecked the multilateral trade negotiations in Geneva.

[1] Source: Ford Library, National Security Adviser, Presidential Subject File, Box 24, Trade (6). Confidential. A stamped notation indicates the President saw the memorandum, which he initialed. Sent under cover of a May 1 memorandum from NSC staff members Malcolm Butler and Timothy Deal to Scowcroft that notes: "The Trade Act has posed some very difficult choices for the President, particularly in this election year. Overall, however, his decisions have served to reinforce our position as a leading advocate of a more open world economy and underscored our desire to promote the free flow of resources essential to economic growth and global welfare."

The overall pattern of these decisions has reaffirmed your commitment to a more open international economy and given credibility to our consistently stated belief that the free flow of resources and products among nations results in the greatest contribution to global welfare. More specifically, it has:

—Eased, at least for the moment, concern among our developed trading partners about increased U.S. "protectionism." We can expect to hear the theme repeated, however, whenever this country moves to protect American firms and workers from subsidized foreign competition. In the steel case, there was initially a lot of finger-wagging abroad about the decision, but the main foreign suppliers realize that the Orderly Marketing Agreements which we are now negotiating are far preferable to the five years of quotas which would have gone into effect had the recommendation of the ITC been allowed to stand.

—The developing countries see in these decisions reaffirmation of the United States' commitment to provide better access to its markets for efficient and competitive foreign manufacturers. Brazil and Taiwan in the case of footwear, and Korea and again Brazil in the case of ceramic tableware, are examples.

—The decisions have minimized the possibility of the U.S. having to provide compensation or face retaliation by our trading partners as permitted under GATT in the case of escape clause actions. This retaliation would have in effect shifted the burden of supporting an inefficient domestic producer to elements of our export sector which are truly competitive. Our trading partners have seen that you have been willing to accept political risks, and even possible short-term economic losses as inefficient U.S. producers readjust, in support of your conviction that the world is best served by an increasingly liberalized trading environment.

—In some cases the reaction of U.S. manufacturers has been strong, but in critical cases the Administration has worked to reduce this adverse reaction by discussing the threat of decisions with industry in advance. At the same time the U.S. has shown itself willing to protect industry threatened by outright export subsidies abroad by holding to a firm line in countervailing duty cases.

These issues will continue to arise in coming months. The pattern of decisions has demonstrated that you intend to weigh these cases in terms of their merits and their impact on overall national interests—including those of the consumer—and will serve notice here and abroad that the U.S. will not yield to protectionist pressures to shield inefficient industries from international competition.

Attached at Tab A is a brief summary of the status of the cases which you have decided this year, as well as a listing of other important trade actions pending before the ITC or the Treasury Department.

Tab A

Paper Prepared in the National Security Council[2]

Washington, undated.

TRADE ACTIONS TAKEN AND PENDING

Actions Taken

Specialty Steel.

You directed the Special Trade Representative to negotiate Orderly Marketing Agreements with the major suppliers (Japan, Common Market, Sweden, and Canada). If agreements are not reached, import quotas will go into effect on June 14. We are currently discussing marketing arrangements with Japan and the Common Market. The prospects are that they will eventually agree to participate, although we can expect the issue to go down to the wire. Approximately $200 million in trade is involved.

Footwear.

You decided against the ITC's recommendations for import relief and instead ordered expedited adjustment assistance for workers and firms of the footwear industry. Reaction to the decision in Spain, Italy, Taiwan and Brazil, as well as among unaffected countries concerned about the "protectionist" trend in the U.S., has been uniformly favorable. Total U.S. imports of non-rubber footwear amounted to $1.1 billion in 1975.

Stainless Steel Flatware.

You determined that the protection which has been in effect for 12½ of the past 16½ years should be allowed to lapse since some elements of the industry have been able to adjust to import competition. Trade in the protected tariff categories amounted to $30 million in 1975. Japan, Korea, and Taiwan stand to benefit most from the decision.

Ceramic Tableware.

You decided to terminate or phase-out escape clause duty rates on these products. Japan has been the principal foreign supplier, but your decision should open up the market to imports from Korea and Brazil.

[2] No classification marking.

Iron Blue Pigments.

The ITC found injury and by a 5–1 vote recommended increased duties on these products. Your decision in this case is due by June 2. Total trade involved is less than $2 million.

Shrimp.

The ITC finding is due on May 17. Your decision must follow 60 days thereafter.

Stainless Steel Wire.

The ITC finding is due June 12, with your decision required within 60 days.

Automobile Dumping.

This case involves all major foreign producers of automobiles, approximately $7.5 billion in U.S. imports. Secretary Simon will decide tentatively on May 11 that there have been sales at less than fair value. This decision will not be final, however, and a further investigation of injury to the U.S. industry by the ITC must follow. Nonetheless, customs appraisement will be withheld pending resolution of the case, and this will have an obvious dampening effect on imports. Reportedly, German autos will be hardest hit by the decision.

241. Memorandum From Secretary of Commerce Richardson to President Ford[1]

Washington, September 20, 1976.

SUBJECT

Report of the EPB Task Force on "Services and the Multilateral Trade Negotiations"[2]

This memorandum is to inform you of the work of the Economic Policy Board's Interagency Task Force on "Services and the Multilateral Trade Negotiations."

[1] Source: Ford Library, L. William Seidman Papers, Box 62, Economic Policy Board Subject File, E.P.B.: Task Force on Services and the Multilateral Trade Negotiations (1). No classification marking. Sent for information.

[2] The full report, which is over 300 pages long, is ibid., E.P.B.: Task Force on Services and the Multilateral Trade Negotiations (2).

Background

For the past 20–30 years, services have been providing the majority of U.S. economic and employment growth. Today services account for close to two-thirds of U.S. economic output and consumption (65.3% of GNP in 1974—52.4% excluding government). Roughly two out of every three Americans in the work force are employed in the services sector.

The Trade Act of 1974 included "services" for the first time within the President's trade negotiating authority. This inclusion was at the behest of service industry representatives who stated that their international problems had not received adequate attention by the U.S. Government.

In February 1976 the Executive Committee of the Economic Policy Board established an interagency Task Force on Services and the Multilateral Trade Negotiations (MTN), chaired by the Department of Commerce. The Task Force was directed to: review international issues and problems of significance to U.S. service industries; describe forums which exist for international cooperation on these issues; assess the adequacy of the forums for addressing these issues; identify appropriate approaches to the solution of the problems and the relationship of such approaches to the Multilateral Trade Negotiations.

The Task Force has now completed its work. The international problems of 18 individual service sectors—ranging from accounting to transportation—have been identified and analyzed, as have the governmental mechanisms for addressing these. Based on the work of the Task Force, the Commerce Department has prepared a report, "U.S. Service Industries in World Markets: Toward Improved Policy Development." This report and its recommendations have now been reviewed and approved by the Executive Committee of the Economic Policy Board.[3] The following is a summary of principal findings and recommendations which may be of interest.

Summary of Selected Findings

- The services sector is of increased importance not only to the U.S., but to developed countries generally. (The portion of Gross Domestic Product accounted for by services in each of 13 OECD countries exceeds 50%—as it does for the average of all OECD countries.)

- Service sector participation in international markets is large and growing—and its international problems have *not* received adequate government attention.

[3] Documents generated during the EPB consideration of the report are ibid., E.P.B.: Task Force on Services and the Multilateral Trade Negotiations (1).

• Service sector participation in international markets is predominantly associated with investment rather than with trade. About 86 percent of estimated U.S. service sector sales overseas result from investment in foreign affiliates; exports account for only 14 percent. (To a considerable extent this is inherent in the characteristics of "services." Most, by their nature, cannot feasibly be shipped.) Service sector affiliate sales abroad are estimated at about $43 billion for 1974—nearly one-fifth of all U.S. non-petroleum affiliate sales overseas. (Upon proper analysis, trade, by contrast, amounted to only $7 billion in 1974.)

• Service industries face a variety of international problems, most of which are, in whole or in major part, *investment*-related rather than trade related. Aside from a few industries with very complex problems, service industry *trade* problems are less significant, scattered and heterogeneous.

• Five of 18 services industries examined now have serious international problems: air transportation, maritime transportation, insurance, motion pictures, and construction/engineering services. Problems for other service industries presently are not, on the whole, serious—but, for a variety of reasons, seem likely to increase in significance in the future.

• Most service industries' investment problems, and some of their trade problems, are similar in kind to those of goods-producing industries. Only a few service industries have complex trade or trade/investment problems that are unique to the particular industry sector.

• Existing forums for international cooperation on investment problems appear as adequate for service industry investment problems as they are for goods-related problems. While there is clearly a need to improve the effectiveness of existing forums, new investment forums are not needed.

• While it is the case that service industry trade-related problems have not been addressed in previous trade negotiations, the wholesale introduction of services into the MTN is to be avoided. Substantively, it would not be wholly appropriate; and practically, it would likely be counterproductive.

Summary of Selected Recommendations

It is agreed that, as a general matter, a responsible and comprehensive approach toward the better solution of the service sector's international trade and investment problems would:

• Introduce service industry trade problems into the MFN in a highly selective manner calculated both to maximize chances for successful negotiations and to pave the way for future negotiations, focusing on those service industry non-tariff barriers (NTBs) most similar to goods NTBs;

• Continue to treat certain complex service sectoral problems on a sectoral basis through existing industry-specific forums, paying increased attention to the insurance industry—which generally has been overlooked by the government;

• Treat generic investment-related services problems within the existing investment forums, but providing increased emphasis on the problems of greatest concern to the service industries;

• Provide a focal point within the government for addressing service industry international problems and for improving the government's contact with the service industries; and

• Improve the longer-run ability of the government to handle present and future service industry trade and investment problems by beginning to increase the analytic, data-gathering, and policy development resources focusing on services.

The Report makes 27 specific recommendations which are consistent with this general approach. Among these, the following are noteworthy:

Re: Services and the MTN

Recommendation (1): Service industry trade problems should be raised for discussion in the MTN on a carefully-selected basis, focusing on those problems most similar to the goods-related NTBs already scheduled for discussion.

Recommendation (2): The wholesale introduction of service sector negotiations for either services as a whole or for individual service industries should be avoided in the MTN.

Recommendation (4): As services have not previously been dealt with in multilateral trade negotiations, realism should be maintained and the generation of undue expectations of success is to be avoided. A longer-term objective in raising services in the MTN should be to put our trading partners on notice that greater attention will be paid to services in future negotiations.

Re: Government Industry Consultation

Recommendation (6): A service sector "ISAC" (Industry Sector Advisory Committee—as established in connection with the MTN) should not be created.

Recommendation (7): A "Service Industries Consultation Committee" should be established under the auspices of the Department of Commerce. This committee would be comprised of industry and labor representatives of those service sectors that participate most heavily in international commerce, but should not focus on the transportation industries which already possess good communications channels with the government.

Re: Government Organization

Recommendation (12): A Commerce/State/Treasury/Labor/STR committee, chaired by Commerce and reporting through the EPB, should be formed to focus attention on the international trade and investment matters relevant to the service industries—on a routine, ongoing basis.

Re: Services and Investment

Recommendation (15): The analyses in this study tended to indicate the mix and priority of service industries' investment problems differed from those of the extractive and manufacturing industries, but the analyses were not conclusive. This point should be discussed in the Service Industries Consultation Committee. Its advice should be employed by the joint committee recommended in (12) to determine whether and how the government's process of assigning priority to individual investment issues should be modified.

Recommendation (16): The joint committee should also determine the means by which specific investment problems of the service industries can be more fully included in bilateral investment discussions, particularly with LDCs.

Re: Services and the LDCs

Recommendation (18): The creation of small and inefficient service companies by LDCs can in many instances retard, rather than advance, economic development by consuming resources in a less than optimal manner. Barriers to foreign service companies can also retard technology and managerial know-how transfer. A study of the economic behavior, contributions, and costs of service industry investments in LDCs should be initiated. Its results, both positive and negative, should be provided to U.S. service industries, developmental agencies, and appropriate LDCs.

Recommendation (19): The joint committee recommended in (12) should investigate the means by which specific investment problems of service industries can be more fully included in bilateral investment discussions with LDCs and in multilateral investment discussions—particularly in UNCTAD.

Re: Selected Sectoral Initiatives

Recommendation (21): The joint committee recommended in (12) should develop a detailed proposal for upgrading the existing OECD insurance mechanism into a forum that addresses the fundamental disagreements that now exist regarding liberalization of insurance in the developed countries.

Recommendation (22): The joint committee should also investigate the means by which specific U.S. insurance industry complaints can be discussed with particular LDCs in bilateral negotiations, and should review strategies and approaches taken by the United States with regard to insurance in UNCTAD.

Implementation of the full set of recommendations should improve significantly the U.S. Government's capacity to address this important area of emerging importance and interest: the services sector in the international economy. Progress will be monitored through the new committee noted above—with reports to you, as may be appropriate, through the EPB.

Eliot L. Richardson[4]

[4] Richardson initialed "ELR" above his typed signature.

Commodity Policy; North-South Relations

242. Memorandum From Secretary of the Treasury Shultz to President Nixon[1]

Washington, June 25, 1973.

SUBJECT

U.S. Position on International Development Association and Asian Bank Funding

I would like to confirm with you an approach to further funding for the International Development Association and the Asian Development Bank that has been agreed to by the National Advisory Council.[2]

Decisions are needed this summer on the next three-year replenishment of the International Development Association (IDA)—the World Bank's soft loan organization. The U.S. is now contributing 40 percent to IDA, $320 million per year in FY 1973–75. Our first appropriation for the next replenishment will not be until FY 76, but we must make a firm commitment in principle this summer so that legislative actions to authorize the replenishment can be completed by July of next year when IDA will need to start committing the new funds.

The main issues on our contribution are:

—*U.S. share*—we apparently have convinced McNamara and can get agreement from the other donors that the U.S. share of IDA financing should drop from 40 percent to one-third.

—*Level*—McNamara wants a major expansion of IDA from about $800 million to about $1.5 billion per year; other countries appear willing to support this higher level if the U.S. provides one-third.

—*Policy Shifts*—we should agree to a substantial increase in our IDA contribution only if we get policy assurances from McNamara on several operational issues.

—*Congressional*—we also need to consult with key Congressional chairmen to bring them along in the decision process and improve the chances for eventual appropriation action.

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[1] Source: Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 3, 6/22–26/73. Confidential.

[2] Administration officials had been considering and negotiating with World Bank President Robert McNamara the U.S. contribution to the fourth replenishment of the International Development Association for several months. Documentation is in the National Archives, RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 59–79–15, Box 2, IDA; and ibid., Box 3, International Financial Institutions. A June 8 summary of the National Advisory Council "Report on U.S. Role in Multilateral Development Assistance" is ibid.

What We Want from IDA

In exchange for a U.S. commitment to fund IDA at substantially above the current level we want McNamara to agree:

—to reprogram IDA lending so as to provide about $100 million per year from IDA for Indo-China (mainly South Vietnam) beginning in 1974, plus some ordinary World Bank funding when feasible and a leadership role on international assistance for Indo-China;
—to take further steps toward a more independent audit system consistent with the intent of GAO's recommendations;
—to tighten up some of the Bank's policies such as on expropriation.

Relationship to Other Assistance

Assurance of a substantial IDA role in Indo-China, which will reduce the requirement for bilateral assistance by about the same amount as we increase IDA funding, would mean we can afford the increase in IDA without increasing our total foreign assistance budget. The substantial increase in IDA flows financed by contributions from others—for every U.S. dollar IDA will get two more dollars from others—might also relieve our bilateral requirements in such countries as Indonesia and Pakistan.

Our review in the National Advisory Council indicates that appropriations for the various international financial institutions should level out at about the FY 74 level over the next four years even with higher IDA requirements (Tab A),[3] primarily because the rapid economic development of such Latin American countries as Brazil means that less soft loan-type funding is needed for the Inter-American Bank.

Asian Development Bank (ADB) Special Funds

Also related to financing for South Indo-China is the replenishment of the Asian Development Bank's soft loan funds (special funds). We have not yet contributed to these, but others have put in about $250 million, which is now almost fully committed. ADB lending in South Indo-China of as much as $50 million a year would, as in the IDA case, reduce demands on us.

An attractive special funds replenishment development is available to us. We would put up the same tied $100 million contribution that has been pending in Congress. This "double duty" contribution, plus a new $50 million in FY 1975, would be matched by a new $375 million contribution by others. This would give us a cumulative share of 20 percent, compared to the one-third others had previously sought from us.

[3] Attached but not printed is an undated chart, "Illustrative Future Appropriations Request Levels for International Financial Institutions."

Decision

Before we take a final decision on the level of our IDA commitment we need to see what can be worked out with McNamara and what the Congressional reaction to an increase in the U.S. IDA contribution would be. If we can get satisfaction from McNamara on issues like those listed above and Congressional reaction is not too hostile, we would be prepared to go up to a U.S. contribution of $500 million a year beginning in FY 76.

As with IDA, we need to determine congressional willingness to go along with the ADB special funds proposal. But we also need to decide that we can and will apply enough effort to get the $100 million for ADB special funds that is in the FY 1974 budget, and around which the whole scheme is built. If we are satisfied on these two aspects, we should proceed to wrap up the package with other donors later this summer.

It will be important in terms of successful legislative follow-up to the above decisions to give special attention to Mr. Passman and convince him and other Congressional leaders that you fully support these proposals. I will also be coming to you later in the summer for help with Mr. Passman and others on the pending FY 1974 appropriations for these institutions. Still later in the year, I intend to being you up to date on lesser proposals involving the African Development Bank and the International Finance Corporation. Illustrative funding for these in FY 75 and later is included in Tab A.

Recommendation: That you concur with the above action program for IDA and ADB replenishment, and authorize me (a) to seek congressional support for it, and (b) to negotiate with other donor countries and the bank managements.[4]

George P. Shultz

[4] The President did not indicate his approval or disapproval of the recommendation. On July 5, Kissinger forwarded Shultz's memorandum to the President and recommended approval of the proposed funding increases. Kissinger noted that increased funding for the IDA would permit it "to play a significant role in helping finance reconstruction requirements in Indochina. I am working with Secretary Shultz to assure maximum support from the World Bank for these needs, and we would not go forward with the increased funding recommended for IDA unless we are assured that such support will be adequate. If we are successful in inducing IDA to play a substantial role in Indochina, that would also help to get other countries to provide substantial assistance of their own on a timely basis." He also observed that the possibility of annual $50 million ADB reconstruction loans to Indochina represented "an attractive proposition." The President initialed his approval of Shultz's proposals on Kissinger's July 5 memorandum. (National Archives, Nixon Presidential Materials, NSC Files, Box 333, Subject Files, Inter-American Development Bank (IADB) (April 1969–August 1973))

243. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon[1]

Washington, August 8, 1973.

SUBJECT

International Financial Institution Funding

Tab B is a memorandum from Secretary Shultz asking for your help in gaining Congressional support for replenishment of the soft-loan resources of the World Bank and the Asian Development Bank.

The replenishment of these institutions is necessary not only to support our general objective of assisting economic growth in such priority countries as Indonesia but also to give us leverage in getting both the World Bank and Asian Bank to play a major role in funding Indo-China reconstruction, particularly in meeting the critical need for support of the South Vietnam economy.

You have already approved the level and basic strategy of these replenishments (Tab C).[2] Secretary Shultz is now carrying out Congressional consultations. He will complete negotiations with other donors in Nairobi this September[3] and then submit authorization legislation later this fall.

The Secretary believes it is essential for you to show your personal support in three ways:

—A letter from you to him that he can show to key Congressmen supporting the additional funding as essential to your foreign policy;[4]

—A commitment from you to talk with Mr. Passman if such an intervention is needed to get appropriations; apparently the Secretary is worried about this year's appropriations, not the funding of these

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 333, Subject Files, Inter-American Development Bank (IADB) (April 1969–August 1973). Confidential. Sent for action. A stamped notation on the memorandum indicates Nixon saw it.

[2] Attached but not printed. See footnote 4, Document 242.

[3] The IMF and World Bank Boards of Governors held their annual meeting in Nairobi September 24–28.

[4] In a July 30 memorandum to Kissinger, Cooper, noting that "McNamara is concerned with U.S. delays on the World Bank (IDA) replenishment," reported that McNamara wanted to convene the Indochina donors group before the September World Bank meeting in Nairobi, but required "a harder U.S. position on the IDA replenishment to do so." However, Shultz wanted to engage in further Congressional consultation before making the administration's position public and thus needed the Presidential letter "promptly to contact Congressmen before the August recess." (National Archives, Nixon Presidential Materials, NSC Files, Box 333, Subject Files, Inter-American Development Bank (IADB) (April 1969–August 1973))

institutions in future years; your assistance may be needed to get the necessary funding for the Asian Bank this year.[5]

—Your agreement to a Presidential transmittal of the authorizing legislation this fall.

The Secretary also raises U.S. participation in the African Development Fund. There is a growing movement underway in Congress to provide for such participation, probably $15 million over three years. Funds for the African Fund were removed from the budget request this year because this is the lowest priority international financial institution. Secretary Shultz proposes that he play a passive role neither encouraging nor discouraging a Congressional initiative on the African Bank. This appears to me to be the best posture since our token contribution would not have major foreign policy implications.

Roy Ash, Peter Flanigan and Bill Timmons concur in the above and the following recommendations. Dave Gergen's office has approved the letter.

Recommendation

That you approve Secretary Shultz' recommendations.

Letter to Secretary Shultz[6]

Agree to Presidential transmittal this fall[7]

Tab B

Memorandum From Secretary of the Treasury Shultz to President Nixon

Washington, July 24, 1973.

SUBJECT

International Financial Institution Funding

You approved my recent proposals for future funding of the International Development Association and of the Asian Development

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[5] In an August 6 memorandum to Kissinger, Cooper discussed Shultz's belief that Passman would approve ADB funding for the 1974 fiscal year "only if the President tells him such funding is high priority. Treasury is vaguely aware that the White House has in the past told Passman bilateral programs such as supporting assistance have priority over international institution funding. Thus Shultz is nervous that his efforts to get ADB funding will eventually be undone here. It is impossible to tell what the key issues will be in the fall when these choices have to be made. A Presidential intervention with Passman may be necessary." Kissinger wrote on the bottom of Cooper's memorandum: "Pres. will do it but there is no sense making a treaty with him about it." (Ibid.)

[6] Tab A, Nixon's letter to Shultz, is Document 244.

[7] The President indicated his approval of this option.

Bank's resources for making low-interest, long-term loans, assuming certain policy understandings could be negotiated and adequate indications of congressional support obtained.[8]

We have met with other donor countries and had numerous contacts with Congress. I am confident that acceptable replenishment packages can be negotiated with reduced U.S. shares and including other policy goals we have sought.

I now plan on carrying out intensive congressional consultations with key committee chairmen in order to obtain, prior to the Nairobi meeting of the World Bank, an indication of congressional willingness to support legislation embodying our proposals. I would then negotiate with other donors at Nairobi to reach a firm international understanding with the expectation that legislation would be submitted to Congress promptly thereafter to authorize formal international commitments by the United States.

I need your help in the following ways:

1. A letter from you to me endorsing the replenishment proposals for the Association and the Asian Bank, to use as a basis for the congressional consultations and for mobilizing public support. I have attached a draft for your review.[9] This approach proved successful in 1958 in the effort to establish the Association, when President Eisenhower wrote a letter to Secretary Anderson.[10]

Recommendation: That you sign the proposed letter to me.

2. A Presidential transmittal of the authorizing legislation which we would send up after Nairobi (draft attached).[11] This would make it clear that these proposals have your personal endorsement.

Recommendation: That you approve the proposed transmittal.[12]

3. A direct intervention by you with Mr. Passman, if and when needed. He is the key factor in obtaining adequate present and future funding of these institutions. Such a need, if it arises at all, would likely come in September close to mark-up time, but it is important that I be able to indicate currently in my consultations with various members

[8] See Document 242.

[9] Attached but not printed. For Shultz's letter as signed by the President, see Document 244.

[10] For the text of President Dwight D. Eisenhower's August 26, 1958 letter to Secretary of the Treasury Robert B. Anderson, see Department of State *Bulletin,* September 15, 1958, pp. 412–414. See also *Foreign Relations,* 1958–1960, volume IV, Foreign Economic Policy, Document 154.

[11] Attached but not printed.

[12] The President did not indicate his approval or disapproval of the recommendation.

of Congress that you stand ready to contact Mr. Passman if the need arises.[13]

With your support, I believe we can gain Congressional approval for this program.

African Development Fund

Our contacts with Congress also revealed that there is a growing movement underway to move ahead now on authorizing a small contribution ($15 million) to a multilateral Fund of the African Development Bank for making long-term loans at low interest. Although we have stated our support for joining the Fund publicly in the past, we are not now members and have felt that in the light of our difficulties in funding existing programs the timing was not right for asking Congress for authority to join. We had therefore intended to put off any contribution until next year. While I would not encourage the current congressional effort at this time, there is no reason to discourage such an initiative. Accordingly, I propose to take a passive role, unless you wish me to take other steps.

George P. Shultz

[13] The President did not indicate his approval or disapproval of the recommendation.

244. Letter From President Nixon to Secretary of the Treasury Shultz[1]

Washington, August 11, 1973.

Dear Mr. Secretary:

Your report concerning means of replenishing the resources of the International Development Association and the Special Funds of the Asian Development Bank is most encouraging.[2] I share your confidence that we can find a method that meets the urgent needs of developing countries and at the same time is fully consistent with the interests of

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 333, Subject Files, Inter-American Development Bank (IADB) (April 1969–August 1973). No classification marking.

[2] See Tab B to Document 243.

the United States. I am pleased to know that you have already had numerous contacts on this subject with members of the Congress.

My view is that adequate funding of these institutions is vitally important, and that the United States should do its fair share. These organizations provide critically needed resources to finance development in many poor countries where the United States has important interests. More broadly, cooperative multilateral assistance of this sort is the logical and necessary complement not only for our own bilateral programs, but also for our initiative toward greater international cooperation in the monetary and trade fields.

The specific proposals you have described to me are, I believe, an appropriate response to the needs of IDA and the ADB. They are consistent with both the budgetary priorities we have established and the international financial position of the United States. I understand from your report that the United States share of IDA resources could be reduced from 40 percent to 33⅓ percent. Our contribution would be $1.5 billion with appropriations beginning in fiscal year 1976.

Regarding the Asian Development Bank, I understand that others are prepared to put up an additional $375 million over three years if we provide the $100 million contribution that is still pending before the Appropriations Committees, together with a further $50 million contribution. Altogether, the United States would then be contributing 20 percent of Asian Bank soft funds, with the Bank, in turn, guaranteeing at least $100 million[3] in United States procurement. The budgetary outlay and balance of payments effects of both these proposals would be spread out over a 10-year period.

I trust you will devote as much time as is necessary in the next few weeks to Congressional consultations in order to obtain, prior to the Nairobi meeting of the World Bank, an indication of Congressional willingness to support legislation embodying the foregoing proposals. I believe they are compatible with the concerns of both the Administration and the Congress. Having concluded your Congressional consultations, you should be in a position to negotiate with other countries at the Nairobi meeting a firm international understanding for each government to submit to its legislature. Upon your return from Nairobi with such an understanding in hand, I plan promptly to submit

[3] An earlier version of the letter reads "$100 million a year." (National Archives, Nixon Presidential Materials, NSC Files, Box 333, Subject Files, Inter-American Development Bank (IADB) (April 1969–August 1973)) Another copy of the letter indicates that the White House was responsible for the phrase, "at least $100 million." (Ibid., RG 56, Office of the Under Secretary of the Treasury, Files of Under Secretary Volcker, 1969–1974, Accession 56–79–15, Box 3, International Financial Institutions)

legislation to the Congress to authorize you to enter into formal international commitments on behalf of the United States.

I look forward to your further reports and wish you well in your negotiations at Nairobi. A successful outcome there, and its translation into completed legislation, will go far toward assuring the developing world that the United States intends to maintain its traditional concern for economic and social progress in a peaceful world.

Sincerely,

Richard Nixon

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245. Memorandum From Charles Cooper of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, August 16, 1973.

SUBJECT

NSSM on International Cooperation in Agriculture

Attached at Tab A is a NSSM on the above subject, redrafted according to your instructions.[2] A transmittal note to the President is attached at Tab I.[3]

I had extensive discussions with Joe Greenwald on this subject as a result of which he prepared an excellent memorandum, attached at Tab B, which is well worth reading. (Greenwald, by the way, is very impressive.)

I feel strongly that State should take the lead in the NSSM. USDA doesn't have the imagination, nor can we count on their being open minded. CIEP doesn't really have the right people, nor can we count on their taking as constructive an approach as might be desired. Although State isn't well-staffed for this job, there are some good staff

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–200, National Security Study Memoranda, NSSM 187. Secret. Sent for action. Concurred in by Kennedy.

[2] Attached but not printed. Kissinger did not sign this version of the NSSM. An inter-agency dispute delayed the issuance of the NSSM. Documentation on the inter-agency dispute is ibid. For the NSSM as signed, see Document 246.

[3] Attached but not printed. Kissinger did not sign the transmittal memorandum to the President.

people there who can do much of the work. Jules Katz, the Deputy Assistant Secretary for International Resources and Food Policy, who would presumably lead the study, is good, and I think will do the job the way you want it done.

As regards substance, there is near unanimity that a frontal attack on the CAP would be folly. However, the domestic political aspect of this problem will require careful handling. For the most part, U.S. farm interests can be expected to oppose strenuously anything that smacks of international commodity agreements. This problem could be serious if publicity about a more flexible U.S. approach to international cooperation in agriculture were to cause trouble while the Trade Bill is still pending. In my judgment, we have to get started—but carefully.

Recommendations

1. That you sign the memorandum for the President at Tab I.
2. If the President approves, that you sign the NSSM at Tab A.

Tab B

Paper Prepared by the Representative to the European Communities (Greenwald)[4]

Washington, August 15, 1973.

AGRICULTURE AND FOREIGN POLICY

With the embargo of U.S. soybean exports,[5] agriculture joined energy and money as top issues in U.S.-European relations. These economic problems have moved to the center of the Atlantic stage along with political/military affairs.

Agricultural policy has long been a source of conflict in our relations with Europe. We have argued and negotiated for access for our

[4] No classification marking.

[5] On June 27, the Nixon administration instituted a temporary embargo on soybean and cottonseed exports. On July 2, it lifted the embargo, replacing it with controls on exports; at the same time, the administration also instituted restrictions on scrap metal exports. On July 5, the administration restricted the export of an additional 41 agricultural goods. (*The New York Times,* June 28, July 3, and July 6, 1973) Under Phase IV of his Economic Stabilization Program, announced on July 18, the President promised that controls on agricultural exports would be rescinded once the new harvest was ready for sale. The President also suggested that further export controls would be unnecessary, provided there were no major crop failures or sharp increases in foreign demand. For the text of the President's announcement of Phase IV, see *Public Papers: Nixon, 1973,* pp. 647–653.

exports. The Europeans have developed a common agricultural policy (CAP) designed to favor domestic producers. The CAP is one of the concrete achievements of the European Community (EC) and it has major domestic political importance for most of the nine member states. The EC has made clear that its CAP is not "negotiable" in the next GATT round. At the same time, there are pressures within the EC for modifications to make the CAP less costly to both governments and consumers.

The recent emergence of protein and grain shortages has brought a new dimension to the agricultural problem. Previous discussions were based on the assumption of surplus production for commercial sale; it is now being suggested that we are entering a period of chronic shortages. There is no consensus on the long-term supply/demand prospects.

The resistance to changes in the CAP through the traditional negotiations for liberalization of imports and the possibility of a structural change in world agricultural supply and demand has led the EC to propose international commodity arrangements as the main approach to the agricultural phase of the GATT negotiations. The U.S. has in the recent past (February 1972), opposed commodity arrangements for temperate foodstuffs. Unless positions are modified, we are heading for another confrontation with the EC.

The present course of unwillingness to explore the commodity arrangement approach with an open mind seems calculated to continue the U.S.–EC stalemate in the agricultural area. Until the protein and grain crises, there was some support in the EC for the traditional trade liberalization (access) approach to agriculture. With the apparent change in the supply/demand situation, the Europeans are united in favor of the commodity arrangement formula. The only prospect of getting ahead in agriculture is for us to indicate a willingness to consider the European approach and find out what the practical possibilities are.

The first opportunity to signal this flexibility is at the GATT meeting in Tokyo.[6] In a Presidential meeting and/or the Shultz speech, we could state our willingness to explore the commodity arrangement approach to see whether it can be used to achieve the objectives of the GATT negotiations. In terms of our relations with Europe, there are substantial political advantages in emitting this signal as soon as possible.

Once the present impasse is thus unblocked, we can pursue discussions with our negotiating partners formally and informally, mul-

[6] A GATT ministerial meeting was held in Tokyo from September 12 to 14.

tilaterally and bilaterally. Although the EC has a common agricultural policy and the Commission is responsible for implementing that policy, it is of such domestic political sensitivity that informal, bilateral talks with key member states (first of all with France) and the Commission will be necessary. These bilateral exchanges can, of course, proceed in parallel with more formal multilateral discussions in GATT and OECD. Multilateral meetings (in existing organizations or ad hoc) can be useful in demonstrating publicly that we are trying to deal with the world food problem through international cooperation. But such meetings cannot replace, and should not be allowed to interfere with, serious substantive exchanges looking toward agreement among the major producers and consumers.

Before entering into these international discussions, we will need a better idea of (a) the long-term supply/demand picture for major agricultural products (b) the impact of the U.S. agricultural legislation on our trade and stock position (c) the kind of commodity arrangements which could serve U.S. interests and (d) the negotiability of various types of commodity arrangements. Such a study should not aim at a blueprint for world-wide commodity arrangements. Its purpose should be to provide broad guidelines or parameters for exploratory talks this fall. These talks should not be limited to the Europeans but also include other major suppliers (Canada and Australia) and consumers (Japan). Separate talks might be held with the LDC's. After these preliminary discussions with our trading partners, another interdepartmental exercise will be necessary to provide more precise negotiating instructions.

Recent developments in the protein and grain markets may provide the basis for a mutually satisfactory deal with the Europeans and Japanese. They are seeking reliable suppliers and we are looking for continuing access. If we try directly to force changes in the CAP and refuse to consider alternative solutions to agricultural problems, the likely outcome is a continuation of the present unsatisfactory situation. Continuing conflict in agricultural policy will inevitably have adverse effects on other aspects of U.S.-European relations.

Joseph A. Greenwald

246. National Security Study Memorandum 187[1]

Washington, September 5, 1973.

TO

The Secretary of State
The Secretary of the Treasury
The Secretary of Agriculture
The Director of Central Intelligence
The Director, Office of Management and Budget
The Chairman, Council of Economic Advisers
The Special Representative for Trade Negotiations
The Assistant to the President for International Economic Policy

SUBJECT

International Cooperation in Agriculture

The President is concerned about the foreign policy repercussions arising from the various problems associated with the international agricultural situation. Agricultural policy has long been a source of irritation in our relations with Europe, and the recent emergency of protein and grain shortages has brought a new dimension to this agricultural problem. The current high prices in world markets for agricultural commodities, and the reductions in PL–480 availabilities are also causing problems for many developing countries and for us in our relations with them.

It is evident that the upcoming discussions and negotiations with other countries must ensure that future international cooperation in agriculture develops so as to be responsive to the changing nature of the foreign policy, as well as the economic, problems in this area.

In view of the above, the President has directed that a study be undertaken to review the foreign policy implications of various U.S. international agriculture policies which might be put forward during international discussions of the world agricultural situation and cooperation. Taking into account the evolving supply/demand picture for major agricultural products, the study should include examination of:

a. How international cooperation can support U.S. agricultural legislation in increasing agricultural production and assuring farmers that increased production will not unduly depress the prices they receive.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1058, Institutional Materials, NSC Institutional Papers—September 1973 [4 of 4]. Secret.

b. The foreign policy implications of and likely response to various international commodity arrangements which might serve U.S. interests in the future.

c. Ways for improving and sharing the costs of meeting essential food needs of developing countries.

d. The negotiability of various forms of international cooperation in agriculture.

In conducting this study, the focus should be on ways in which international agricultural policies can affect our overall foreign policy objectives. The roles of the USSR and the PRC in international agricultural trade should be considered, as well as the interests of developing nations. Approaches that have been suggested by other countries and international organizations, as well as those currently proposed by the United States, should be considered during the course of the study.

This study should not attempt to lay out a detailed blueprint for future international cooperation, but to provide a general survey of the foreign policy implications of various international agricultural policies, of the broad possibilities for future international cooperation, and general guidelines for future discussions with other countries in this area. A more detailed study may be required at a later date.

The study should be conducted by an NSC Interagency Ad Hoc Group comprising representatives of the addressees and the NSC staff, and chaired by a senior official from the Department of State. It should be completed and ready for review not later than September 28, 1973.

Henry A. Kissinger

247. Memorandum From Richard Kennedy and Charles Cooper of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, September 7, 1973.

SUBJECT

Handling Reductions in PL–480

On September 6, the Senior Interagency Committee, chaired by Bridgewater[2] of OMB, approved a preliminary PL–480 country allocation for the remainder of FY–74 (Tab A).[3] The commodity availabilities in this preliminary program are far below the availabilities expected when the FY–74 budget was prepared over a year ago. The reduced availabilities reflect the short supply situation and high prices for almost all PL–480 commodities, particularly for wheat, corn, cotton and rice.

In fact, considering the short supply situation, Agriculture has stretched the literal interpretation of the law to find even these limited amounts of wheat and cotton are "surplus." This does not mean that additional availabilities will not be feasible later in the fiscal year. A review of the entire program and availabilities is scheduled for December.

During this planning exercise, we have had very much in mind the foreign policy importance of avoiding export controls if at all possible. Thus, we have not pressed Agriculture to go beyond the availabilities they have offered at this time.

Agriculture has been particularly sensitive to the foreign policy implications of providing the minimal needs of South Vietnam, Thailand, and Cambodia, and the domestic pressure to continue the humanitarian programs of the voluntary agencies and certain international organizations. Almost all the commodities available will go to the Southeast Asian and humanitarian programs, including Sahel relief. Even the voluntary agency programs have been cut substantially. Modest amounts of wheat are also available for Pakistan (100,000 tons), Bangladesh (100,000 tons), Bolivia (38,500 tons), Sudan (20,000 tons),

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 368, Subject Files, PL–480. Confidential. Sent for information. The attached NSC correspondence profile indicates that Kissinger noted the memorandum.

[2] Bernard Bridgewater was the OMB Associate Director of Defense and International Affairs.

[3] Tab A, a September 4 memorandum from Assistant Secretary of Agriculture for International Affairs and Commodity Programs Carroll Brunthaver to Bridgewater, is attached but not printed.

and Jordan (20,000 tons). A small amount of cotton is provided for Indonesia, and small amounts of commodities for a few other countries.

The preliminary plan will be implemented only gradually in a way which retains flexibility to make shifts as unexpected highest priority needs may develop.

However, this program does not provide commodities to meet a substantial number of high-priority requirements in important countries and to cover many existing commitments. We can expect the curtailment of PL–480 to lead to major problems with some countries and that many countries will increase their appeals to you and to the President to provide them more PL–480. The cutback in U.S. provision of food on highly concessional terms comes at a time of worldwide food shortages and prices more than double those of even a year ago.

Indonesia. The most serious country problem is Indonesia. We had planned to provide Indonesia over $150 million in commodities (at current prices) which will not be available under the preliminary program. We will fall far short of our consultative group pledge of food aid and, unless offsetting AID action is taken, short of our financial pledge to Indonesia because part of the pledge would normally be met with PL–480 cotton.

Pakistan. Without the recent flood[4] no PL–480 would be planned for Pakistan under the reduced allocation. As a result of our pressure we squeezed in the 100,000 tons of wheat already announced. Of this, 40,000 came from South Vietnam reducing its allocation to a minimum. Williams is now recommending 40,000 tons of feed grains and 40,000 tons of vegetable oil. We are examining shifts in the program to meet these requirements.

Title II. A substantial portion of the PL–480 program for the remainder of the year is allocated to voluntary agency and other humanitarian programs scattered in more than 50 countries. These programs are strongly supported by church groups, CARE and numerous Congressmen. These programs were cut substantially last year, particularly when milk was no longer available under PL–480. Substantial additional cuts are being made now. Agriculture and AID both argue that further cuts would risk a major public, press and Congressional reaction against the Administration and the PL–480 program if these feed-the-poor programs are further reduced and the strong U.S. voluntary agencies forced to further dismantle their feeding programs—a major part of their international efforts. We also would risk some charges internationally that we were backing away from our traditional support of humanitarian programs which were not "politically oriented."

[4] During the final 2 weeks of August 1973, Pakistan experienced devastating floods.

Other important commitments which would not be fulfilled include:

—Korea: About $175 million of commodities—the entire program—has been cut; most of this program is part of the offset for the textile agreement.

—Israel: About $6 million of commodities in already signed agreements will not be available.

—Portugal: About $8 million of feed grains—part of the Azores Agreement.

—Bangladesh: An additional 250,000 tons ($45 million) of wheat promised in the consultative group.

Because of the virtual doubling of prices, even if the commodities were available, the original PL–480 program would have to be cut sharply to stay within budget allocations. The reduced program will use 80 percent of the budget allocation.

Later this year, modest additional availabilities may meet some of the most essential requirements listed above. We do not believe this is the time to press Agriculture for additional availabilities. We should first examine in some detail the full implications of living with the present program. In some cases, such as Indonesia and Pakistan, reallocations of AID funds might provide at least partial offsets, although AID funds will be limited this year. In some cases, we may be able to reach agreement with recipients to postpone shipment to FY–75. In some cases we shall have to bite the bullet and tell countries we simply do not have the commodities. Virtually all our commitments were made subject to the availability of commodities.

At our request State is preparing a paper laying out the implications of the PL–480 curtailment, including the alternative ways of offsetting the cuts and/or negotiating strategy for minimizing the effects on our foreign policy objectives.[5]

[5] The paper, entitled "PL–480 Cutbacks: Implications, Alternatives, Negotiating Tactics," was sent by Pickering to Scowcroft under cover of an October 1 memorandum. (National Archives, Nixon Presidential Materials, NSC Files, Box 368, Subject Files, PL–480)

248. Transcript of a Telephone Conversation Between the President of the World Bank (McNamara) and the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, September 18, 1973, 9:45 a.m.

K: Hello.

M: Hello, Henry, how are you?

K: Bob, how are you?

M: Fine. Say, I hate to bother you with my business but I got a problem now that is close to being your business. Let me sketch it to you very quickly. The meeting of the Bank and Foreign Governors starts in Nairobi next Monday.[2] On Sunday in Nairobi the Committee of 20 meets—the Finance Ministers in preparation for that Monday meeting as far as the monetary problems are concerned. On Saturday what are known as the Deputies of the Finance Ministers for the Renegotiation of the Fourth Replenishment of IDA meet. This matter was started last September and was supposed to have been settled in March of this year, it's been dragging on and on because the U.S. hasn't given an answer. All of the other countries have agreed on the formula at $1500 million of commitment authority per year for 3 years with the US percentage to be reduced from 40% to 33⅓%.

K: We've had a paper in to the President for weeks on this.

M: On Saturday of this week the whole thing was to be lined up with that. I just heard and I can't even disclose my—in fact I don't know the name of the guy in the government who gave us the information—but last night Shultz went over to talk to the President about this and the President said that Shultz said in effect that the Congressional support isn't strong enough to put through such legislation without the President's support, the President said "Well, he's got too much to do on military and certain other things that he can't support it."[3]

K: I have told the god-damned Shultz not to do this a hundred times.

M: Honest to god, Henry, it's the most inept thing I've ever seen. He told—I told the Treasury the other day I could deliver these Chairmen—look if they'll let me do it.

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[1] Source: National Archives, Nixon Presidential Materials, Kissinger Telephone Conversations, Box 22. No classification marking.

[2] September 24.

[3] The President and Shultz met on September 17 from 3:05 to 4:04 p.m. to discuss the September 12–14 GATT Ministerial meeting in Tokyo. (National Archives, Nixon Presidential Materials, White House Central Files, President's Daily Diary) No memorandum of conversation from this meeting was found.

K: Bob, it drives me up a wall. Shultz all summer long has had a memo into the President asking the President for his abstract commitment to support the replenishment. I stopped it and pulled it out of the President's office all summer long. Because you cannot ask a President to make an abstract commitment to do something.

M: Of course not. When you finally get down to the wire you want to say "Mr. President, would you just give Passman one call."

K: What I had tried to explain to the bull-headed professor that what good does it do—supposing he gets a Presidential commitment, then he gets to a crunch and needs a phone call, what's he going to do walk in with that paper and say you have a legal commitment to call Passman.

M: Henry, my information may be wrong but let me say one further word which is the real key to the thing. I'm out so god damn far on a limb with Vietnam I'm going to get my ass burned unless this goes through. I have a meeting tentatively scheduled with governments on the 17th of October in Paris to start organizing the financing of Vietnam.

K: Bob, it's going to go through. It is one of these insane, pedantic, economic nuttinesses that he's gotten into trouble with time and again because I told this stupid bastard not to raise it and when I stopped the memos he's gone into the President now and done it personally.

M: One reason for my thinking what I heard this morning is correct is that also this morning Shultz called and wanted to see me today so I'm going to see him sometime—unspecified—this afternoon—my guess is that—

K: See him late in the afternoon so that I can get to him.

M: I'll do that.

K: We will certainly be—this thing would be through now if it weren't for this stupid—

M: Absolutely insane. I'll leave it in your hands, Henry. I'll drop everything to see you or anything else.

K: Bob, I'm sorry I'm speaking so vehemently, but it seems to me the sort of battle that no skillful bureaucrat would ever fight.

M: It's insane, Henry. But we don't have much time.

K: I'll get right after it. It should have been approved to begin with.

M: OK, thanks.

249. Transcript of a Telephone Conversation Between Secretary of the Treasury Shultz and the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, September 18, 1973, 4:01 p.m.

K: George.

S: Hi Henry.

K: I hope you realize this that you might as well enjoy this for another week or so. I'm not getting on the phone first. As soon as I get sworn in I'm calling all my colleagues and put them on first.

S: Right.

K: Cause we've got to have a little discipline around here.

S: I'm shocked that my secretary let that happen. I've instructed her otherwise.

K: George, I had a phone call from McNamara[2] who had heard a rumor that you had gone to the President and asked him to commit himself to give us his support for the IDA replenishment and that the President turned that down. I don't know whether that's true. Now my view on this matter remains what it was. It is absolutely senseless to ask the President for an abstract commitment. He'll never give it. The time to do it is when the issue is concrete. Then he will do it if you and I urge it.

S: Well, I talked to the President about it because we have to take a position. On Saturday, this coming Saturday.[3]

K: But we have to be for it.

S: Well, we are for it.

K: Oh good. Are you going to tell this to McNamara?

S: We will but we just can't be for it because the Congress is not only chilly, the Congress is ice cold on this subject.

K: Yeah, but we've got to do it. We've just got to fight it and I know the President will say 100 times he is against but he won't do anything with Congress.

S: Well, he didn't say that, I was the only person there so how does McNamara know what I talked to the President about?

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[1] Source: National Archives, Nixon Presidential Materials, Kissinger Telephone Conversations, Box 22. No classification marking.

[2] See Document 248.

[3] September 22.

K: Well, that's what I would like to know. Well I don't give a damn whether McNamara is right. I just want to stress my strong view that we gamble and support it.

S: Well, I don't know about that. I don't know that that is the way to get the money but let me talk to you about it tomorrow because we are going to attempt to take a position on Saturday in Nairobi and then we're going to have to have something to say in my speech there on the subject.

K: Ok,

S: We have been working very hard on it as you know. It's just murder. Very discouraging. Ok.

K: Ok. Bye.

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250. Transcript of a Telephone Conversation Between the President of the World Bank (McNamara) and the President's Assistant for National Security Affairs (Kissinger)[1]

Washington, September 18, 1973, 5:15 p.m.

K: Hello.

M: Hi, Henry.

K: Bob, I don't know whether you talked to George yet.

M: No, I haven't.

K: I've given him hell today.

M: That's good. He deserves it.

K: And he swears he didn't exactly say what you think he said.

M: I hope not. I've gotten some other reports later today that if he didn't say it exactly that way, that was sure what he meant.

K: Well, you and I are having lunch tomorrow, and I'm going to take up this issue. I consider it of the most vital importance for the United States that this thing goes through. I don't think we should bargain with Congress before we even submit the bloody thing.

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[1] Source: National Archives, Nixon Presidential Materials, Kissinger Telephone Conversations, Box 22. No classification marking. All blank underscores are omissions in the original.

M: Henry, this is the point. It was the most inept approach to Congress that people in this ______ have heard. I've had several people tell me that today.

K: Of course Passman will say no if you ask him . . .

M: And so will the others. With the President impounding funds and not putting through the Democrats priorities, what the hell is the Democratic . . .

K: I wanted you to know, Bob, I think you should proceed on the assumption that we will do it.

M: Well, very good, and you can count on my help, Henry. And I think I can deliver some of these people at the proper time and under the proper circumstances.

K: Well, I will take it. I'm having lunch with George tomorrow. If I fail I will take it to the President in the afternoon.

M: Excellent, excellent, because George is leaving at 8:00 Thursday[2] morning.

K: Well, we can always instruct him by cable.

M: Well, that's very good indeed.

K: And I just want you to know that we can fail on that and I don't think it's been fully understood and if Congress wants to cut it it's still better than for the Executive Branch not to have submitted it.

M: Absolutely, Henry, and in the meantime you understand that if Congress cuts it I'm in the deepest of trouble. But in any case in the meantime I can get ahead with Indo-China and a lot of other things can fall into place.

K: Well, it can't be permitted to fail and I've already lined up Haig and between the two of us we're going to manage it.

M: Thanks very much for calling, Henry.

K: O.K. Bye, bye.

[2] September 20. Shultz attended the IMF and World Bank Boards of Governors meeting held in Nairobi September 24–28. See Document 53.

251. Memorandum From Charles Cooper of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, October 3, 1973.

SUBJECT

U.N. World Food Conference[2]

To warrant the attention you have given the U.N. World Food Conference it should do more than the FAO would have accomplished in the normal course. However, a forum which by its nature will tend to be dominated by the LDCs and problems of feeding poor countries is not a good arena to try to make progress in resolving our basic agriculture trade problems with Europe. We should try to structure the Conference so that we, the Europeans and Japan will be cooperating on the issues discussed, thereby laying a useful cooperative base which may be extended to accommodation on the basic trade issues in other forums.

We should also try to use the Conference to bring the USSR and PRC into more cooperative international relationships on such issues as food aid, food reserves and production-stock information. (The USSR is not a member of the FAO but presumably would participate in a U.N. Conference.)

The phrasing of your speech requires that the Conference focus on only two issues:

—*Food reserves.* The FAO has a proposal on the table for improved international consultation and cooperation in maintaining food reserves. Endorsement of this proposal, perhaps with modest modification, would be an important, but not very dramatic, accomplishments.

—*Disaster relief.* Cooperation in meeting natural disasters tends to be ad hoc, although the FAO is increasingly playing a coordinating role (Sahelian area and Bangladesh for example). Some formalization of such arrangements on a standby basis could be agreed, and we might

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–200, National Security Study Memoranda, NSSM 187. Confidential. Sent for information. Attached to an undated note from Scowcroft to Kissinger that reads: "You wanted this for your UN trip." Kissinger wrote on the note: "Chuck—Well done—but how do I proceed bureaucratically?"

[2] On September 24, Kissinger delivered a speech to the United Nations General Assembly entitled "A Just Consensus, A Stable Order, A Durable Peace," in which, among other things, he called upon the UN to convene a World Food Conference in 1974. For the text of Kissinger's speech, see Department of State *Bulletin*, October 15, 1973, pp. 469–473. It was printed in *The New York Times*, September 25, 1973, p. 18.

get additional participation from developed countries which are not food exporters and from wealthier LDCs.

The scope of the Food Conference could be expanded to make way for one or more U.S. initiatives which would give the Conference more significance. If we in the U.S. were prepared to take the lead on certain initiatives, the prospects are fairly good that others would cooperate. The level of concern with food supplies has reached a new high in most countries, and many political leaders are looking for ways to show they are protecting their consumers' interests in reliable and economical supplies. However, any initiatives will require some rethinking of policy within the U.S.

Among the possibilities for initiatives are:

—*World Food Bank.* The modest FAO proposals for national foodstocks could be extended to place some (perhaps modest) food supplies actually under international control or to provide for national stocks explicitly reserved for food aid. This could be in our interest in several ways. It might give other countries more security of supply and thus head off measures in Japan and the EEC to increase inefficient production at the expense of U.S. markets. Much of the food in the international reserve would be purchased from the U.S. with the money of others. An initiative to place some stocks under international control would help reduce fears that the U.S. will use scarce food as an economic or even political weapon. Access to the international food when needed would give the USSR and the PRC an incentive for constructive participation.

—*Food Aid.* Beyond disaster relief there is a need to rethink food aid in general. Should it be a surplus related program? Should the U.S. continue to carry so much of the burden? Can't food importers such as Japan be encouraged to participate more in food aid? We may have to take a legislative initiative on food aid domestically to establish the program on a sound basis without requiring surplus conditions. A domestic effort could be part of an international effort to do much more about hunger and malnutrition throughout the world. There is room for a dramatic initiative such as announcing that the U.S. would contribute 40 to 50 percent toward a recast world food aid program. The U.S. aid program is in deep trouble with the Congress and with the people. A new initiative focused on the direct people-related problems of agriculture production and nutrition might do much to rekindle support for foreign assistance in the U.S. Such an initiative would in fact represent only modest change in U.S. policies. We already are concentrating financial assistance on agriculture and food aid is already a third of our bilateral aid. But there will be resistance from domestic interests which want to concentrate all our efforts on expanding foreign commercial markets for U.S. farmers.

—*LDC Food Production.* Discussion of food aid virtually requires a discussion of LDC efforts to produce their own food. They should not rely on food assistance indefinitely. Both the U.S. and the international banks are focusing increased attention on helping the LDCs in the agriculture field. While the LDCs will focus on their food needs, the agenda could be structured to develop criteria under which food aid would make a maximum contribution to expansion of LDC agriculture production so that regular food aid could gradually be phased out, with appropriate allowances for requirements caused by natural disasters including poor food production weather.

—*Improved information.* In an inter-dependent trading system improved information on shifts in supply and demand are particularly important to allow production elsewhere to adjust and to avoid speculation. We shall want to urge improvements in information at the Conference, but our initiatives in this field will not give major importance to the Conference.

The NSSM now underway[3] will lay the basis for the needed work within this Government to permit one or more initiatives in connection with the Conference. But we still have a lot of work to do with Agriculture, Treasury, and even with the Economics Bureau of State. Agriculture has surfaced some interesting food stock and food aid proposals in a preliminary draft of the NSSM.

In the meantime it will be important to preserve our options as the mechanical processes move forward in New York. If we are going to take an initiative on food aid and food reserves, it might be useful to have the Conference in the U.S.—perhaps in the Midwest. (Duluth is interested.) Although the mechanical problems of having a Conference in the first half of 1974 would be great, an early Conference would keep the pressure on this Government and others to move now while the political reaction to food shortages is still fresh. If we wait until after the next harvest, the iron may grow cool or others may take initiatives, including modifying their domestic policies in an unfortunate way.

If you want to use the Conference to focus on international cooperation, it will be important not to let it become merely another Conference of agriculture ministers concerned primarily with their domestic policies.

Until we get more specific options laid out in the NSSM, you may not want to fix our position on the Conference. However, some exploration of possibilities with other governments would be helpful. Among the questions you might ask are:

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[3] Reference is to the study in response to NSSM 187, Document 246.

—Could agreement be reached on a standard procedure to coordinate disaster relief?

—Could the Conference be used to get an early decision to implement the FAO proposal on food reserves? Can this proposal be extended and some means found to require compliance?

—Would it make sense to have some food reserves held by an international organization for disaster relief? To help avoid sharp price fluctuations in commercial markets.

—Can international cooperation on food aid in general be expanded?

—Would countries which do not export food be prepared to contribute in cash for food aid?

—How can food aid be coordinated better internationally? Can criteria be developed and adopted so that food aid does not discourage agricultural production in LDCs?

—What other issues would be important in a U.N. Food Conference?

—What initiatives on food aid and stocks would receive support from your government?

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252. Study Prepared by the Ad Hoc Inter-Agency Group on International Cooperation in Agriculture[1]

Washington, undated.

SUMMARY

INTERNATIONAL COOPERATION IN AGRICULTURE

In this study we have attempted to outline:

—The general outlook for the food problem in the years to come;
—the principal issues with which we are likely to be confronted;
—the major objectives of the United States and other countries;

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–200, National Security Study Memoranda, NSSM 187. Confidential. This study was prepared in response to NSSM 187, Document 246. Sent to Scowcroft under cover of a November 16 memorandum from Katz, the chairman of the inter-agency group preparing the response to NSSM 187. An annex with Department of Agriculture comments on the study is attached but not printed.

—various possible approaches, with an assessment of their negotiability and of their compatibility with US foreign and domestic policy objectives.

Outlook

Barring some new catastrophe, the next twelve months should see adequate food supplies in the world to meet current commercial requirements, but not to rebuild depleted stocks. Therefore in the coming year there will be a considerable strain on food aid supplies for needy countries. They will be faced with reduced consumption because of high prices and because food aid from abroad (mostly from the United States) that has provided a margin above mere subsistence has been drastically curtailed.

In subsequent years we foresee increasing output, in the United States as a result of idle acreage being returned to production, and abroad as a result of the stimulus provided by current high prices. While we cannot predict the long term supply/demand balance, it is not improbable that we will again be faced, at least temporarily, with food surpluses and excess production capacity; nevertheless, we must also be prepared for occasional shortages.

Principal Issues

The uncertainties of the future evolution of the world food problem raise four major issues:

—How can we meet the concerns of food-importing countries for assurances of food supplies at reasonably stable prices so as to avoid stimulating uneconomic production?
—How can we ensure that essential food aid needs are met in future emergencies?
—How can we ensure full use of our comparative advantage in the production of basic foodstuffs to help sustain the recent improvement in our balance of payments?
—How can we best resolve these issues in a way compatible with

(1) our broad foreign policy objectives: close cooperation with our major allies, development of the LDCs, and improved relations with Communist Countries;

(2) our foreign economic policy objectives of reform of the international trade and monetary system;

(3) the general thrust of our domestic agricultural policy toward less government interference and greater reliance on the marketplace?

Interests of the United States and Other Countries

Different countries look at the problem from different viewpoints. The United States and other agricultural exporting countries (including many developing countries) emphasize a more efficient use of the world's agricultural resources; their main interest is in improving their access to the highly protected commercial markets, notably the European Community and Japan. The importing countries wish to limit their dependence on imports and justify that position in part because of their concern about stability of their agricultural sector and in part because of the desire for greater security of supplies. Countries dependent on food aid are interested in an uninterrupted flow of such aid. The United States, which has borne the main responsibility for stocks and food aid, is interested in sharing the burden with other developed countries and in reducing the need for food aid by promoting sound agricultural development in recipient countries. Most countries subscribe to the principle of providing an acceptable minimum income for farmers, but use different techniques, some of which have serious adverse effects on international trade.

A realistic approach to better international cooperation in agriculture must take these various interests into account. A package containing all four major elements—market access, supply assurances, food aid and farm income maintenance—should be more negotiable than any single element.

Possible Approaches

The individual elements of such a package can take different forms which need to be assessed in terms of their effectiveness, negotiability, and compatibility with U.S. foreign and domestic policy objectives.

Market Access

The U.S. continues to have a vital interest in maintaining and improving access to its major markets of Western Europe and Japan. Increased trade would help to maintain American farm incomes and to limit the costs of our farm programs. It would also improve the balance of payments and contribute to the growth of the GNP. Expansion of U.S. agricultural exports is necessary to maintain the traditional support of the American farmer for a liberal trade policy.

For a good many years the United States has kept some 60 million acres of farm land idle because of the existence of foreign trade barriers. In the wake of the recent upsurge of import demand, 25 million acres were brought back into production in the crop year 1972/73; another 10 million acres or more are expected to be added in the current crop year. All acreage restrictions have now been lifted and it is hoped that we can avoid reimposing such restrictions. However, we must reckon with the possibility that prices will fall to the point where we may again have to restrict acreage if support costs become too burdensome and the Commodity Credit Corporation accumulates excessive stocks.

The prospects for international arrangements providing for a gradual reduction of agricultural protection in developed countries are more favorable than might appear from official pronouncements. The Common Agricultural Policy has come under widespread criticism in Europe because of its cost to consumers and taxpayers. At the same time, European agriculture is becoming more efficient and therefore better able to meet international competition. Consumer concern about inflation is growing in Japan and elsewhere. The concern over the current tight supply situation may also contribute to a willingness to enter into serious negotiations.

This study outlines several different approaches to improve market access. United States policy makers may continue to prefer the application of the traditional techniques of trade liberalization to agriculture. But they should also be aware that alternative approaches which may be compatible with the temporary retention of existing *techniques* of support and protection such as quotas and variable levies may turn out to be more negotiable. It might also be useful to consider other approaches such as agreement on self-sufficiency ratios. The use of rubrics which are, at least, partly presentational in their design such as the concept of "commodity arrangements" which has wide appeal abroad may also help. (Unlike traditional commodity agreements, such commodity arrangements need not contain price provisions.)

Farm Income Maintenance

As part of whatever approach is followed to obtain improved market access, an international agreement could spell out the measures unlikely to interfere significantly with the functioning of the world market such as adjustment assistance, income deficiency payments, payments for retirement of farmers and farm land, subsidies to mountain farmers, etc.

Security of Supplies

The relative stability of world agricultural markets in the postwar period has been due primarily to the existence of adequate government-held stocks in the United States and in Canada. These stocks have for the time being been depleted.

Present U.S. policy is to encourage all-out production and rebuilding of stocks entirely by the private sector: The private trade and farmers who are encouraged to keep commodities in storage with the help of CCC loan programs and storage payments.

Can such privately held stocks be counted upon to provide an adequate cushion against major surges in import demand such as occurred in 1966 and 67 and again this past year? This appears doubtful. The private trade can hardly be expected to incur the heavy carrying charges (interest and storage) for the stocks required to meet a contingency which occurs only once in six years or so. Farmers could, of course, hold the stocks themselves under Government credit and financing programs, but they may want to dispose of their stocks when they feel the price is right and will not necessarily hold them for major shortage situations.

Some argue that the matter could be left to other exporting and importing countries. We could encourage these countries to build up their own stocks against a recurrence of major shortages. However, this approach would risk reinforcing existing autarchic tendencies in Europe and cause Japan to intensify its search for alternative sources of supply. It would therefore probably be to the advantage of the United States to participate in an international arrangement to build up and maintain adequate stocks, particularly of wheat.

An international food stockpile agreement could take several different forms. It could be designed to cover food aid needs only. This, however, would not meet the concerns regarding security of commercial supplies of our major trading partners.

Another issue concerns the degree of international control of world food stocks. It is generally agreed that it is neither necessary nor practical to build up a centrally managed "world food bank." The present thinking in the United States and elsewhere leans toward national stockpiles which would be subject to international rules and procedures concerning the size of stocks to be held by individual participants, and the timing of their replenishment and release. Stock levels and/or prices could be used to trigger action or as presumptive criteria which would be taken into account in international consultations. An agreement of this kind could help to provide (1) security of supplies at reasonably stable prices and (2) an equitable sharing of the financial burden among both food exporting and importing developed countries.

Complementing a world food security scheme, the United States could propose to negotiate a code of conduct containing rules and procedures concerning the imposition, administration, and phasing-out of temporary export restrictions as well as import restrictions. This would serve the dual purpose of greater security of supplies and greater security of access to markets.

For maximum effectiveness, any such arrangement should be part of our strategy in the multilateral trade negotiations and should be linked with U.S. objectives concerning improved market access and the phasing-out of subsidies.

Food Aid

Now that food surpluses are no longer assured, production for food aid must be deliberately planned. What priority should be attached to food aid as distinct from other forms of aid?

From the United States point of view, there are several advantages in supplying aid in the form of food so long as the United States has efficient agricultural production capacity which would otherwise be idle because of foreign trade barriers. This is not true to the same extent when we supply aid in the form of industrial products. Furthermore, there are budgetary advantages whenever market prices are below target prices, in that the Government saves on deficiency payments to the extent that PL 480 purchases help to raise the market prices. Finally, it is generally easier to obtain Congressional support for food aid than for other aid programs.

So far as food aid receiving countries are concerned, it has been argued that supply aid in the form of food may discourage domestic agricultural production. Aid according to this view should mostly take the form of technical assistance in support of agricultural development. Others point out that agricultural development is a slow process and that food aid will be needed for some time to come, not only to meet short-term emergency situations but also to mitigate widespread chronic malnutrition which is a major depressant of human productivity in many developing countries. Food aid policy should be reexamined, however, to see whether there are possible adverse effects (discouragement of agricultural production in developing countries and displacement of commercial trade) and if so, whether these can be minimized by ensuring, so far as possible, that food supplied on concessional terms leads to additional consumption.

Assuming food aid programs will continue, how can we assure that food is available when it is needed? An international stockpiling scheme as outlined above would go a long way to ensure that in times of shortage, those with the least ability to pay will not be the first to suffer. Additional security could be provided for food aid receiving countries by:

—providing food aid for stock building;
—providing additional financing of storage costs;
—or alternatively by building up separate food aid stocks in donor countries.

Here again, it would seem to be in the United States interest to operate its bilateral programs in the broad framework of an international arrangement that would share the burden among both food exporting and food importing developed countries. International guidelines could be developed which would establish the principles and operating procedures for food aid under bilateral and existing (and if possible expanded) multilateral programs. A list of recipient countries could be established, some of which would be eligible for food aid all of the time, and others eligible depending on the degree of tightness in world markets. In the United States, improved coordinating machinery may be needed to ensure effective allocation of food aid in accordance with U.S. international commitments and specific U.S. political, economic and humanitarian objectives in particular receiving countries.

Institutional Framework

The FAO is holding its biennial conference in November 1973. International agricultural adjustment and the Director General's proposal for a stockpile agreement are on the agenda. The U.S. could use this forum to outline the world food problem as we see it and to give some general indications of what we think needs to be done. We could also use the OECD as a forum for consultations with other major trading nations.

In the World Food Conference which the U.S. has proposed for 1974, the U.S. could spell out its thinking in greater detail. The Conference could serve to establish a broad policy framework for dealing with the world's agricultural and food problems.

The multilateral trade negotiations are likely to be the most promising forum for actual negotiations to tie all these elements together. It is only in GATT that we can bring the weight of non-agricultural negotiations to bear on agricultural trade problems.

Where appropriate, issues of concern to the UNCTAD and the FAO could be brought to these organizations for discussion and formal approval.

Further Study

There is a need for further review of U.S. policy in all of the areas covered in this study. Work is already in progress on the formulation of the U.S. position for the multilateral trade negotiations. We recommend that further studies be undertaken to examine in greater detail what alternatives are available to the U.S. in the fields of stockpiling and food aid, and the advantages and disadvantages of each. We need to examine possible incompatibilities between our domestic agricultural objectives and foreign policy objectives to see what changes need to be made. We should try to ensure, so far as possible, that our food policies are compatible with our broad foreign policy objectives and that they reinforce and do not conflict with each other.

[Omitted here is the body of the study.]

253. Memorandum From Charles Cooper of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, December 22, 1973.

SUBJECT

PL–480 in FY–75 Budget

OMB was cooperative in working out a satisfactory PL–480 budget for FY–75, including adding $70 million for Chile at our request. Given the expected tight wheat situation, use of this commodity was minimized wherever possible; for example, no wheat was included in the $105 million program for Indonesia. Until last week there was no disagreement concerning the FY–75 PL–480 budget either between us and OMB or between OMB and the agencies, and we expected to see a $934 million FY–75 PL–480 program of which about $250 million would be for wheat.

Flanigan Reopens Issue

However, at the senior White House review Peter Flanigan reopened the PL–480 budget to suggest that we show no funding request for PL–480 because the shortage of commodities may make it impossible for us to implement a PL–480 program.[2] This proposal from the international side of the house to save a large amount in the budget and reduce pressures on scarce food has been embraced by the domestic side despite our explanations that such a signal now on PL–480 would be a foreign policy disaster, and that actually eliminating wheat in next year's PL–480 program would cause severe financial problems in Indo-China and major political problems both here and abroad.

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 324, Subject Files, Foreign Aid, Vol. II, 1972 [1 of 3]. Confidential. Sent for action.

[2] Nixon administration officials had been discussing the implications of scarce food supplies for P.L. 480 allocations for several weeks. An October 1 Department of State paper, "PL–480 Cutbacks: Implications, Alternatives, Negotiating Tactics," attached to an October 19 memorandum from Cooper to Kissinger, summarized the issue. In his October 19 memorandum to Kissinger, Cooper reported on the inter-agency P.L. 480 negotiations, noting that "good progress is now being made in resolving many of the issues, and delay of another week will enable you to focus on the two or three key issues and avoid unnecessary involvement in minor bureaucratic skirmishes." (Ibid., Box 368, Subject Files, PL–480) On October 31, Cooper advised Kissinger to urge Shultz to permit the granting of CCC credits as a means of offsetting the effects of P.L. 480 cuts. (Ibid., Box 290, Agency Files, U.S. Treasury, Vol. IV, Sept. 19, 1973–Dec. 1973)

Options

In the subsequent staffing of the Flanigan proposal, it was agreed that the only commodities likely to be seriously tight in FY–75 are wheat and cotton. In an effort to reach a compromise, we suggested an option between no wheat and no cut under which wheat would be cut down from the original tight OMB mark but not eliminated. The two realistic choices now are:

—An $825 million PL–480 program stating that planned PL–480 levels for wheat have been reduced sharply to 1.9 million tons—the amount expected to be committed under the Food Aid Convention—in order to relieve pressures on the domestic market and that even this amount is subject to the conclusion of the international agreement. (This would be less than half the wheat provided when supplies were adequate.)

—A $618 million request stating that no wheat is being programmed at this time because of uncertainty of supply.

Flanigan, Shultz, Dunlop, CEA (Stein) and OMB (Bridgewater) favor the second option. Of the White House agencies involved, only NSC objected. State prefers no cut at all in the PL–480 program. USDA's position is less clear cut: they do not feel they need the PL–480 program for domestic reasons, but they agree with us that eliminating wheat from the FY–75 program will cause them considerable difficulty in their international discussions and cooperative efforts. At the senior staff level, where there is more understanding of PL–480 as a foreign policy tool, there is virtually no support in any agency for eliminating wheat from the FY–75 PL–480 program. Although this issue was stirred up by Flanigan, Shultz is probably the key man. OMB is submitting the issue to the President. A copy of the OMB memo to the President is attached at Tab A.[3] It is a very inadequate paper.

Basic Issue

The essential difference is whether:

—We announce that we expect to supply no wheat now and then supply it later when the domestic and foreign pressures to do so become severe;

—Or we announce a reduced wheat program now—but still enough to cover our most vital concerns—and cut back wheat and/or cotton later should supplies really be below USDA projections, which now show adequate but not "surplus" supplies.

[3] Attached but not printed at Tab A is an undated and unsigned memorandum from Ash to Nixon requesting a decision on the level of P.L. 480 assistance to be included in the FY 1975 budget.

Arguments for No Wheat Option

From the domestic aspect *alone* there are minor advantages to the first course. It signals the domestic consumer that the government will not let the price of bread increase even a tenth of a cent in order to give wheat away abroad. It also satisfies those such as Herb Stein who believe aid should be provided by Congress explicitly not through the back door of PL–480; a counsel of perfection as irrelevant as it is unobjectionable.

The Department of Agriculture is still predicting a good 1974 wheat crop with substantial increases in stocks which will be very low going into the new crop. Wheat prices have been stable but high at $5.00 to $5.50 for the past few months; the initial planting estimate for winter wheat is higher than Agriculture's target. There are many unknowns, not only on what the USSR and other producers will do next year but also on many production factors such as shortages of fuel and fertilizer. No one really has any data or analysis of these factors. Estimates have been wrong before and weather is always a major uncertainty. The wheat situation until the next harvest in June continues to look very tight; to date neither the Canadians nor Europeans have put as much of their wheat into the market as expected though USDA is engaged on this issue and expects progress. Shultz, Flanigan and John Dunlop are very concerned with the short-run wheat situation and this concern is carried over into the situation next year.

However, PL–480 at the 1.9 million ton level would take less than two percent of our wheat production. Moreover, most PL–480 recipients will buy the wheat anyway. What they will forego is investment goods to help with their development. Thus, no PL–480 wheat would at most save about half of one percent of our production, a virtually insignificant proportion of our wheat and an amount far within the margin of error of production estimates. OMB's paper argues that halting PL–480 is a way to avoid export controls—which no one wants. But the PL–480 volume is not significant in terms of our production or commercial exports. It will not be the difference between controls and no controls. Unfortunately tampering with PL–480 is one of the few things the government can do to show action on a serious domestic food problem. The numbers are instructive: see table.[4]

Flanigan's staff has told us that his principal concern is that, without a clear statement in the budget there may not be any PL–480 wheat next year, the State Department will make a lot of commitments for PL–480 around the world and U.S. interests will then be harmed when we cannot fulfill our commitments. Flanigan has of course overlooked

[4] Attached but not printed.

the fact that we already have numerous commitments both explicit (Korea, Indonesia) and implied (Indo-China, Pakistan, Bangladesh) and that such a damn-the-foreigner approach when the going gets tough at home would do immense damage to our foreign policy.

Arguments Against No Wheat Option

Title II. We have thus far been unable to get Shultz and Flanigan to focus on the domestic problems involved in the PL–480 Title II program—the humanitarian feeding of children and the destitute around the world by U.S. voluntary agencies such as CARE and CARITAS. Wheat is half the program of these agencies and they will promptly mount a probably effective campaign in the press, churches and Congress to force restitution of the Title II program. This program has the least foreign policy or economic importance but the strongest domestic support. The no-wheat option might result in Humphrey and McGovern pressing export controls in order to *permit* some humanitarian PL–480.

Indo-China Aid. Elimination of wheat would mean we would have to find a substitute source for about $70 million of economic support for Indo-China. Congress has just cut our appropriations for FY–74 Indo-China aid below the minimal level (cut from a minimum request of $634 million to $450 million.) Congressional cut in the DOD MASF budget threatens the economic support received indirectly. Congress is also trying to force PL–480 on to a loan instead of a grant basis in Indo-China; this would reduce the possibilities of loans from the Japanese and the World Bank (where the Scandinavians are working hard to block assistance for South Vietnam). In short, we cannot afford Flanigan initiatives that cost us dearly in Indo-China assistance.

If the decision *were* made to eliminate PL–480 wheat in the FY–75 budget, there should be an offset in the budget to provide increased money for other commodities—i.e. more rice instead of wheat for Korea and Chile—or increases in the AID budget which was put together on the assumption that a substantial PL–480 program for wheat would be available. OMB has not been willing to consider these implications, partly because the OMB staff firmly believes we will implement a PL–480 wheat program no matter what we say in the budget once the foreign and domestic pressures become sufficient to educate Shultz and Flanigan on the real nature of PL–480.

Food Aid and Foreign Policy. The most serious aspect of the signal Flanigan and Shultz want to give is its disastrous implications on our overall posture in the world and particularly on food aid in the year of the World Food Conference you have encouraged. We have always been willing to provide substantial food aid for humanitarian and foreign policy purposes. We have continued the PL–480 programs this year despite the pressure on supplies. Moreover, we have tried to get others to contribute food aid.

One of the concessions made by the Europeans in the Kennedy Round of multilateral trade negotiations was to agree to a Food Aid Convention under which substantial food aid was guaranteed to developing countries. The U.S. basically matches what other developed countries do. Renewal of this convention is now pending. We have told the other donors and the LDCs we are prepared to renew at least at the current level of 1.9 million tons of wheat. Only the EEC has been reluctant to renew. The Flanigan budget proposal would completely undermine our position, destroy the convention, and take the Europeans completely off the hook. In one irreversible action we will have moved from being the good guys of world food aid to being the villain.

We have already pledged wheat for the World Food Program run by the FAO. The FAO would have to stop projects in as many as thirty countries if our contributions are halted in mid-stream.

The announcement would create major bilateral problems with many countries. The Koreans would see that we intend to renege on our commitments in connection with the textile restraint agreement. Pakistan would add unavailability of wheat to unavailability of arms as a major thorn in our relationships. Bangladesh would see that its only hope of feeding itself is a closer tie with the USSR.

At Tab B is a talking paper we provided informally for use by senior staff people with their principals preparing for the "poll" by OMB on this issue.[5]

Bureaucratic Considerations. Beyond the substance of this issue which is very serious there are also major bureaucratic overtones. If Flanigan and Shultz are successful in marching minor domestic considerations over major foreign policy consideration on this issue, they will continue their pressures on many other issues. Flanigan is already well advanced in his work on AID and he is striking right for the foreign policy jugular by questioning how we divide aid among countries. He has such criteria as concentrating on countries that will be economic winners or dividing aid on a per capita basis or according to where the poorest people are. Only at our strong insistence is an option of using aid primarily for foreign policy purposes being inserted. Flanigan hopes to get a decision on this issue in his review group in January.

Recommendation

That you intervene in the strongest possible way with the President and/or with Secretary Shultz to assure that the FY–75 budget contains at least 19 million tons of wheat. You should also pass on your concerns to Roy Ash if you discuss the budget with him.

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[5] Attached but not printed at Tab B is a paper entitled "Why Our Foreign Policy Concerns Do Not Permit a PL–480 FY–75 Presentation with Less than 1.9 Million Tons of Wheat."

254. Telegram From the Department of State to Certain Diplomatic Posts[1]

Washington, February 5, 1974, 2253Z.

24223. Subject: U.S. Participation in IDA.

1. Action addressees requested deliver following letter from Secretary of Treasury George Shultz as U.S. Governor of International Development Association (IDA) to host country Governor of IDA (dated February 5, 1974): (Embassy Bern: Please provide to Minister responsible for IDA affairs):

Dear Mr. Governor:

I would like to express my deep concern, which is shared by the President and Secretary Kissinger, at the recent action of the U.S. House of Representatives in rejecting the administration's bill providing for U.S. participation in the fourth IDA replenishment.[2] The replenishment arrangements negotiated at Nairobi are, I believe, reasonable and fair, and deserve to be implemented. Let me assure you that the administration is firmly committed to continued U.S. support for IDA and will be making the strongest efforts to overcome this legislative setback in the shortest possible time.

I shall be keeping in touch with Mr. McNamara as our legislative situation develops.

With best wishes, sincerely, George P. Shultz, Secretary of the Treasury and US Governor, International Development Association.

2. Above letter intended reassure other participants in IDA fourth replenishment that U.S. administration intends continue efforts toward Congressional passage of legislation authorizing U.S. participation, notwithstanding House defeat of IDA bill on January 23. USG hopes that other participants will proceed with the process of obtaining their own legislation required for participation in replenishment. In this connection, Embassies may wish to call to attention of host governments

[1] Source: National Archives, RG 59, Central Foreign Policy Files. Unclassified; Priority. Drafted by Treasury staff member J. Finkel and approved by Director of Office of Development Finance Richard Benedick. Sent to Canberra, Vienna, Brussels, Ottawa, Copenhagen, Helsinki, Paris, Bonn, Reykjavik, Dublin, Rome, Tokyo, Kuwait, Luxembourg, the Hague Wellington, Oslo, Pretoria, Stockholm, London, Tel Aviv, Madrid, Belgrade, and Bern. Repeated Priority to USUN.

[2] On January 23, the House of Representatives voted against the proposed $1.5 billion U.S. contribution to the IDA.

that President's State of Union message (full written text submitted separately from speech text)[3] contained following: ". . . The Congress must continue to authorize and appropriate our fair share of both bilateral and multilateral economic assistance, including a substantial contribution to the International Development Association which helps the poorest countries. In 1973 we successfully negotiated a reduction of the U.S. share from 40 percent to one-third of IDA funds. We cannot let the action of the House in voting against IDA stand as our final answer. We will work hard with the Congress to ensure that this country continues to play a leadership role . . ."

Kissinger

[3] President Nixon delivered his State of the Union message on January 30. For the text of the message, see *Public Papers: Nixon, 1974,* pp. 56–100.

255. National Security Study Memorandum 197/Council on International Economic Policy Study Memorandum 33[1]

Washington, March 5, 1974.

TO

The Secretary of Defense
The Secretary of the Treasury
The Secretary of Commerce
The Secretary of Agriculture
The Secretary of the Interior
The Deputy Secretary of State
The Director of Central Intelligence
The Administrator, General Services Administration
The Director, Office of Management and Budget
The Executive Director, Domestic Council

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–203, National Security Study Memoranda, NSSM 197 [1 of 3]. Secret.

SUBJECT

Critical Imported Commodities[2]

The President has directed a further examination of the potential threat posed by foreign manipulation of the supply or price of critical non-fuel commodities. This study is to complement, and be coordinated with, the work on critical commodities being carried out by the domestic agencies under the chairmanship of Secretary Morton.

This study will use as a starting point the list being prepared in the domestic study of those imported basic commodities and intermediate products which are essential to the normal operation of the economy and to national defense preparedness and which are also vulnerable to artificial or natural shortages. The study should also utilize domestic agency work on the particular economic condition of each of these vulnerable commodities during the next three to ten years.

The study should be conducted in two phases. In the first phase each commodity and intermediate product on the above list should be reviewed for its potential effect on the U.S. economy, foreign economies and on the national defense. The first phase should also:

—Identify key producers and the forms producer action might take individually or collectively, such as cartel formation, export embargoes and price manipulation. The possibilities for natural shortages should also be identified.

—Identify the range of circumstances which might trigger adverse producer actions.

—Analyze the time frame within which producer country actions could make themselves felt.

—Assess the impact of commodity shortages or price increases on the economies of producers and consumers, including the impact on likely trade and investment patterns and on foreign policy trends.

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[2] At a December 6, 1973, Department of State staff meeting, Kissinger requested a study that examined "*those raw materials situations where,* like energy, the producing *countries may try* to form OPECs, drive up prices and then *use the situation for political purposes.*" (Ibid., RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Entry 5177, Box 1, Secretary's Staff Meeting, December 6, 1973) At his January 22, 1974, staff meeting, Kissinger requested further study "of the problem of use of raw materials as a weapon against the West or against selective targets by a combination of producer nations." (Ibid., Box 2, Secretary's Staff Meeting, January 22, 1974) Also in January, an attempt by Flanigan, Cole, and Ash, with the support of Shultz and Secretary of the Interior Rogers Morton, to initiate an inter-agency study on "Materials Supply" was quashed by the NSC for failing to address the national security and international economic policy aspects of the issue. Documentation is ibid., Nixon Presidential Materials, NSC Files, Box 1061, Institutional Materials, NSC Institutional Papers—January 1974 [1 of 2].

The second phase of the study should consist of an evaluation of U.S. policy options. This evaluation should include examination of measures the U.S. can take, individually or with other states, to safeguard against supply or price manipulation or natural shortages of critical commodities, such as:

—developing self-sufficiency; e.g., by encouraging development of domestic alternatives and substitutes;
—diversifying foreign sources of supply;
—developing an economic stockpile, perhaps as an adjunct to the strategic stockpile;
—consumer-producer cooperation; e.g., possible commodity stabilization agreements; and
—alternative responses to artificial price increases.

The study should be prepared by an Ad Hoc Group comprising representatives of the addressees and of the Assistant to the President for National Security Affairs and the Assistant to the President for International Economic Affairs, and chaired by the representative of the Secretary of State. The study should be forwarded not later than May 10, 1974 for consideration by the President.

Peter M. Flanigan[3]

Henry A. Kissinger

[3] Flanigan initialed "PMF" above his typed signature.

256. Memorandum From the Executive Director of the Domestic Council (Cole) to President Nixon[1]

Washington, March 19, 1974.

SUBJECT

World Food Policy

You requested that I staff a proposal made by Secretary Dent suggesting a Presidential plan for world food policy which was brought

[1] Source: National Archives, Nixon Presidential Materials, White House Special Files, Staff Member & Office Files, President's Office Files, President's Handwriting, Box 26, March 1974. No classification marking. Sent for action. A stamped notation on the memorandum indicates Nixon saw it.

to your attention by Julie and the Milligans (Tab A).[2] I have solicited the views on this initiative of Secretaries Shultz and Butz, Chairman Stein, Peter Flanigan and Ambassador William Eberle. It is our joint recommendation that, while the substance of the recommendation is a good idea and is already being carried out, it is not yet the right time to make it a major public initiative.

Background

Your Administration has launched two major international initiatives in the last three years, both of which relate directly to the proposal for a "Nixon Plan for Food Policy." The first in time was the call for a new round of multilateral trade negotiations (in which agriculture would be a key element). Then, at your direction last year, Secretary Kissinger proposed to the United Nations that it convene a World Food Conference. This Conference, to be held in November of this year, will prove of particular importance to both the American farmer and consumer, who are justifiably confused and worried about the future food supply and demand situation.

Discussion

It is crucial that the United States, as initiator of the World Food Conference and with so much at stake in the trade negotiations, take the lead in establishing the direction which they will take. We are, therefore, developing initiatives for cooperative action among nations to help solve world food problems. Our strategy will be to press for the adoption of some general principles on food production and delivery through trade and aid at the World Food Conference. We will then try to translate these into operational commitments in the trade negotiations.

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[2] Attached but not printed are a December 1973 Department of Commerce paper entitled "World Food Supply and Demand: A Need for Coordinated Action"; a January 8, 1974, memorandum from Scowcroft to Domestic Council Associate Director Richard Fairbanks arguing against the establishment of a Cabinet level food council chaired by the President; a January 3, 1974, letter from Butz to Fairbanks detailing the bureaucratic work underway on the world food problem; and a December 14, 1973, letter from Dent to Haig urging a Presidential world food policy initiative. On January 22, Julie Eisenhower sent a copy of the Commerce paper to her father with a note that reads: "Dear Daddy, You probably have already considered a reference to a coordinated food policy in your State of the Union address, but in case the proposal for a Nixon plan for food policy missed you, I am sending this paper. I am enthusiastic about the idea because 1) people are wary of inflation (increased food productivity would lessen inflation), 2) you are known as a 'peace president'—thus food for international goodwill; 3) famines and starvation as a common occurrence are just around the corner. If you've seen a paper like this before, just toss it out. Sorry to bother you but I wanted to try to help you achieve the *action*-oriented State of the Union you are working for. I love you!" (Ibid., President's Office Files, Box 25, President's Handwriting, Jan 16–31, 1974) On January 25, Nixon wrote to Cole: "This idea—from Julie + her friends—The Milligans—has a great deal of appeal to me. Will you staff it out— + give me a recommendation around the middle of February." (Ibid.)

The question of timing of when we formally propose possible new initiatives such as an agreement on new trade liberalization, on international food stockpiling, and improvement of emergency food relief and food production capabilities, is crucial. Our chances for concrete success at these international conferences rest, to a great extent, on our ability to negotiate new international understandings on such issues. *A premature initiative risks possible rejection and consequent embarrassment for you if you proposed a personal world food plan too soon.* On the other hand, there is an equal danger in waiting too long before the World Food Conference convenes, because we would then have to overcome foreign positions which might become increasingly firm and unchangeable.

The Council on International Economic Policy is coordinating the Administration's work on a set of proposals for U.S. policy and a general negotiating strategy for the World Food Conference. We plan to float some of our ideas tentatively at the World Food Conference Preparatory Committee Meeting this June. If all goes well, we would then prepare a formal policy approach in time for the World Food Conference. If our international soundings indicate resistance to certain ideas in our package, we can in this way consider then how to modify them to bring about as broad a basis for support as possible, or if necessary whether to push our ideas independently.

Recommendation

I recommend that you not commit your personal prestige to a Presidential plan for world food policy at this time. There is much still to be done in the development of a long-term, well coordinated food policy. There is disagreement even among the agricultural experts on the nature and extent of the food problem in the next few years. This difference of opinion is reflected politically in positions taken by various interest groups and members of Congress on trade problems as well as farm legislation. Almost any proposal you make on world food policy now would be the subject of intense, and unnecessary, domestic and international political controversy.

We will continue our efforts to coordinate the development of policy options for you in preparation for the World Food Conference. We would hope to be able to announce a "Nixon Plan" on world food policy by late summer. Secretaries Shultz and Butz, Chairman Stein, Peter Flanigan and Ambassador Eberle, and NSC concur with my recommendation.[3]

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[3] The President approved the recommendation. He also underlined the phrase "Nixon Plan" and circled "Flanigan" and "recommendation" in the final paragraph, drawing a line down to the bottom of the memorandum, where he wrote: "Be sure I announce it in a major speech when the timing is right."

257. Editorial Note

On January 30, 1974, Abdellatif Rahal, Algerian Representative to the United Nations, proposed the convocation of a Special Session of the General Assembly to discuss raw materials and development issues. The following day, at a Department of State staff meeting, Secretary of State Henry Kissinger said of the proposal, "I think we should be in the rear guard of those who are joining it, but I mean we shouldn't throw any sand in," later adding, "We should point out what we take to be the problems, but we should never be in a blocking position. But could somebody do some staff work on it?" (National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Entry 5177, Box 2, Secretary's Staff Meeting, January 31, 1974) At his February 14 staff meeting, Kissinger called the Algerian suggestion "a lousy idea," but said that he was inclined "to send a note saying we have no objection" to it. (Ibid., Secretary's Regional Staff Meeting, February 14, 1974)

On February 25, United Nations Secretary-General Kurt Waldheim announced that the UN General Assembly Special Session would begin on April 9. On March 8, Kissinger discussed with senior departmental officials whether he should address the assembly. When informed that the session would deal with raw materials and food, financial issues, and LDC assistance, Kissinger said, "That means we have an opportunity for a major statement," and asked for the formation of a small group that would include Treasury officials and consist of "four or five thoughtful people to outline what the United States position should be on these issues. And with a five to ten year perspective." (Ibid., Secretary's Staff Conference, March 8, 1974) At a March 15 staff meeting, Kissinger confirmed that he would personally address the assembly and discussed the strategy for the session (a "damage-limiting course of action at the special UNGA rather than attempting to develop a resolution acceptable to us"), as well as the major themes of his speech, which would deal with global interdependence. (Ibid., Box 3, Secretary's Regional Staff Meeting, March 15, 1974)

A draft of Kissinger's speech was circulated to several officials for comment. On April 5, President's Assistant for International Economic Affairs Peter Flanigan wrote to Kissinger: "The basic philosophy underlying our approach to international economic problems is that, other than meeting our aid obligations, interference by governments in the operation of an open world market system is counterproductive. To state or imply, as the speech does, that more international economic management, by the UN or by governments in general, is the proper way to solve these problems is directly contrary to that philosophy." In particular, Flanigan criticized proposals for the creation of an international group to study and recommend action in the field of resource policy, the establishment of a global food reserve, and the formation of an International Institute for Industrialization and an International Fertilizer Institute. (Ibid., RG 56, Records of Secretary of the Treasury George P. Shultz, 1971–1974, Entry 166, Box 7, GPS State '73/1974) On April 11, National Security Council staff member Charles Cooper wrote Kissinger that he was "deeply disturbed by the tone of much of this speech which implies that the traditional U.S. objective of an open economy with free trade and freedom of movement for capital is now totally inadequate. I admit to having no idea what a 'just economic order' is and to being suspicious of what it implies in the way of controls, government deals, and other primitive forms of social management whose end result will be slower economic and social progress for poor countries as well as rich nations." Cooper continued: "I don't believe that we need a whole new approach to international economic issues, and I don't believe anybody knows what a new international economic order would look like." (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 431, Subject File, United Nations, Chronological File, 1973–1975, n.d.) That same day, Federal Reserve Board Chairman Arthur Burns noted: "The accent of the speech appears to be placed on governmental action, and I kept wondering about the role that private enterprise is expected to play. May not such an accent mislead the developing nations?" (Ford Library, Arthur Burns Papers, Federal Reserve Board Subject File, Box B49, Foreign Ministers Meeting, Washington, Apr. 17–18, 1974 (3)) On April 12, Office of Management and Budget Director Roy Ash wrote Kissinger of his concerns about the "*high degree of market intervention* by governments" implicit in several of the speech's proposals, its "*prejudgment of unresolved policy issues,*" its "*implication of large scale new initiatives,*" and its "*organizational suggestions*." "In short," Ash concluded, "I have reservations about the tone of the speech which appears to suggest that: creation of new mechanisms are more important than strengthening old ones; the solution to the very real problems lies primarily with the developed countries; and that we are likely to be willing and able to undertake ambitious new programs." (Ibid., National Security Adviser, Scowcroft Daily Work Files, Box 6, 4/9–18/74)

The Sixth Special Session of the United Nations General Assembly met in New York from April 9 to May 2. Kissinger addressed the session on April 15. For the text of his speech, entitled "The Challenge of Interdependence," see Department of State *Bulletin,* May 6, 1974, pages 477–483. Excerpts were printed in *The New York Times,* April 16, 1974, page 12.

Kissinger subsequently instructed Assistant Secretary of State for Economic and Business Affairs Thomas Enders and Assistant Secretary of State for International Organization Affairs Warren Buffum to prepare a aproposal for a $4 billion package of relief measures for those LDCs most seriously affected by the ailing global economy, subject to Secretary of the Treasury George Shultz's approval. Kissinger wrote: "I know you have done so, but be sure Treasury understands this exercise is designed to put us in a position where our bilateral contributions, particularly in kind, can be considered as part of UN action program and designed to make [a proposed Special] Fund one component of that overall action program. Also this does not involve any new US funding request." (Telegram Secto 18/2639 from Kissinger in Geneva, April 29; National Archives, RG 59, Central Foreign Policy Files) Shultz, however, was reluctant to agree, fearing the effects of the program on Congressional willingness to approve the U.S. contribution to the International Development Association. (Telegram 87745/Tosec 42 to Algiers, April 30, and telegram 86843 to USUN, April 30; ibid.) The latter telegram noted that Treasury was also concerned about "good publicity dollars 4 billion figure gives UNGA/SS." On July 31, Congress did approve a bill authorizing a $1.5 billion contribution to the IDA, which the President signed into law on August 14.

Ultimately, developments at the Special Session in New York led to the abandonment of the proposal: "US proposal on emergency aid was filed yesterday and distributed as a document. However, we have not formally introduced this proposal. In meantime LDCs have decided present their position as a total package including both declaration of principles and program of action. The Pakistani proposal for a Special Fund, which our resolution was designed in part to counter, has been incorporated in the LDC program of action. If we were now to pursue our own proposal we could only do so over the opposition of the LDC group, and we would therefore be defeating our own objectives. Thus, we do not plan to introduce US resolution formally nor ask for a vote on it. It is perhaps just as well things are coming out this way because we are running into a considerable amount of flack from Treasury, Peter Flanigan, and some Congressional sources who are suspicious, based on press accounts, that we may be trying to force their hand on additional contributions." The delegation suggested that it withdraw the paper, a course Kissinger approved. (Telegram 89251 to USUN, May 2, and telegram 89930 to USUN, May 2; both ibid.)

On May 1, the UN General Assembly adopted without a vote a Declaration and a Programme of Action on the Establishment of a New International Economic Order (UNGA Resolution A/9559). The Declaration recorded the Assembly's "united determination to work urgently for *the establishment of a new international economic order* based on equity, sovereign equality, interdependence, common interest and cooperation among all States, irrespective of their economic and social systems which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and the developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations." The Programme called for action in ten areas: fundamental problems of raw materials and primary commodities as related to trade and development; the international monetary system and financing of the development of developing countries; industrialization; transfer of technology; regulation and control over the activities of transnational corporations; the Charter of Economic Rights and Duties of States; promotion of cooperation among developing countries; assistance in the exercise of permanent sovereignty of states over natural resources; strengthening the role of the United Nations system in the field of international economic cooperation; and a special program. (*Yearbook of the United Nations, 1974,* pages 324–326)

Several developed country delegations expressed reservations about portions of the resolution. On May 1, Representative to the United Nations John Scali told the Assembly: "The United States Delegation, like many others, strongly disapproves of some provisions in the document and has in no sense endorsed them." (Telegram 1616 from USUN, May 2; National Archives, RG 59, Central Foreign Policy Files)

258. Memorandum From Charles Cooper of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, May 17, 1974.

SUBJECT

Follow-Up to Your UN and OAS Speeches[2]

State is drawing together a number of follow-up ideas for your consideration. In reviewing this material, I felt that there was a need

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, Box 1064, Institutional Materials, NSC Institutional Papers—May 1974 [2 of 9]. Confidential. Sent for information. Kissinger initialed the memorandum.

[2] For Kissinger's speech to the United Nations, see Document 257. Kissinger addressed the Organization of American States General Assembly in Atlanta, Georgia, on April 19 and 20. For the text of his remarks, see Department of State *Bulletin,* May 13, 1974, pp. 509–515.

for a broader perspective from which to view State's recommendations. Major points which need emphasis are:

1. The key international economic problem for 1974–75 is not the plight of the most seriously affected LDCs, but the potential deterioration of economic arrangements among industrial countries which could result in trade conflicts and spreading recession. The LDCs would in fact be hurt much more by spread of restrictive trade actions and recession in the DCs than they could possibly be helped by the most optimistic combination of aid measures. Deteriorating economic conditions in the DCs if they continue, as they may, will sour the political atmosphere for initiatives to help the LDCs.

2. The main problem of the most affected LDCs is not increased energy or food costs. It is the continued unwillingness or inability of their governments to adopt policies which will set loose the productive forces in their societies. Countries which have done a good job on development—Brazil, Korea—can weather the problems caused by higher oil prices. Countries such as India, which were in deep trouble before the price increases, find the timing and intensity of their problems advanced. Additional aid to offset oil price increases may buy time for them, but will in all probability also delay the time when they come to grips with their real political, social, and economic problems. Their own improved policy and management performance offers the only medium- and long-term hope for these countries.

3. The UN and to a lesser extent the OAS serve a safety-valve function by allowing governments to externalize pressures resulting from poverty and poor economic performance. However, to the extent the governments of LDCs with poor track records can blame their problems on the rest of the world, they are likely to defer the actions needed to solve their problems. Because of this political need to externalize pressures, there is no combination of policies or concessions that will moderate LDC criticism of the U.S. and industrial nations since our aid won't and can't solve their problems, and they aren't willing to admit to this to their own internal constituencies. My view is that the right response to LDC attempts to externalize their internal pressures is to ignore it politely while we concentrate in the development institutions such as the IBRD and in our bilateral relations on solving their real problems.

There are two particular aspects of the current State thrust which you should consider extremely carefully:

—*Food aid.* The timing of an announcement of a greatly increased PL–480 program for FY–75 is crucial. State argues that early announcement is desirable because it would respond to UN and other do-good pressures, but not require any Congressional action. However, a major increase in the program will not escape Congressional notice. An early announcement could rebound against IDA replenishment and the bilateral appropriations. While the Senate may be reasonably relaxed, the

House and the budget watchers will not be. The timing and the potential effect on domestic and international prices will be crucial in avoiding the wrong kind of Congressional reaction. A reduction in farm prices this summer and fall is the sina qua non of the Administration's anti-inflationary policy. It is unlikely that a billion dollars of PL–480 purchases would really make a great difference to food prices during the next crop year. But, as we saw last year, PL–480 is one of the few areas where the USG has real control, and where its actions are explicit. Opponents both within and outside the Administration would severely criticize any public action to increase PL–480 until it is fully clear that food prices have fallen and will stay down. This argues strongly for proceeding now with a moderate first quarter PL–480 program and delaying any announcement of a much larger program until the crop situation is clearer later this summer. This would not affect our shipments anyway since we cannot ship what we have not harvested. Finally, it is important to keep in mind that whatever we do on food aid, the LDCs as a whole will still be purchasing most of their food imports commercially. Thus, a large increase in food aid will cost most LDCs more in higher prices for their purchases. Some LDCs would of course benefit including India (the subcontinent minus Pakistan contains most of the so-called fourth world) but countries such as Korea, Peru, and Egypt which buy most of their food imports would be hurt.

—*Witteveen's IMF fund.* The IMF has commitments of substantial but expensive money from the oil producers. This will help some DCs (Italy) and some middle-level LDCs (Korea), but the interest rate is too high and term too short for the really poor countries. Some LDC enthusiasts suggest we mix the oil producers' 7 percent money with ordinary resources of the IMF provided largely by the U.S. and other DCs to take care of poor countries at better terms. There are major problems with this idea. It would threaten the basic purposes and stability of the IMF to divert its ordinary funds for this purpose at just the time Italy, the UK and other DCs need IMF support. Although the DCs would in fact be providing the subsidized money, the oil producers would get most of the political credit. Treasury considers this very much its turf, and you should not expend your capital for the very small gains which might be available in this area and for which there is little international support.

The biggest issue for you on LDC economic policy is tactics with the Congress. There are three key LDC actions we need from Congress over the next several months:

—IDA replenishment (highest priority for the subcontinent);
—The Trade Bill providing trade preferences (highest priority for the Latin Americans);
—The bilateral AID program at the higher request level (highest priority for Indochina, the Middle East and agriculture development).

Favorable Congressional actions on these three pieces of legislation, coupled with an expanded PL–480 program later when conditions for it will be much more favorable, would turn the U.S. posture completely around on the LDCs—making us the world leader instead of laggard in responsiveness to LDC problems. You should consider carefully the great risks of overloading the Congressional circuits now. A premature public announcement of increased PL–480 or special support for the LDCs could result in Congressional inaction or greater cuts on these key pending measures—or even on new Congressional restrictions on PL–480, debt rescheduling, or other Administration actions. Moreover, new initiatives on economic assistance could rebound unfavorably in Congress on our military assistance where we are also in trouble because of the increase in total assistance costs.

Finally, I am convinced that there is one economic development this year which would ease all of our foreign policy and international economic problems, and without which we are going to be in trouble no matter what we do, namely a significant reduction of world oil prices. A separate memorandum on this subject is in preparation.[3]

[3] Not found.

259. Editorial Note

On May 17, 1974, the Council on International Economic Policy Executive Committee considered stockpiling and food aid and discussed studies prepared in response to CIEPSM 30 ("U.S. Policy on National and International Stocks of Agricultural Commodities," undated) and CIEPSM 31 ("Agricultural Programs for LDCs," December 5, 1973). (National Archives, RG 429, Records of the Council on International Economic Policy, 1971–1977, Box 256, Study Memoranda 1971–74, CIEPSM, [CIEP Study Memoranda—Index and Copy]) The committee sent both studies for further work, but decided "In the meantime, without commitment, Ambassador [Edwin] Martin is authorized to proceed with informal consultations, at the World Food Conference Preparatory Committee meeting in June and bilaterally as he deems useful, on the basis of the following four points: 1) The US would be prepared to participate in a more extensive exchange of information and consultation internationally as proposed by Boerma on food stocks, supply and demand and to cooperate in efforts to develop an improved analytical capability in these matters. 2) We would cooperate in developing a policy on food reserves within an international framework of agreed guidelines, and would discuss various techniques for participation in it, not excluding limited government held stocks for food aid or emergency needs, but not implying a return to the large US Government stocks of recent years. 3) We are prepared to consult internationally on future food aid requirements and to make purchases for them early in the crop year, but without multi-year commitments on volumes. 4) We want to examine with other countries better techniques for expanding food production in LDC's." (Memorandum from President's Assistant for International Economic Affairs Peter Flanigan to Secretary of State Henry Kissinger and others, May 22; ibid., Box 252, Executive Committee Meetings, 1973–1974, 53567 PMF Calls Meeting of the Executive Committee of CIEP, Friday, May 17, 1974 at 3 p.m. in Roosevelt Room 05/14/74) Minutes of this meeting are ibid. The second preparatory committee meeting of the World Food Conference was held in Geneva June 4–8.

At a May 28 Cabinet meeting, Secretary of Agriculture Earl Butz said, "On food aid and stockpiling, a debate is developing. [Senator Hubert] Humphrey and his friends think we should have a large Government food reserve. I disagree. We are out of the food reserve business and I think we should stay out. We carried the world food reserve and everyone got soft—they didn't have to plan. We need food reserves, but they can be carried by private industry and foreign governments. We have carried the lion's share of production aid for years, going back to the Marshall Plan." President Richard Nixon replied, "The whole idea that if we feed the world there will be peace is nonsense. But taking an area like the Middle East, if we develop a new relationship with the Arabs, the Middle East is one of the hungriest areas of the world. Food is indispensable in our foreign policy. The Soviet Union is providing arms to the Arabs; we can counter here. If we tried to give arms both to Israel and the Arabs, there would be a hell of a fuss raised. The United States should move away from multilateral to bilateral aid. Keep this in mind at the World Food Conference. We need it for foreign policy. As our military assistance recedes, we need other bilateral aid. The IMF sort of thing is OK, but we need this tool for our foreign policy. This has to be closely held, because it goes against the grain of the altruists." Representative to the United Nations John Scali suggested that "We can count our bilateral aid toward world goals, and we can't look too selfish," to which the President replied, "OK, but let's have no illusion that we need to be able to influence governments and what they do. The World Bank does a fine job, but it is not an effective instrument of U.S. foreign policy. Frequently, it has not helped where we wanted and has helped countries where it was not in our interest." (Ibid., Nixon Presidential Materials, NSC Files, Box 1029, Presidential/HAK MemCons, May 8–31, 1974 (1 of 3))

260. Study Prepared by the Ad Hoc Inter-Agency Group on Critical Imported Materials[1]

Washington, undated.

CRITICAL IMPORTED MATERIALS: STUDY OF AD HOC GROUP ESTABLISHED BY NSSM 197/CIEPSM 33

Summary

The action of a number of oil exporters in limiting supplies, embargoing shipments, and driving up prices has raised the question of the extent to which consuming countries are exposed to the effects of similar collusion among exporters of other critical materials. The recent tight supply situation for energy, food and many raw materials has also prompted a more general concern—that we may be passing from an era of abundant supplies into one of constant shortages.

Our Objectives

The objective of the United States at stake in these concerns is an adequate supply of critical imported materials (non-fuel, industrial raw materials) at reasonable cost. The purpose of this study is, then

—to assess the potential threat posed by shortages of critical materials in general and supply manipulation in particular;
—to evaluate the prospects for achieving our objective of steady, adequate supplies at reasonable cost;
—to indicate what actions the US might take, individually or with other countries, to improve these prospects;
—to re-examine our planning guidance for the strategic stockpile in light of the current climate of raw materials trade.

Our Import Dependence

US import dependence on critical industrial materials, other than fuel, is modest—about 15% of our consumption, compared to 75% for Europe and 90% for Japan. Our dependence is concentrated on developed countries, particularly Canada, Australia and South Africa, with Canada alone supplying half our needs.

While our supply prospects are not centered on developing countries, these countries are significant suppliers to the United States of bauxite, manganese, tin and natural rubber. We rely on the USSR for

[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–203, National Security Study Memoranda, NSSM 197 [2 of 3]. Confidential. This study was prepared in response to NSSM 197, Document 255. Sent to Kissinger and Flanigan under cover of a July 11, 1974, memorandum from Lord.

significant amounts of two key materials—platinum metals and chromium.

Where We Are In Terms Of Trends and Cycles

Some raw materials prices have been on a rising trend for 10 years. The stronger pattern, however, is the historically cyclical movement of raw materials prices in response to the business cycle. The surge of industrial materials prices in 1973 was accentuated by a rare simultaneous business expansion in all major industrial countries, soaring speculative buying in response to inflation, currency fluctuations and shortages—real and imagined—and serious production problems for some metals. Since industrial growth has slowed, mineral prices should now level off and decline by 1975. Over the longer term, the best bet is that real prices of many minerals will decline further by 1980.

Potential Problems

Natural Scarcities—We do not face risk of exhaustion of world reserves of critical materials within the period we can foresee, through the end of this century.

Embargoes—Basically, embargo actions do not make economic sense in terms of revenue objectives of producers of critical materials. Economic interest argues for selling at a high price, rather than denying the product altogether. An embargo is therefore likely to be undertaken only for political reasons. A realistic scenario for an export embargo by producers that would advance their political interests is hard to identify outside the oil field. A remote possibility is an embargo by Black African states against industrial countries with economic relations with minority regimes in Southern Africa. Such a move would affect primarily Western Europe.

Cartels—True cartels (combines which regulate amounts marketed) are not the heart of our problem. They have been rare in the minerals field and virtually all unsuccessful because of conflicting producer economic objectives and substitution of other products by consumers. Some producers of a few minerals have attempted to maintain a producer price, but awareness of long-term supply and demand responses has generally deterred large and precipitate price increases.

Greater Processing in Exporting Countries—The trend toward greater processing of materials in exporting countries will continue, but this does not conflict with our objective of adequate supplies at reasonable cost. In one significant respect this trend increases our flexibility, since processing here ties us to specific grades and sources of ore—for example, Jamaican type bauxite and Rhodesian and Soviet metallurgical chromite. The next stages of processing, however—e.g., alumina, ferrochrome—tends to be a more standard product our industry can obtain from a wider range of sources.

Supply disruptions from events other than embargoes present greater risks for us than embargoes. There is a possibility of disruption of supplies from Rhodesia as a result of internal disorders, and a more remote one in the case of South Africa. This would seriously affect US, European, and Japanese imports of two critical materials—platinum and chromium. There is also a possibility of sudden changes in export availability of these two materials from our other major supplier, the Soviet Union, because of our limited advance knowledge of political and economic factors determining its export plans.

Exorbitant Short-term Price Increases—The fact or prospect of exorbitant short-term price increases is the most likely form of producer government intervention that would affect US interests in adequate supplies at reasonable cost. Two factors in particular have increased concern that minerals exporters might start taking maximum advantage of short-term leverage

—*government regulation or actual control of production facilities has increased,* raising the prospect of larger interjection of economic and political objectives beyond those of private companies;

—*the financial bind of higher oil import prices* has created the risk that some mineral-producer governments, particularly in developing countries, may feel themselves under pressure to adopt a strategy of short-term revenue maximization for their materials exports. Concern over longer-term loss of market share, substitutions and lower revenues could be given lower priority under the pressure of imminent inability to pay for vital imports.

We distinguish two forms of producer action, involving exorbitant short-term price increases, to which we have assigned necessarily imperfect labels.

1. *Price Gouging:* Because only modest changes in either demand or supply conditions can be expected in the short run, a key commodity producer can take advantage of a tight supply situation and raise prices exorbitantly. This happened in the case of Jamaican bauxite and Moroccan phosphate. How long this price gouging can be sustained depends on the length of time required to bring forth new production, reduce consumption or adapt to substitutes. This can take from a few months to several years depending on the commodity. Whatever the timing, the price gouger will soon have to restrict supplies if he wants to maintain his price.

2. *Cartel-like Action:* There is also the possibility—but no current example in the minerals field—of an exorbitant administered price increase by one or more key producers supported by actual supply restrictions. This cartel-like action is exemplified in the recent OPEC price moves which were combined with the OAPEC supply restrictions. How long such exorbitant prices can hold depends mainly on alternate supplies and the will of the producers to restrict sales.

Although the market works over time there are some short-term (up to 3 years) costs to the US and world economy of price gouging and cartel-like action. The cost may be greater than absolute figures indicate because

—the action tends to come at the peak of the business cycle when marginal inflationary pressures are most troublesome;
—the resulting price increase may spread to substitute materials;
—success in imposing a short-term monopoly price may prompt the initiating producer to press for the longer-term collusive restriction of supply by other key producers that is required to sustain the short-term price;
—the signal of the temporarily higher price may stimulate costly investment in high cost alternate sources, with subsequent sacrifice of this capital or pressure to protect it from lower cost sources of supply.

US Vulnerability to Supply and Price Related Actions for Specific Commodities

We have reviewed 19 major industrial raw materials in world trade to assess (1) the prospects for price gouging and cartel-like action; (2) identifiable risks of supply interruption; and (3) the impact of any prospective action on the US economy and national security. Weighing these factors we find significant vulnerability in:

Bauxite—Over the medium term, Jamaica's 7-fold increase of its bauxite revenues may be unsustainable, in that several other producers (Guinea, Australia, Brazil) are anxious to expand their production and market shares and can produce vast amounts of bauxite and considerable alumina at prices well below the new Jamaican one. But for two years or so the US may have no choice but to pay the "short-term monopoly" price.

Platinum—Surging demand, producer leverage and lack of substitutes in important industrial processes create an opportunity for price gouging. Moreover, a remote supply interruption potential exists.

Chromium—With no substitute for high-grade chromium in making stainless steel and supply potential concentrated in Southern Africa and the USSR, a potential for politically-related supply interruption exists, and of price gouging through tacit cooperation among major producers.

Some risk exists with regard to a few of the other 16 materials examined. Under currently foreseeable circumstances, however, market forces, with all their imperfections, appear adequate to deter price gouging or cartel-like action for all 16 materials.

For none of the critical materials would the economic effect of price increases approach that for oil in 1973–74. Our petroleum imports amounted to $7.5 billion in 1973, or 11% of our imports, compared to $0.7 billion (about 1%) for iron ore, the most important critical industrial raw material outside the energy field. If oil prices and the import volume remain constant throughout the year, our oil import bill will increase $16 billion, causing nearly a 25% hike in our overall import cost. A similar price increase for iron ore would raise our overall import cost by only 2%.

The domestic impact of higher oil prices is also much greater in part because crude oil accounts for so large a share of the cost of petroleum products. For example, the recent almost quadrupling of crude oil prices increased gasoline prices by about 40% and the price of less taxed petroleum products such as fuel by even more. By comparison, a similar increase in iron ore prices—which is not likely within the foreseeable future—would result in a 13% increase in steel prices.

US Strategic Considerations

The degree of supply restriction entailed in price gouging or cartel-like action would have little effect on US defense, because the portion of US consumption of critical materials required for defense production—generally 10–20% in the event of war and about half that much in peacetime—can be met under any foreseeable restrictions of this type.

Meeting Current and Foreseeable Materials Problems

(Alumina/bauxite, platinum, chromium)

Given the limited extent—three materials—of the identified significant risk for price gouging, cartel-like action or supply interruption, the first question for US policy is whether a specific US program response, involving new legislation and expenditure, is warranted at all.

Option 1–A: No New US Government Program: Submit no new legislation; indicate that thorough review has revealed limited likelihood of injury to the US from supply and price manipulation; continue all planned stockpile disposals leaving it entirely to the private sector to stock bauxite/alumina, platinum and chromium.

Alternatively, the Government could informally halt stockpile disposals of alumina, bauxite and platinum and limit releases of chrome to maintain flexibility to seek authority in the future to use these for economic purposes.

This approach would arouse no new public concerns, such as Rhodesian supplies, while maintaining some protection against the identified risks. But it is not a convincing demonstration that the extent of US vulnerability has been pinpointed and dealt with; therefore, it is not likely to allay existing concerns or help break the Congressional/Administration stalemate over the role of the US strategic stockpile.

Option 1–B: Develop explicit Administration program to deal with a specific, if limited problem, including legislation on a Government economic stockpile, or alternatively Government incentives for larger private stockholding; release the results of Government analysis of critical import problems as supporting material; use available USG financing instruments to promote diversification of our sources of problem materials; create an interdepartmental body to monitor critical imported materials problems. (Specific elements of such a program are treated as separate sub-options.)

This approach may best allay concerns by maximizing public and Congressional exposure to the facts and providing clear authority to protect against the limited risks identified. But the program is necessarily a modest one and an actual bill could attract Congressional and industry efforts to add a list of materials where increased stocking at government expense would serve only commercial interests.

Elements of a possible US program are considered below.

Economic stockpiles

Where there is significant potential for price gouging (bauxite/alumina, platinum, and perhaps chromium), the US could seek to deter it or reduce its effectiveness by maintaining an economic stockpile of the materials in question or by providing financial inducements for industry to stock greater amounts of these materials. An economic stockpile of chrome and platinum would also effectively protect critical segments of US industry (steel, petroleum refining, fertilizer, automobiles) from temporary disruption of these supplies for which substitutes are not available.

Amounts of alumina/bauxite, platinum and chromium currently in US stockpiles and in excess of current strategic stock requirements provide the physical material for economic stockpiles. However, specific legal authority would be required to maintain and manage a US economic stockpile or to provide government incentives to private firms to hold greater stocks.

Option 2–A: A US Government Economic Stockpile: Submit legislation giving the President authority to maintain and operate an economic stockpile for such critical imported commodities as he may from time to time determine necessary to safeguard the domestic economy. Transfer to the stockpile as its initial capital the amounts of bauxite and alumina (together) and platinum, which are currently in this US stockpile and excess to strategic stockpile objectives plus an amount of chrome equivalent to a one-year supply from Southern Africa. Increased capital to acquire other commodities would be subject to appropriation or legislative transfer of further excess strategic stockpiles.

Government stocks, if promptly releasable, could serve to deter price gouging and cartel-like action and provide long-term protection against the risk of interruption of supply for platinum and chromium.

But the distinction between price gouging and normal price movements will be a hard one for the government to make. We would be foregoing $320 million in eventual budget receipts from sale of these materials and would incur carrying costs of about $400,000 annually.

Option 2–B: Government Contracts with Industry to Provide Financial Support for Larger Industry Stocks of Selected Materials: As an alternative to direct government held stocks, encourage private industry to hold increased inventories of the same commodities as in 2–A by seeking authority to provide assured recoupment of out-of-pocket costs. This could be done by inviting bids for specified quantities of selected commodities or by requiring specific percentage over-stocking levels of all producers at negotiated fees.

Option 2–C: Provide a Tax Incentive in the Form of a Deduction of a Percentage of Raw Inventory Costs for alumina/bauxite, platinum and chromium materials to US industry to encourage greater stocking of these raw materials.

These forms of government incentives for larger industrial inventories of the problem materials would be less costly than a government economic stockpile and avoid government involvement in difficult decisions on timing of acquisitions and releases. But the government would have limited control over the purposes for which inventories were used, particularly price speculation as opposed to protection against disruption.

Diversification and Increased Production

Action on any of the stockpile options discussed above should logically be combined with longer-term measures to change the underlying conditions of short supply and concentrated producer leverage which make price gouging and cartel-like action possible and a supply cutoff from South Africa so potentially costly.

For bauxite and alumina, the prospects for diversification are bright. Guinea and Australia have substantial potential to expand production through new investment. Brazil, presently a minor producer could well become a major one. Brazil also has substantial reserves of chrome and the possibility of production for the US market should be explored. There are no current prospects for new sources of platinum.

Export-Import Bank financing and OPIC (Overseas Private Investment Corporation) insurance could play a role in diversification efforts. US support for an active World Bank role in minerals development in LDCs would help increase supplies generally. (See Options 3–A—3–C.)

Since we will necessarily continue to rely on foreign sources of alumina/bauxite, platinum and chromium for many years to come only more competitive conditions in international markets can eliminate the potential for price gouging, cartel-like action or supply cutoff from a major source. The US does have abundant reserves of aluminum bearing materials, but industry is not likely to make the substantial capital investment to develop these resources unless confident that bauxite prices will rise further and remain high (which is not a good bet) or that its investment will be insulated from competition with alumina/aluminum made from cheaper foreign bauxite.

Improving US Capability to Deal with Problems in Other Materials that May Arise in the Future

For the materials examined, other than the three discussed above, the international market seems likely to meet our requirements at reasonable cost for the foreseeable future, but there is no assurance that several years from now some different conclusions may not be warranted. Our capability to react could be improved.

US Government Organization

The US Government currently has no central system to monitor critical materials developments and to bring new problems to the attention of policy makers. The capacity for this oversight and analysis is there, but it is not brought together and focused on safeguarding the specific US objective of adequate supplies of imported critical materials at reasonable cost.

One way to improve the ability of the US Government to oversee raw materials problems would be to establish a standing interagency body on critical imported materials problems, with a very small secretariat staff. In the event we establish an economic stockpile, such a body would be needed to provide guidance to the stockpile managers as well.

Option 4–A: Establish a Standing Interagency Body on Critical Imported Materials Problems supported by a small secretariat staff, and under the aegis of one of the existing cabinet level policy-making councils in the foreign affairs area (NSC, CIEP).

Various solutions are possible for the chairmanship of the body and location of the small secretariat staff on the one hand, and the policy-making council for action on major issues developed and staffed out by the interagency body, on the other hand. In any event, State, CIA, Treasury, OMB, Commerce, Interior, GSA, DOD, and STR would have to be represented, and active, in supporting the work of the interagency body on critical imported materials.

Option 4–B: Augment the analytical and monitoring capacity of one of the executive departments (State, Interior, Commerce) with specialists in imported materials policy—domestic and international. This department would be responsible for furnishing periodic reports to the

President and other agencies on current and potential critical materials problems requiring government decision.

Both options would clarify responsibility for monitoring and be flexible enough to reflect greatly varying requirements over time for decision making in this area, but the Congress may expect more ambitious structures. An interagency body provides broader perspective, but perhaps less continuity.

US flexibility in responding to imported critical materials problems that may arise in the future would be increased by additional research on finding new mineral deposits, mining and treating low-grade ores and reclaiming and recycling scrap material. (See Options 5–A—5–F.) Over the long-term (5–15 years) our efforts to assure access to seabed resources involve significant additions to world reserves of manganese, nickel, copper and cobalt.

The Bilateral Dimension

Canada is by far our most important raw materials supplier. Of the critical imported materials considered in this study Canada is our largest single supplier of iron ore (50% of our imports), nickel (82%), zinc (68%), lead (29%), tungsten (61%), copper (31%) and mercury (59%).

It might be useful to explore further the costs and benefits of a sectoral trade liberalization arrangement with Canada, within the context of multilateral trade negotiations.

The United States, through reduced or eliminated tariff barriers, could provide Canada expanding opportunities for selling processed forms of raw materials. In return, the United States would be given assurance of access to specified Canadian raw materials (both in unprocessed and processed form) at the same price as Canadian consumers. Such an assurance would be one possible form of a Canadian undertaking not to restrict exports by direct controls, export taxes or other measures, all of which would tend to introduce a two-price system. We would be consciously moving to rely increasingly on Canadian processing industries and requiring in return assured access to Canadian processed and raw materials for our industry.

Two other ambitious minerals producers, Australia and Brazil, will be increasingly important in world minerals production—a factor which should be reflected in our bilateral relations with these countries.

The Multilateral Dimension

Our long-term strategy should have a multilateral dimension to encourage constructive and non-divisive international consultation and rule-making in the field of raw materials supply. Elements of such an approach could include:

1. *Consultations in the OECD and elsewhere with Europe and Japan on critical imported materials problems.* Our reading argues for quiet consultation in an existing forum, because 1) we wish to allay rather than reinforce concerns; and 2) an ad hoc review of critical materials problems could shift the emphasis to agricultural trade—where the US would be the target of European and Japanese concerns on prices and security of supply.

2. *Strengthening of existing GATT provisions on exporter obligations.* In connection with preparations for multilateral trade negotiations US agencies are now considering possible new GATT provisions regarding supplier obligations. Over the longer term new international rule making in this area could be helpful in developing a greater sense of supplier country responsibility and subjecting their actions to structured international scrutiny.

3. *A more constructive US tilt in favor of consumer/producer dialogue*—as a mild counter to increasing pressure for producer-only groupings.

Implications for Strategic Stockpile Guidelines

The results of this study indicate a few limited adjustments in strategic stockpile guidelines which may be desirable.

Our present stockpile planning assumption that supplies will be available during a conflict from Rhodesia and South Africa does not allow for possible disruption from internal disorders. Moreover, stockpile planning guidance states that stockpile levels should support requirements during the first year of a war without significant civilian austerity. However, at the level of current strategic stockpile objectives, there would be an imbalance in supply and demand at the end of the first year for a few materials for which substitutes are not available. Thus, larger stockpiles or a further degree of austerity may be necessary in order to balance supply and demand for bauxite, chrome, platinum and manganese.

Option 6–A: Clarify Supply Source Reliability by having the Secretary of State issue instructions to stockpile managers on reliability of sources. If Rhodesia were removed from the list of reliable sources, the strategic stockpile objectives for the first year of a war would be increased by about $14 million of chrome; if South Africa were treated similarly, an additional $76 million would be added (consisting of chromium, platinum, manganese and vanadium).

Option 6–B: Provide for Requirements Beyond the First Year by adjusting stockpile levels to assure adequate supplies at a specific degree of austerity for the period required to bring supply and demand into balance.

To support per capita consumption at pre-war levels for bauxite, chrome, manganese and platinum until war time supply and demand could be squared or for three years, the stockpile would have to be increased by about $183 million.

Option 6–C: Clarify "Significant Austerity" to specify the level of per capita consumption of the specific commodities which would be acceptable after the first year of a war. If consumption were set at 85% of pre-war levels, the additional stockpile required would be about $51 million vice $183 million.

If Rhodesia were excluded from the list of reliable sources *and* it was decided to support requirements for bauxite, manganese, chromite and platinum at pre-war per capita consumption levels up to three years, the total addition to the strategic stockpile would be about $238 million. These implied changes in strategic stockpile levels are moderate, but action on them could demonstrate that requirements have been reviewed and adjusted in light of current conditions.[2]

[Omitted here is the body of the study.]

[2] On July 26, Eberle and Scowcroft requested agency clearances, comments, and recommendations on this study. (Ibid.) On August 2, Yeutter sent Eberle a memorandum clearing the study on behalf of the Department of Agriculture. (Ford Library, National Security Council, Institutional Files, Box 13, Senior Review Group Meeting, 9/4/74—CIEP—Critical Imported Materials Study (NSSM 197)) In an August 8 memorandum to Scowcroft, Acting Executive Secretary of the Department of State Samuel Gammon wrote: "The Department continues to endorse the options presented in part IV of the subject study as appropriate for further consideration for the purpose of determination of an Administration action program." (National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–203, National Security Study Memoranda, NSSM 197 [3 of 3]) On August 9, Deputy Secretary of Defense William Clements wrote in a memorandum to Scowcroft and Eberle that while his Department cleared the study's options, it was concerned about "the long-term strategic implications of the trends toward dependence on foreign production of finished products and processing of raw materials." (Ibid.) In an August 10 memorandum to Eberle, Stein wrote that the CEA objected to neither the study's analysis nor its conclusions and favored Option 1–B. (Ford Library, National Security Council, Institutional Files, Box 13, Senior Review Group Meeting, 9/4/74—CIEP—Critical Imported Materials Study (NSSM 197)) On August 29, Dent wrote in a memorandum to Scowcroft that the Department of Commerce was "in general agreement with the analysis and findings of the study" and that it supported Option 4–A. Commerce's views on the study's other options were offered in an undated attachment. (National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–203, National Security Study Memoranda, NSSM 197 [3 of 3]) Treasury Department comments are printed as Document 261.

261. Paper Prepared in the Department of the Treasury[1]

Washington, undated.

Treasury Comments on Critical Imported Commodities: NSSM 197/CIEPSM 33[2]

This study puts in perspective one threat we face in securing access to critical imported commodities at a reasonable price—the threat of price or supply manipulation by foreign producers, acting alone or in concert.

The study's detailed analysis of this significant aspect of the imported commodities problem tends to refute the well publicized assertion that the U.S. must take action because it faces a mineral crisis, comparable in scope and immediacy to the oil boycott.

However, the study is not so reassuring that we can dismiss the possibility that new government programs to deal with certain imported commodities' problems may be warranted. At a minimum, further analysis is required. We therefore reject the "no action" option (1A) and offer comments below on the action options.

Option 2—Economic Stockpiles

Option A—government ownership of the stockpiles—appears to be the best of the stockpile options. Such government ownership would not preclude contracting the actual maintenance and operation of the stockpile program to private industry in the interests of efficiency.

The other two options might prove both politically infeasible and unwise. Option B—private ownership at government expense—could be misconstrued as intended to provide industry with a "no loss" proposition: industry benefits from inflation in the value of the inventory while government pays the expense. Option C could also be construed as an unwarranted subsidy to industry. Moreover, it is not clear whether the quantity and distribution of the increase in commodity inventory generated by option C would justify the tax revenues lost.

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[1] Source: National Archives, Nixon Presidential Materials, NSC Files, NSC Institutional Files (H-Files), Box H–203, National Security Study Memoranda, NSSM 197 [3 of 3]. Confidential. Attached to an August 7 memorandum from Parsky to Scowcroft and Eberle that reads: "Attached are the comments you requested in your memorandum of July 26, 1974, concerning NSSM 197/CIEPSM 33." See footnote 2, Document 260.

[2] Document 260.

Therefore, we recommend an immediate interagency effort to reduce option A to a concrete proposal. A final decision could then be made whether or not to go forward to Congress with this proposal.

A concrete proposal should deal, inter alia, with the following issues:

1. *Acquisition*

Consider aluminum: What quantity should be stockpiled? How would it be acquired, over what time period and at what cost? For example, if a year's supply is to be stockpiled, and the 5½ months excess currently in strategic stockpile is transferred to an economic stockpile, a huge quantity, 6½ months supply, remains to be purchased in the open market. How can this be bought without strengthening the hand of foreign producers who wish to drive up the price? In what form should the stockpile be held (ore, semi-processed metal)?

2. *Cost*

Congressional critics may be expected to claim that government stockpiles in the past have proven extremely expensive due to unwise acquisition policies and other inefficiencies: If this assertion is incorrect, how can we dispel such misconceptions? If this assertion is correct, what corrective measures can be taken to insure such inefficiencies do not recur?

3. *Sale*

What circumstances should trigger sale of stockpiled commodities? How will it be sold? Without the wisdom of hindsight, how does one decide when prices are "excessively" high or low? In the absence of an objective trigger mechanism, the administrator of the stockpile will be subject to fierce crosswinds of consumer and producer, domestic and foreign, interests which may not coincide with the national interest.

4. *Commodities*

Precisely what criteria will be applied in identifying commodities for inclusion in the stockpile?

Option 3—Diversification and Increased Production

We should encourage the use of financial incentives, such as priority loans and guarantees, to increase the number of producers. More producers mean less cartels and less effective cartels.

However, we are dubious about the effectiveness of Ex-Im or OPIC priorities, since priorities granted by these institutions may have little influence on the decision we seek to affect, the exploration or development decision. For example, Ex-Im priorities would encourage the purchase of U.S. equipment, but is unlikely to influence the threshold decision—whether or not to invest. World Bank loans may be more effective in influencing the exploration or development decision, but asking the Bank to grant such priorities would raise other serious problems. Nevertheless, in view of the importance of the diversification objective, these options should be given further consideration.

Options 4A and 4B—Government Organization to Monitor Future Developments

It would be premature to establish a secretariat or augment the staff of an existing agency to deal with imported commodities problems at a time when Congress is considering legislation for this purpose.

Therefore, as contemplated by option A, the ad hoc interagency group which prepared this study should continue to monitor these developments. The establishment of a secretariat to support this effort should be deferred for a reasonable period until Congress has had an opportunity to act.

Options 5A–F—Domestic Production

We agree with the staff conclusion that the specified programs (A–F) to encourage domestic production are not warranted at this time. However, we may wish to reconsider if, for example, subsequent events prove us wrong in concluding that most minerals producers cannot form effective and lasting cartels.

Options 6A–C—Implications for Strategic Stockpile Guidelines

We have no comments on these options at this time.

Bilateral and Multilateral Dimension

We share the view that the approaches proposed are an important element of an effective strategy for securing access to imported commodities at a reasonable price. The recommendations concerning Canada, for example, should be incorporated in the upcoming NSSM/CIEPSM on U.S.-Canadian relations.[3] However, it is unnecessary to analyze these issues at length in this study as they are receiving adequate attention in other interagency fora.

[3] NSSM 206 on "Relations with Canada" was issued on July 29, 1974.

262. Record of a Meeting of the Council on International Economic Policy Senior Review Group[1]

Washington, August 23, 1974.

MEMORANDUM FOR

Edwin M. Martin
Thomas O. Enders
Department of State

Charles H. Cooper
Howard Worthington
Department of the Treasury

Clayton K. Yeutter
Don Paarlberg
Richard E. Bell
Department of Agriculture

Frederick B. Dent
Lawrence A. Fox
Robert S. Milligan
Department of Commerce

Gary Seevers
Council of Economic Advisers

B. A. Bridgewater
Phil DuSault
Office of Management and Budget

Harald B. Malmgren
Office of the Special Representative for Trade Negotiations

Roger E. Shields
Department of Defense

Daniel Parker
Phil Birnbaum
Agency for International Development

SUBJECT

Council on International Economic Policy (CIEP) Senior Review Group Decisions on the Dairy Issue and the World Food Conference

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[1] Source: National Archives, RG 429, Records of the Council on International Economic Policy, 1971–1977, Box 255, Senior Review Group Meetings, 1971–1974, 53908 From W. D. Eberle Re Calls CIEP/SRG Meeting for 2 p.m. August 23, 1974 Agenda: International Grain, World Food Conference, Grain Reserve, Trade Issues and Dairy Issue Date 8/22/74. Confidential. Prepared by J.M. Dunn of the CIEP staff; revised on August 28. Background materials for this meeting are in the Ford Library, National Security Council, Institutional Files, Box 12, Senior Review Group Meeting, 8/23/74—Food Committee and CIEP.

At the CIEP Senior Review Group meeting of August 23, 1974, the following decisions were taken:

[Omitted here is discussion unrelated to the World Food Conference.]

II. World Food Conference

A. *Reserves*

The U.S. will suggest for purposes of encouraging discussion and comment, but not as a negotiating proposal, that consideration be given to an international system of grain reserves in the range of 30 to 60 million metric tons above world-wide working stocks. The SRG agreed that the reserves should be over and above working stocks, that the targets for countries should be based on a combination of reserves and working stocks, that the targets should be calculated as a total of all grains, and that rice should be included in the definition of grains.

B. *Burden Sharing*

It was agreed for present purposes that a combination of three criteria should be used in discussing how the burden of sharing reserves should be distributed. These criteria include the level of gross domestic product, the trend level of imports and exports, and the variation from trend in total grain production. It was further agreed that the export/import criteria would include a proposal that two-thirds of the reserves be held by importers and one-third by exporters. Among importers, some distinction will be made between less developed countries (LDCs) and developed countries.

The SRG authorized Ambassador Martin to present these ideas as our present thinking. He should in particular present the range of reserves and the criteria for burden sharing, not as the U.S. position, but as a plausible framework for discussion in the present economic context, without commitment to our possible positions in the future in any more firm negotiating context. Ambassador Martin is not authorized to pursue these points with greater specificity in the context of the World Food Conference. The details will be left for negotiations following the World Food Conference.

C. *U.S. Government (USG) Role*

It was felt that a U.S. commitment to a reserves system would be interpreted as a USG commitment to hold reserves if necessary. The SRG agreed that Ambassador Martin must make it clear in his consultations and at the World Food Conference that the USG is not commiting itself in advance to hold reserve stocks and that the U.S. reserves the right to determine how it will fulfill any reserves commitment.

D. *Draft Resolution*

Ambassador Martin presented a draft resolution which outlines in very general terms the U.S. thinking at this time. The draft resolution was approved in principle by the SRG, with the exception of two specific reservations and a general proviso that we should avoid undue specificity where possible. The specific reservations were:

1. STR and Treasury objected to the World Food Conference follow-up procedures as outlined in paragraph three of the resolution.
2. OMB objected to the language in paragraph 4b concerning the calculation of reserves.

Ambassador Martin agreed to resolve these differences with the agencies involved before presenting the resolution to other World Food Conference participants.

E. *Future Work Schedule*

Ambassador Eberle and Gary Seevers will agree on a new chairman for the working group which will focus on the following issues:

1. Reserves versus stocks analysis for burden sharing.
2. Accumulation and release criteria for stocks, including budget costs.
3. A system of sanctions to get countries to participate in the reserves system.
4. Food aid policy.

In addition, a Special Task Force of the Trade Steering Group will be established to clarify those issues which need to be negotiated further in the context of the MTN and the longer term commercial objectives of the U.S. in relation to reserves, stocks, and world food security questions generally.

Attachment

Draft Resolution Prepared by the Secretary of State's Senior Adviser (Martin)[2]

Washington, August 30, 1974.

GRAIN RESERVES

1. Believing that it is intolerable that the present low level of global grain reserves has made the people of the world dependent for survival on good weather for food crops,

[2] No classification marking.

2. Agreeing that it is, therefore, necessary to initiate promptly the establishment of an international system of national grain reserves designed to prevent the repetition of such a situation,

3. The undersigned governments pledge to meet at an early date to initiate negotiations on

a. The location and nature of the implementing organization required by such a system;

b. International guidelines covering the responsibilities to be assumed by each participant in the creation and management of such a system;

c. The procedures to be followed in assuring effective international cooperation in the building up of reserves and the operation of the system; and

d. The relationship of the above considerations and the principles outlined below to broader negotiations on the conditions of world trade in agriculture.

4. They affirm their present agreement to conform these decisions to the following general principles:

a. The system should be operated in such a way as to safeguard the interest of the world's people in an adequate supply of food without extreme price fluctuations having full regard to the interests of both farmers and consumers, of exporters and importers.

b. Reserves shall be designed to maintain orderly commercial grain markets and to ensure the availability of grain which donors are prepared to finance on concessional terms to needy developing countries to fill gaps between their needs (including building reserves), their production and the amounts they can afford to import commercially. To achieve these objectives general guidelines for the management of reserves shall be agreed among the participants.

c. To qualify as reserves, grain stocks must be additional to an agreed estimate of those required for the normal day-to-day workings of the food system of each country.

d. Each country shall set up and operate its own reserve system, including deciding whether or not it holds a single reserve or segregates its food aid and emergency reserves from its commercial ones.

e. The total of reserves toward which participants as a group should aim shall be based on the amounts required to compensate in major part[3] for the global shortfalls in production below trend which

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[3] Thus keeping room for some play of market forces in adjusting demand and supply. [Footnote is in the original.]

can be expected over the next ten years in the light of the experience of the past 13 years.[4]

f. The distribution among participants of responsibility for holding stocks or reserves shall be based on some combinations of their capacity to finance the acquisition and operation of a reserve system, their responsibility for shortfalls as evidenced by past fluctuations in their grain production and their share in world grain exports or imports as the case may be.

g. Participants will review at least once each year the conformity of the reserve policy of each participant with the agreed guidelines and the way in which the policy adopted by each participant is being implemented, and the effect of the current policies of non-participating major exporters or importers on the achievement of the objectives of the reserve system.

h. For this purpose and to assist countries in planning their grain production programs, each participant will keep the designated staff organization regularly and promptly informed of any significant changes which have taken place or are expected in the size or composition of its reserves, in its grain production and consumption prospects, and in its export-import intentions.

i. Careful analysis of these data and any other available to the designated staff, such as those developed by the FAO early-warning system, shall be discussed at regular meetings of the participants as a basis for suggestions to participants on the operation of their reserve programs.

5. The undersigned governments invite any other members of the UN who wish to become participants by accepting the above obligations to do so and urge other countries that are major grain producers, importers or exporters to join them.

6. They also request the World Food Conference to express its approval of this initiative, to urge participants to build up the agreed-upon reserves expeditiously, and to encourage all countries that are major producers, exporters and importers of grains who have not yet done so to adhere to this declaration of intentions.

"Must" countries for participation would be:

United States
Canada
Australia
European Community
Japan
USSR
India

[4] This formula includes no provision for consumption above trend. [Footnote is in the original.]

"Desirable" countries would be:

Argentina
Brazil
UAR
South Korea
Bangladesh
Pakistan
Indonesia
PRC
Poland
East Germany
Spain

263. Minutes of the Secretary of State's Meeting on the World Food Conference[1]

Washington, August 26, 1974, 3:25–4 p.m.

PROCEEDINGS

Secretary Kissinger: I have read the various papers that keep wandering in and out of this folder. Whenever I have read a batch, a new batch appears.

Mr. Enders: It's the zealous secretariat. They keep asking for new ones.

Secretary Kissinger: Would you like to lead off for a few minutes?

Ambassador Martin: Yes, Mr. Secretary.

First, I would just like to say a couple of words about what I call atmospherics, what our chances are of making this a cooperative meeting to solve problems rather than a typical UN confrontation session. And so far, there are four things on the horizon that we worry about in this respect.

[1] Source: National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Entry 5177, Box 4, Secretary's Meeting on the World Food Conference, August 26, 1974. Secret. According to an attached list, the following people attended the meeting: Deputy Legal Adviser Mark Feldman, Policy Planning Staff Deputy Director Samuel Lewis, Policy Planning Staff member Robert Morris, Buffum, Enders, Deputy Assistant Secretary of State for Congressional Relations Kempton Jenkins, Martin, Murphy (not further identified) and Agency for International Development staff member Richard Birnberg.

One is will we get thrown at us again the Declaration of Principles from the UN Special Session.[2] And it is in the Secretariat document for the conference. We are working with IO.

Secretary Kissinger: For the food conference?

Ambassador Martin: For the food conference, that is right.

Secretary Kissinger: What is the relevance to the food conference?

Ambassador Martin: Well, it calls for certain new international economic order actions, and the creation of funds, a special fund, and it calls for everybody to take the steps that would help food production and the food situation in developing countries that are called for by the International Declaration of Principles, allegedly agreed. So we have got to find a way to bypass that one and sidetrack it. The Secretariat is sympathetic. But whether we can get the LDCs to stick to substance and stay away from politics remains to be seen.

Secretary Kissinger: Well, if they want any help, they better stick to substance. They are the ones that need the help, not we.

Ambassador Martin: That is right. That is the basis of our approach.

Secretary Kissinger: And I think they better understand that.

Ambassador Martin: The second one is what we do about food aid this year, whether there are going to be people that think we have done poorly. This gets right around to the health question.

Secretary Kissinger: When I saw Feldman, I wondered whatever happened to Carl Maw. Is he still in the building?

Mr. Feldman: He is on leave this week.

(Laughter)

Ambassador Martin: Well, there is the question of whether with troubles in Bangladesh or India we are doing what we think we ought to do about food aid. And related to this is the question of the MSAs, the most seriously affected. We talked about making a special session, concentrating on emergency problems and the MSAs. And unless we have food aid, we have not much to offer them. The decision on this has been put off, as the document mentions. But how the U.S. decides on this will certainly affect the atmosphere towards our leadership at the food conference.

Secretary Kissinger: Now, which way can we decide on that? Isn't the program you have on PL 480 going to take a big—what are you talking about?

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[2] See Document 257.

Ambassador Martin: If we decide the way this program comes up, I think we have a chance of coming through very nicely. But there is a lot of opposition.

Secretary Kissinger: Who is opposing it?

Ambassador Martin: OMB and Treasury.

Secretary Kissinger: On what grounds—budgetary?

Mr. Enders: Budget grounds. And not really on inflation grounds, because I think there is a fair consensus—not complete—that concessional exports of this magnitude would not really change U.S. domestic prices. But it is half-a-billion dollars of additional budget money at a time when we are trying to reduce the budget. The time to take this on, Mr. Secretary, is probably just after the next crop report, which most expectations are will be somewhat better, and create a somewhat better atmosphere for the discussion and decision than this last one. This is the next crop report—September 11. In the course of that week, we will suggest that you structure some meeting with Simon and Ash and ultimately presumably with the President for that purpose.

Ambassador Martin: The fourth one is export controls, which are being actively debated in the government at the moment. If we introduce export controls on corn, after the Department of Agriculture has assured everybody, as they have over the weekend, that the U.S. will have more meat to eat next year than we had this year, it won't give us a very good posture politically.

So that these are the atmospherics which will affect the ability of the U.S. to make this a constructive conference. I just wanted to mention them. They are not directly our responsibility. But they do affect how things come out.

On the issues, the reserve issue is in many respects a major one, if not the major one. We got agreement Friday from CIEP to go ahead with a proposal to try to line up the eight or ten or maybe twelve most important grain-exporting, exporting, producing countries, to announce at the conference that they are going ahead and establish an international network of national reserves, and indicate the general principles on which they expect to operate.[3] We start discussing this with Lardinois,[4] of the Common Market, who will be in tomorrow. The Canadians are coming down on Wednesday.[5] We have made arrangements for bilateral talks with the Soviets in Rome, starting September 16. They are in many ways the critical group. The others have agreed in principle to something like this. And in connection with the USSR

[3] The decision was made on Friday, August 23; see Document 262.

[4] Pierre Lardinois was the EC Commissioner for Agriculture and Fisheries.

[5] August 28.

attitude, the question has arisen that CIEP has asked be studied by an interdepartmental group as to whether the U.S. would be willing to and could effectively organize some system of sanctions or carrot-and-stick to persuade people to participate that ought to, with the Soviets particularly in mind. This is partly a political question—whether we would want to bind ourselves to limit sales to the Soviets at some point of grains. It is partly a practical question, given the possibility of diversion of grains through various channels, like oil. You could really operate a sanctions system to make it meaningful. But this is being studied at the moment. Our guidance on the political question will be quite important.

With respect to how the U.S. would carry out its obligations under such a system, at CIEP, on Friday, they agreed that I could tell anyone who asked that the U.S. would carry out whatever responsibilities the burden-sharing exercise gave to the U.S.—putting off for the future coming to grips with the question of public stockpiling.

Secretary Kissinger: When you say that CIEP agrees, who the hell is that, operationally?

Ambassador Martin: Eberle was in the chair. Tom was there. It is an interagency group. It had been checked out with Butz. And the interagency people were there. I think that in the back of some people's minds, in postponing this issue, contrary to what we had thought a couple of months ago when we were discussing it, is a good bit of talk around that after the food conference the probabilities are that Secretary Butz will no longer be around, and it will be much easier to solve. He has told people that he wanted to retire shortly after he was 65, which he was July 4. And the expectation is by the end of the year he will decide he has had it.

Secretary Kissinger: Is Butz an obstacle to these things? I found him to be rather enlightened.

Ambassador Martin: It is a little hard to say. I found him on some occasions saying reasonable things and on other occasions, mostly in public speeches, he is very adamant against any public stockpiling.

Secretary Kissinger: It is in the public—

Ambassador Martin: It is the public aspect. And I think most people would feel, in the other agencies, as well as in State, and in other governments, that unless the U.S. is willing as a last resort to hold publicly there is no assurance that we would have the stocks that they would like to be able to depend upon—that we would like to have, whether for exports or food aid or other emergency purposes.

Mr. Enders: This is a major element in the politics of one of the farm groups, the American Farm Bureau. And they are adamantly against government-held stocks, and return to the former system. This is what Butz is responding to. I think he is, however, putting himself in a position where he can be end-played on this, in which after agreeing to the level of stocks that should be held, then you go to the subsidiary question of how do you hold them. And when you see they cannot be held really any other way, he agrees to it.

Secretary Kissinger: My approach to these problems is not to register bureaucratic consensus. What I want from this group is to tell me what the right answer is. And then I am perfectly willing to take it to the President. I don't care what CIEP or anyone else is willing to agree to. I would like to know what is right. I would like to make up my own mind as to what the correct answer is. And if it is at all in the ball park—of course, we cannot push something that is totally impossible. But if I can understand what is needed, then I am perfectly willing to take it up with the President.

Ambassador Martin: Well, I think the State team felt what we got from CIEP on Friday was satisfactory and did provide us a negotiating basis to proceed.

Mr. Enders: I think we can be quite precise, can't we, Ed—that what we need at this stage, and through the World Food Conference, is agreement to a target level of stocks, and that afterwards, if Butz or others are still resisting, then we will need a presidential decision to overrule him on government-held stocks. But he probably is willing to go along later on on that.

Ambassador Martin: And we have agreement with Agriculture on a range of target levels to talk to other countries about, which we think is adequate—30 million to 60 million tons of reserves on top of working stocks.

Secretary Kissinger: I counted the number of endorsements on this paper, and I find seven. Now, what I want to know is, does that represent the obtainable consensus in the Department, or does this represent—

Mr. Enders: The lowest common denominator.

Mr. Murphy: Or the best advice.

Secretary Kissinger: I don't know enough about this subject to have an opinion of my own. But contrary to accepted bureaucratic practice, I tend to believe what seven people can agree to is not the best that can be produced. (Laughter) So I would like to know—

Ambassador Martin: A very wise position.

Secretary Kissinger: I would like to know what ideas were suppressed in order to get this on paper, and what ideas were rejected.

Ambassador Martin: Well, I did the first draft, and I cannot think of any that were—I did the first draft of the reserve paper, and I didn't have any problems.

Secretary Kissinger: Are there any ideas around this table that ought to be considered that are not part of this program?

Mr. Enders: We have put off, I think it is fair to say, in this paper, one of the key issues, because we have not got intellectually far enough along on it. It is mentioned there, but the answer is not given. And that is what is the balance of this negotiation. Basically we can put it this way. If you are going towards a World Food Conference in which the United States and some other countries will be saying we should hold more reserves internationally—basically what we would also be saying is that other countries should hold the larger part of the increased reserves. Now, the question is—where does the leverage come from? There is some leverage in the plight of the underfed peoples of the world. But that is not going to swing it. And you will need in addition to that the kind of thing that Ed has talked about—a clear-cut commitment by the United States to hold more reserves—we have got to do something ourselves.

Secretary Kissinger: How much more are we prepared to hold under this concept than we are now holding?

Ambassador Martin: We are now down to minimum working stocks, actually. And what we are talking about here is a range of between 12 million and 20 million tons of real reserves. Working stocks now are about in the order of 30 million tons. We are talking about twelve or twenty more. This is far less than we held during the surplus period of the last twenty years—up to '72.

Mr. Enders: So that the idea would be to get everybody to go up, but to get other countries, including importers, Europeans and Japanese, to go up more, and to get the Soviet Union, which has held inadequate stocks, to go up really the most.

Now, what this means is that some additional leverage has got to be found to carry this out.

Secretary Kissinger: Why is it in our interest to get the Soviet Union to go up most?

Mr. Enders: So we don't have the economic burden of carrying stocks that equalize supply for the Soviet Union, which is the most variable of the major grain consumers.

Ambassador Martin: About 80 percent of the fluctuation in production of grains in the last fifteen years has been in the Soviet Union. They are the big fluctuating factor.

Mr. Enders: We have been holding the stocks that make it come out right for them.

Mr. Feldman: May I add one legal dimension. Although we have technical language that is broad enough to acquire stocks, the whole purpose of the program over the years has been for price support domestically. So to go to a new program which is to provide an international reserve, there probably would need to be a new mandate from Congress. But in any event, the issue will be seen in terms of price supports and in terms of pushing domestic prices up even higher. So you see the political implication of getting our prices up higher to provide a reserve for the Soviet Union.

Mr. Enders: What happened when the Soviet Union came in here heavily two years ago was that it solved its problem in a new way—its problem of fluctuations in grain supply. Before it had reduced the livestock herds. This time it held it on, supported it, but did so at the expense of massive pre-emptive buying in the United States that has the consequences that you know about in the United States—inflation, unavailability of PL 480.

Secretary Kissinger: How much did they buy?

Mr. Enders: I think about two million tons.

Ambassador Martin: Something in the order of 15 to 16.

Mr. Morris: They took up almost our entire reserve stock.

Mr. Enders: And that solved their problem.

Now, the structure of this—

Secretary Kissinger: You say our reserve stock now is about 30 million tons?

Ambassador Martin: That is working reserves. This is what the food system, the processors, need, just to keep going.

Secretary Kissinger: In effect, when we say we want to get stocks of 20 million, we want to get back to what we were in '72.

Mr. Enders: Yes.

Ambassador Martin: It would not take us back to that level.

Mr. Morris: Not quite that far. We had in the past, the late sixties, much higher levels than that.

Secretary Kissinger: Higher than 20 million?

Mr. Morris: Yes.

Secretary Kissinger: How much?

Mr. Birnberg: In the sixties we were over 100 million tons.

Secretary Kissinger: What happened to the 100 million?

Mr. Birnberg: It was successively worked down.

Mr. Morris: At the end of the sixties, you had retirement of production.

Ambassador Martin: We took land out of production.

Mr. Enders: This was unintended and undesired.

Secretary Kissinger: What was unintended?

Mr. Enders: Having the 100 million.

Ambassador Martin: It was a by-product of poor agricultural legislation. It didn't work.

Mr. Enders: So the key element here will be convincing the Soviet Union first, Japan and the Europeans second, to hold substantially more stocks, and to take therefore more of the economic burden of equalizing these demand and supply fluctuations.

Secretary Kissinger: But it would push prices up in Western Europe, too.

Mr. Enders: They will have to pay for it somehow—budgetarily or through increased prices. So we need some leverage to make good—this doesn't have to be worked out at the World Food Conference itself—but we need some leverage to make good the targets which must be spread around. And that is the key problem, the sort of underlying heart of the problem, I think, in the negotiation.

Mr. Birnberg: You could argue if you do have such a reserve program in the future with minimum working and reserve levels, you will give greater stability to prices and to market situations, so the Europeans and others will not be—

Mr. Enders: The others want us to pay for it, and we want them to pay for it.

Secretary Kissinger: The sanction you have in mind is that we would not sell grain to countries that do not establish the stocks that are needed beyond a certain point.

Ambassador Martin: Or give them a lower priority, or put on an export tax so they pay a little more. There are various alternate ways one might do it.

Mr. Enders: That's right. There also must be, however, at the same time, Ed, I think, a system by which countries that do participate in the arrangement draw down the stocks that they have agreed to establish.

Ambassador Martin: Oh, yes.

Mr. Enders: So what we need here, Mr. Secretary, is going to be something that is very much like the IEP. We are going to need a closed group that has a certain set of rules on how it behaves. Now, this would have the side benefit that the kind of problem we face now on export controls would no longer arise, because we would have a set of rules to govern this. And we have a very severe program in export controls.

Ambassador Buffum: Would these sanctions be consistent with the MFN?

Mr. Enders: No, they would be non-MFN sanctions. They would be conditional MFN sanctions. They would have to cut through the existing structure of the GATT—would have to be an entirely new notion.

Secretary Kissinger: How would you do that legally?

Mr. Enders: You mean under our own legislation?

Secretary Kissinger: Internationally. You would have to get a new international agreement.

Mr. Enders: A new international agreement.

Secretary Kissinger: As I understand it, the big issues are the level of reserve stocks, a domestic issue, how we hold our reserve stocks, sanctions—

Ambassador Martin: The distribution of reserve—how you decide how much each should hold.

Secretary Kissinger: Do we have any ideas how to do that?

Ambassador Martin: Yes.

Mr. Enders: Burden-sharing.

Secretary Kissinger: That's a slogan.

Ambassador Martin: There have been three measures used by Agriculture and our group where they have spelled out what they mean.

One is the matter of how much each country can afford to hold—to finance.

A second is production fluctuations, what degree of responsibility each country has as a producer, and the difficulties that come up in grain.

And the third is the proportion of exports and imports, how much it is logical for a commercial operator to hold, either as a seller or buyer.

And some combination of these three would come up probably with a pretty reasonable answer to someone sitting aside.

The Soviets and the Canadians are hit by the production fluctuations. The Japanese have no production fluctuation, but are very important importers and have a relatively high GDP. This would give us, as the U.S., something between 20 and 30 percent of the total, depending on how you combine these three.

Mr. Enders: Which compares, Ed, with what, four or five years ago?

Ambassador Martin: With 80 percent.

Mr. Enders: This is a dramatic measure of the problem of this negotiation.

Secretary Kissinger: Yes. But our absolute level will nevertheless rise substantially.

Ambassador Martin: From the present.

Secretary Kissinger: That is what we are working from.

Ambassador Martin: 12 to 20 million tons. One of the problems which we will have to work out is in terms of a supply, the production record—when you can purchase for stocks rather than use for consumption, for exports or for food aid.

There is an interdepartmental group going to be studying this question as well.

Mr. Murphy: Food aid itself might be used for building up—

Ambassador Martin: This would be in the developing countries, one use for food aid, to help them, when they cannot afford it, to build stocks.

Secretary Kissinger: Well, what is our view on the World Food Authority?

Ambassador Martin: We have been discussing that at some length. Marei was in with John Hannah, spent an hour with me, he spent an hour with Secretary Butz.[6]

Secretary Kissinger: I hope he doesn't think I am going to spend an hour with him.

Ambassador Martin: We have told him it cannot be anything like that.

Secretary Kissinger: Ten minutes.

Ambassador Martin: Yes. He will talk mostly about his World Food Authority. That is what he wants to sell.

Secretary Kissinger: What is our view?

Ambassador Martin: In agreement with the other agencies, our view is to be at this time neutral. We want to learn more about how he thinks it might operate.

Secretary Kissinger: What do we really think? We are entitled to have a view, no matter what the other agencies say.

Ambassador Martin: I know we are. I think that Tom and I were rather favorably disposed. I think IO is somewhat more reserved in terms of overlap with the Food and Agriculture Organization. This is also of concern to Butz. But we think that if we can get a food reserve system, if we can get an agreement on food aid coordination, which are two of the functions of this body, and if he can give some reasonable prospect that he can get some of the Arab oil-export money to be collected by his proposed Agricultural Development Fund, and substitute this for half-a-dozen other fund proposals that are before the conference, this may be something worth setting up and going into. It has some attractions.

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[6] Sayed Ahmed Marei, Secretary-General of the World Food Conference, proposed the creation of a new international organization, to be called the World Food Authority, to address the problem of hunger in less developed countries. (*The New York Times*, August 28, 1974, p. 33)

Mr. Lewis: Isn't the issue also, Ed, somewhat similar to the one we have with the oil negotiation, that if we can get an agreement, we are going to need some kind of organization really to enforce it over time?

Ambassador Martin: You have to have a body someplace or other.

Secretary Kissinger: Why can't the FAO do it?

Ambassador Martin: The general feeling of Marei, John Hannah and many of the rest of us is that it is a fairly incompetent organization, that it has too many members, that would all have to have their fingers in the pie.

Secretary Kissinger: Do you think we should say that at the FAO headquarters?

Ambassador Martin: Well, we are not meeting at the FAO headquarters, but at the Italian Government Building. But Marei is very frank on this subject.

Mr. Enders: Ed, isn't the issue that Marei—the World Food Authority strikes me as rather ambitious. We need a follow-through mechanism. The only mechanism that will do a better job than the FAO, which has technical competence but no will and decision-making authority, would be a limited membership group with some coherence, and probably based on constituencies of some kind, probably on the IBRD model.

Ambassador Buffum: FAO is not by any means the most competent international organization. I suspect that you could put into it, however, a new mechanism that would be given specific authority for this kind of coordinating job that we hope will emerge—particularly if reserves are provided for.

But I would join both Ed and Tom in saying we ought to stay neutral until we see exactly what Marei has in mind by way of structuring this new organization.

Mr. Enders: I don't think we should stay neutral. I think we should think about putting forward our own notion, which should be quite definitely that we want a limited-size body.

Ambassador Martin: As far as the reserve scheme, there is no question about that. We are agreed—we want a limited size body. We would like a food aid coordinating body limited to the donors. On the fund, the Marei proposal is that voting in the fund is based on contributions. It is a strictly—

Secretary Kissinger: Could I see a paper of what a good world food authority would look like, what our idea of a world food authority would be.

Ambassador Martin: Certainly.

Secretary Kissinger: What I am also trying to get clear is the following. What is it we have to have decided by the time of the General

Assembly?[7] And what is it that we would say in addition at the World Food Conference? Because I have to decide whether I am going to go to the World Food Conference. What is it that I could say there that I would not already have said at the General Assembly?

Ambassador Martin: I think offhand of two things. One—we might have the AID appropriation for food and nutrition, which would be a major increase. This is what you mentioned in your speech at the General Assembly.

Secretary Kissinger: That would be in the newspapers.

Ambassador Martin: Yes, probably. Though lots of the people there will not have read the newspapers. The other thing is to be able to announce our preparedness to go ahead with an international reserve program.

Secretary Kissinger: You don't think we will have that by the time of the General Assembly?

Ambassador Martin: No.

Secretary Kissinger: What is going to happen—

Ambassador Martin: We will be working on that all through September and October.

Mr. Enders: I think that would be the wrong time to announce it. It would be too early and lose the leverage on the others.

Ambassador Buffum: The main thing, Mr. Secretary, is the new dollar target for food aid—$1.5 billion. If we can announce that then, that will be the big splash.

Ambassador Martin: That is the key thing for us, too—to have that done then.

Ambassador Buffum: There is one other philosophical point I wonder if we are clear on. Would we join in establishing food reserves if the Soviet Union refuses. Obviously we should try and include them. But are we determined now that we don't play ball unless they do. Because that will affect our whole political stance at the conference.

Secretary Kissinger: We can do it in one of two ways. We can either refuse to join unless they do. Or we can go ahead and then put penalties on them if they don't.

Ambassador Martin: This is really the sanction question. I would like to operate on the theory that they are a must, and if they don't join, we are going to use sanctions.

[7] The 29th Session of the United Nations General Assembly began on September 17.

Secretary Kissinger: Sanctions simply mean as I understand it that we give higher priority to the more needy countries, that we won't let the Soviet Union preempt our stocks if they didn't make an effort to—

Ambassador Martin: It would mean some form of export controls in order to limit sales to the Soviet Union through commercial channels.

Mr. Murphy: It would also mean, I take it, higher prices for the Soviet Union.

Ambassador Martin: It might or might not. That is an alternate way of doing it.

Mr. Murphy: That is another possibility.

Ambassador Martin: The export tax idea.

Mr. Feldman: Their participation would require—

Secretary Kissinger: Then do we have to apply the same thing to the PRC?

Mr. Enders: Yes. We would have to have this on the outsiders, and the LDCs would undoubtedly have to have special treatment. But it seems to me any outsider—because there will be others—maybe Japan will want to be an outsider.

Ambassador Martin: What we have now is a list of countries that we think are must countries to make it work, which would certainly have sanctions if you agree to sanctions. There is another list of desirables on which the PRC is, on whom there would be a question, whether they are important enough to invoke sanctions. Others we would say it is up to them, we don't care. Most of the developing countries are not participating so they won't clutter up the operation.

Secretary Kissinger: Could I see a paper on that subject, so I understand it.

Ambassador Martin: Yes, sir. This is the declaration with the list of countries. Would you like a paper describing it?

Secretary Kissinger: I want a paper on sanctions, and on the operation of the reserve scheme.

Ambassador Martin: Fine.

Secretary Kissinger: Let me ask this again. Has the Policy Planning Staff worked on this?

Mr. Lewis: Yes, sir. Bob Morris in particular, and Win and I and others have been involved.

You asked about other ideas not on the table. I must say that personally I am very anxious about the thought that this $1.5 billion is a sufficient target for our food aid proposal. I realize that there are constraints, budgetary and otherwise. But given the impending disasters in Bangladesh, and likely disasters in lands elsewhere, and our continued desire to use PL 480 for political purposes as well as humanitarian purposes, I just don't think the commodity increase that that $1.5 billion represents is going to come close to the real needs for the next twelve months.

Secretary Kissinger: How much of a percentage increase is it?

Mr. Lewis: About 33 percent increase in commodities, and 50 percent increase in money, because the price has gone up. So it is not all that much.

Secretary Kissinger: Except my guess is if we can hold this, we will be doing very well.

Mr. Lewis: I'm afraid you are right. When the Indians start talking about a million tons, and the Bangladesh thing looks worse and worse—and the political commitments we already have in Egypt and elsewhere, which we cannot meet completely by any means—I don't think frankly that our $1.5 billion is going to make the splash that Bill suggests it would in New York, or really meet the real needs, which is more important.

Mr. Enders: Well, it is, certainly, relative to what other countries are doing. It is going to make a tremendous splash. Because that is a very large increase in the total AID requirement, which is now estimated from one to two billion as a result of this crisis, with the hardest hit countries. That increase would cover a substantial portion of it in itself. In absolute terms, it may not be what you regard as a sufficient program. But in view of the fact that nobody else is doing anything—

Ambassador Martin: That estimate was prior to the monsoon in India and the floods in Bangladesh.

Mr. Murphy: On the other hand, Tom, you have to recognize also the extent to which you are not going to use that increase for the MSAs cannot very well contribute to the deficiency. If you get the increase and you use it in Korea and Indonesia instead of Ouagadougou or Timbuctu, or those places that are really hurting, you are not going to make a splash that the figure would seem to sound like.

Mr. Enders: We have to use it both ways—we use the figure overall for one constituency and we use the deliveries for the other.

Mr. Birnberg: There will be a substantial increase over last year.

Secretary Kissinger: Spoken like a Yale man.

(Laughter)

Mr. Lewis: But in one of those earlier papers, Mr. Secretary, that you have been taxed with over the last few weeks, this philosophical—

Secretary Kissinger: Why did they all disappear from my folder. Can I have them back.

Mr. Lewis: One of the issues posed pretty starkly was one we have not discussed here today, and that is how we can square the circle of continuing to use PL 480 at large or medium sized levels, for major policy political objectives, as we want to do, and at the same time meet these MSA issues, because the countries are rather different countries. They are not very synonymous. There are a few overlaps, but not many. And I don't think we have any kind of real agreement, philosophically, in the government on this issue at present. And the smaller the pie, the tougher the issue.

Ambassador Martin: The most restricted proposal came from Chet Cooper.[8]

Secretary Kissinger: Which is that?

Ambassador Martin: Stick to the present money figure, even though that will be lower than the President's program quantity figure.

Mr. Enders: It was an irresponsible proposal—seriously.

Secretary Kissinger: That is absolutely out of the question.

Ambassador Martin: I think so—completely.

Mr. Enders: It would have involved cutting PL 480 for Cambodia in half, which means the country goes down the drain.

Mr. Murphy: But it is indicative of the attitude that you eventually are going to confront, Mr. Secretary.

Secretary Kissinger: I am not worried about that, if I have a good program. And if you gentlemen can come up with a good program, I think we stand a fair chance of getting the President's agreement.

Now, would you do these additional papers—because it will be helpful to me.

Ambassador Martin: May I ask one administrative question. Secretary Butz asked me to be deputy chief of the delegation. Is that agreeable to you?

Secretary Kissinger: Certainly.

Ambassador Martin: Okay.

Secretary Kissinger: Now, when does the conference open?

Mr. Martin: November 5. The U.S. is now scheduled to make an opening statement, going through the delegations, probably on the morning or afternoon of the 6th—rather early. We are the fifth or sixth speaker, I think.

[8] See, for example, Document 258 for Cooper's views on P.L. 480.

Secretary Kissinger: If I wanted to do it, I would have to be there on the sixth.

Ambassador Martin: Yes, sir. The first day is mostly ceremonial. It also happens to be election day.

Secretary Kissinger: Is anybody else going to be represented by their Foreign Minister?

Ambassador Martin: Not that we have heard thus far. But we haven't got very much of a rundown as yet on who is coming. Most of the countries I have visited, it will be the Minister of Agriculture.

Mr. Enders: I would think that the political effect of your being there, Mr. Secretary—obviously it is a major expenditure of your time—would be very great in two senses. One, to show the other countries the United States really is serious about this. And two, in terms of our ability to drive the follow-through across.

Secretary Kissinger: I have got to go to India and the Soviet Union. The only way I could possibly go is if at the end of that trip I wound up in Rome. And if I had the speech written before I went on the trip—because I certainly would not be able to do much on the trip.

Mr. Enders: Does about the sixth fit in with your plans?

Mr. Jenkins: Arriving back from depressed areas, it would be particularly timely.

Secretary Kissinger: I could just leave later for the other trip.

Can it be set on the morning of the sixth?

Ambassador Martin: I think that could be arranged.

Secretary Kissinger: So I could be home in the evening—the evening of the sixth?

Ambassador Martin: Yes, sir.

Secretary Kissinger: Okay.

(Whereupon at four p.m. the meeting was adjourned.)

264. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Ford[1]

Washington, undated.

SUBJECT

Food for Peace Program for FY 1975

Roy Ash's memorandum is a balanced and succinct presentation of the choice before you. Although the competing factors of inflation/ fiscal control on the one hand and foreign policy concerns on the other are correctly described and the illustrative allocations accurately reflect our foreign policy priorities, the characterization of the options may be so cryptic as not to portray clearly the foreign policy implications of each. In my judgment, those implications are as follows:

—*The first (low) option,* which reduced the commodity level by one-third, does meet the requirement in Indochina and is a minimal program for the Middle East and for humanitarian purposes. What remains cannot provide for sizeable programs in Korea, Indochina and India as well as smaller but still important ones in Bangladesh, Pakistan and Chile. We would face a choice in which our foreign policy objectives in two of the larger countries, and in one or all of the smaller triad, would have to be changed drastically. In addition, we would have no flexibility other than that provided by a later, upward revision of the budget level. It should be noted that the amounts indicated for Bangladesh, Chile, Pakistan and Indonesia under this option reflect residual, unfulfilled obligations from last year or first quarter ship-

[1] Source: Ford Library, National Security Adviser, Presidential Subject File, Box 6, Food (2). Confidential. A stamped notation on the memorandum indicates the President saw it. A September 16 covering memorandum from Kennedy and fellow NSC staff member A. Denny Ellerman to Kissinger reads: "We have worked closely with OMB, State and Agriculture in the development of the Ash memorandum (Tab A). It fairly presents the core issue which must be decided—the fiscal/inflation question as balanced against the foreign policy concern. We were not able, however, to fully explore in the paper the foreign policy ramifications and believe that the way they are now stated, although for the most part accurate, is too cryptic. The memorandum at Tab I would inform the President more fully as to the real ramifications in the foreign policy sense of the three options. It clearly points out that short of the high option (Option three), there are significant policy costs which must be accepted."

ments. In no wise can they be construed to make minimal provision for the achievement of our policy objectives in these countries.

—*The second (middle) option* does make very minimal provision for all our foreign policy objectives, and thereby gains the advantage of avoiding a major revision of international posture, but only by accepting what I judge to be the considerable risk of failing in any one or several of the areas by spreading ourselves too thin. Alternatively, we could avoid this risk, but only at the cost of having still to eliminate one of the three large country programs (Korea, Indonesia or India) with corresponding effect on our policy objectives there. Moreover, however the resources of this option are allocated, we can assure a significant increase to at least partially offset the likely long Congressional delay in making other assistance available for any Middle East efforts only at the cost of serious disruption of those large high-priority country programs.

—*The third (high) option* fully meets all foreign policy objectives and runs little risk of failure. It also provides the flexibility that has now become even more important given the unlikely, early enactment of this year's foreign assistance appropriation. Were it not for the fact that, as you know, we likely face an extended period without an aid appropriation, the middle option could have afforded a helpful balancing of the fiscal/inflation imperatives on the one hand and vital foreign policy concerns on the other. The Continuing Resolution with which we have to live, however, provides no funds for our vitally important Middle East diplomacy and low levels of funding elsewhere, so that the capability to use food aid as a substitute has become even more important.

This is an important and difficult decision. Any increase of a major foreign policy budget item (and that goes for the middle option about as much as for the high option) would expose you for controversy on the Hill, when at the same time you hold the line on domestic expenditures.

For that reason and because of the possible price impact on the markets, it would be best not to announce a fiscal year total.

However, I recommend that you adopt the high option (Option III) for internal planning purposes with allocations to be made quarterly. This will give you the opportunity to make revisions should (contrary to expectations) the domestic food supply position gets tighter. Some other refinements such as a continuous effort to substitute rice (which is abundant) for wheat, and to scrub up some of the Title II Voluntary Agency programs, are also in order. Finally, I think that we should agree to phase out this year the Indonesia program as no longer appropriate to a major oil producer.

Attachment

Memorandum From the Director of the Office of Management and Budget (Ash) to President Ford[2]

Washington, September 16, 1974.

SUBJECT

Food for Peace Program for FY 1975

Because of the possible desirability of announcing the United States position on food aid in your speech to the United Nations Wednesday,[3] and the necessity for decision prior to the World Food Conference in November, this memorandum presents for your decision three alternative funding levels for 1975 P.L. 480 food aid:

(a) The original budget dollar level of $742 million net[4] outlays.
(b) An increase above the budget level to $978 million.
(c) The original budgeted commodity amounts, which would now cost $1.28 billion because of price increases since last December when the budget was prepared.

Key Factors in the Decision

Issues related to commodity availability and prices, possible export controls, the need for fiscal discipline, foreign policy objectives, and foreign aid funding problems will be key factors in your decision.

Commodity availability and prices.

Because of the Midwest drought and resulting pressure on supplies and prices, little corn or soybean oil will be available for P.L. 480. Rice and wheat, however, probably can be used as substitutes, although an early frost could still reduce estimated commodity availability. Since the 1975 budget was prepared, the P.L. 480 price of corn has increased 66%; that of soybean oil by 211%; and wheat prices have increased 28%. Technically, a program of the size contemplated by any of the options should

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[2] No classification marking.

[3] On Wednesday, September 18, President Ford addressed the 29th Session of the United Nations General Assembly. For the text of his remarks, see *Public Papers: Ford, 1974,* pp. 156–161.

[4] Each of the optional dollar levels is the cost of commodities, plus freight costs, minus repayments from prior year food shipments. Thus actual program levels will be about $75 to $130 million higher than these net outlay estimates, as shown in Tab A. [Footnote is in the original. Tab A, an undated chart entitled "Illustrative Distribution of Option P.L. 480 Funding Levels Among Priorities and Country Programs," is attached but not printed.]

have only a negligible further impact upon commodity prices, if wheat and rice are largely substituted for corn and soybeans. But against a backdrop of uncertainty about our crops, rapidly rising food prices, and a volatile futures market, announcement of an increased program could have a near-term psychological impact on futures prices. If actual prices should rise, the cost of commercial imports by less developed countries would increase, to some extent offsetting benefits of P.L. 480 aid and harming countries which do not receive that aid.

Possible commodity export controls.

Next Thursday the cabinet level food committee will meet to consider the crop situation and export policy, and discuss the possible future need for export controls.[5] If you should decide to control exports of specific agricultural commodities, those commodities could not be shipped under P.L. 480. If wheat is controlled, none of the options presented here would be possible, and a radically smaller program, consisting largely of rice, would be necessary.

The need for fiscal discipline.

Because of price rises, a commodity shipment program similar to that originally planned would increase P.L. 480 outlays to $1.28 billion, $533 million over budget. Although the P.L. 480 budget can be increased by administrative action, without congressional appropriations, such a move would be contrary to our announced fiscal policy of reducing 1975 outlays by $5 billion with congressional cooperation. President Nixon vetoed the agriculture appropriations bill, which included P.L. 480, in part for exceeding the budget by only $150 million. A major increase in outlays in support of foreign policy objectives at a time when you are calling upon government and the American people to employ restraint in spending, will be inconsistent with our programs to combat inflation and subject to considerable criticism.

High priority foreign policy objectives.

There are, conversely, strong foreign policy reasons to increase P.L. 480 over the commodity levels originally planned—even beyond the highest option presented. The United States took the lead in initiating the forthcoming November World Food Conference. In April Secretary Kissinger stated in the U.N. that efforts would be made to try to increase food aid. Many poor countries have been hard hit by food shortages, natural disasters, or rising import prices for oil and food. Food

[5] Briefing papers for the September 19 meeting, as well as a memorandum on the meeting's decisions, are in the Ford Library, U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 45, Subject Files, Food (2).

aid is considered a vital part of our Mid East diplomacy; Israel and Egypt in particular have requested large programs. Further, recent floods in Bangladesh have increased the need there, India will have a significant grain shortfall this year, and recipients like Korea, Indonesia, Chile and Pakistan expect commitments (even though conditional) to be made good.

Foreign aid funding problems.

There is a real possibility that Congress will not enact Foreign Assistance legislation before spring 1975 at the earliest. If this occurs, we will be confined to a continuing resolution at a funding of about $2.5 billion, without any authorization for vitally important Middle East aid, compared to the $3.4–$3.6 billion range now being considered by Congress. Under this circumstance, higher levels of food aid will probably become necessary, particularly in the Middle East.

Options for Decision

A general consensus has been reached among the key agencies involved on three optional program levels. Implications of meeting six basic priorities are discussed in terms of both foreign policy and domestic fiscal policy. These priorities are: Indochina, Middle East, humanitarian, South Asia, traditional political commitments, and flexibility to respond to changes and provide for other countries. Illustrative country allocations are shown in Tab A.

Option I holds to the budget outlays of *$742 million.* It is the only option consistent with your fiscal policy, and contributes to the credibility of fiscal discipline in other government programs and to a broad anti-inflationary policy. It meets fully requirements in Indochina, and provides adequately for humanitarian programs and the Middle East. Option I however provides only minimally for traditional political recipients and the Asian subcontinent, including no new aid for Pakistan and low levels for Chile and Bangladesh. It will also require a difficult choice among (a) Indonesia—not a recipient last year—which we have agreed to provide substantial food aid, although it has no economic need because of rising oil revenues; (b) Korea—to which P.L. 480 has been promised—but also was not delivered last year—in exchange for restraint on textile exports to the U.S.; and (c) India—which has a severe food shortage. A major program for only one of those countries could be undertaken, and—because of the limited reserve possible under Option I—this would not be possible if Middle East requirements were significantly increased.

Option II, totaling *$978 million* or $236 million over budget, builds upon Option I. It provides fully for requirements in Indochina and the Middle East, and distributes the balance of available funds among traditional political recipients, countries in the Asian subcontinent and humanitarian programs so that all requirements are met in a manner than can be characterized as minimal to adequate—as shown in Tab A. No reserve to provide for other countries or meet increased requirements is retained in this option. Because Option II exceeds budget levels, it runs the risk of damaging the chance of congressional cooperation in reducing 1975 outlays elsewhere. However, since actual commodity shipments will be lower than budgeted levels, this option can be characterized as a more austere program than planned.

Option III, a commodity program about the size originally planned, totals $1.28 billion, $533 million over budget. It fully meets all major security, political, and humanitarian objectives, short of making a major gesture of leadership at the World Food Conference or responding massively to severe food shortages in India. It also permits modest programs for a number of small countries of political importance, and an adequate reserve to deal with unforeseen developments.

A program of this size would, however, seriously undermine your fiscal policy and risks damaging chances of cooperation from Congress in reducing FY 1975 outlays elsewhere. Further, this program could risk contributing to price increases, because of the larger shipments of wheat it entails.

Decision

Options for decision are listed below. Your decision will permit detailed interagency country-by-country programming and determination of commodity composition to proceed, recognizing that any decision can be revised to respond to major changes in crop availabilities, prices, or requirements.[6]

Option I—Budget level of $742 million (recommended by OMB, CIEP, CEA, Agriculture).

Option II—Increase program to $978 million (Treasury).[7]

Option III—Original commodity level budgeted costing about $1.28 billion (recommended by State, NSC, AID).

[6] President Ford did not indicate his approval or disapproval of any of the three options.

[7] *Treasury* will support Option II with the understanding that no decisions will be announced but programs will be adjusted upward, and a maximum effort will be made to substitute rice for wheat. [Footnote is in the original.]

Decision Announcement

Your decision as to program level will influence the timing of announcement of the decision, another important question.

If you believe the probability of commodity export controls to be high, no decision should be announced until that issue is resolved. Announcement of a greatly increased program will make it domestically more difficult to impose controls, and conversely if controls are subsequently required, severe cutbacks or cancellation of our announced program at any level will severely distress recipient countries.

If you decide on Option I (the present budget level and thus the lower commodity level) there would be no advantage to be gained in any announcement and positive disadvantages in terms of pressures from the voluntary agencies for greater allocations and from the world at large for greater participation on our part. Thus it would be preferable in that circumstance to merely proceed with regular quarterly allocations at the decided levels.

If you select Option II or III, you should consider emphasizing in your speech at the United Nations the increased *dollar* commitment to dealing with world food problems which these options entail. Any announcement defined in specific terms or strongly characterized (e.g. major) could lead to price increases impacting adversely in this country and on the program itself. Thus if you wish to announce a decision to increase the program, it should be done in a low key and in general terms. Possible foreign policy advantages which an announcement may offer, must also be weighed against two considerations:

- The highest option is in fact no larger—in terms of food actually shipped—than provided in the budget.
- Announcement of an increased program is directly contrary to your efforts to control inflation and balance the budget.

Decision[8]

Announce immediately (at U.N. or World Food Conference).

Do not announce, but adjust country programs and shipments.

[8] President Ford did not indicate his approval or disapproval of either option. In his September 18 speech to the UN General Assembly, the President said: "Finally, to make certain that the more immediate needs for food are met this year, the United States will not only maintain the amount it spends for food shipments to nations in need but it will increase this amount this year." He also said that the United States would offer "comprehensive proposals" at the November World Food Conference. (*Public Papers: Ford, 1974*, p. 160)

265. Memorandum of Conversation[1]

Washington, September 17, 1974.

PARTICIPANTS

President Ford
Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Major General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

[Omitted here is discussion unrelated to food aid.]

Kissinger: We are having a meeting on food aid.

With the middle program you run the risk that you have the budget without getting the flexibility you need.[2]

Butz used to be for it, and he is on foreign policy grounds, but OMB has said it would come out of his hide—so he is reluctant. I can't measure the budget impact, but I think you can't go to the low option, and you lose as much with the middle option.

President: I want to find out from Butz the impact on the housewife.

Kissinger: I think they agree it won't, but psychologically it would. We would propose not to announce figures and do it with a quarterly program, and then we can review in the height [*light*?] of the crop situation. We would tell the recipients quarterly except for really important countries. The Syrians have asked for 500,000 in wheat. That is good—if we can get our hooks into them it would be very good. I would propose telling Egypt and Syria the year amount.

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[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 5. Secret; Nodis. The meeting began at 9:55, concluded at 10:25 a.m., and took place in the Oval Office. (Ibid., President's Daily Diary) On September 10, Kissinger told the President, "No decision is required now on food aid. The crop report is due next week. Butz supports it, Ash is against and Simon is torn between." President Ford retorted, "He is torn between what is right and trying to save $10 billion. Did you see the McGovern report on food aid in the paper this morning? They are supportive." Kissinger replied, "The opposition will be on financial, not political grounds. Why don't you look at this and make a decision next week?" Ford then requested a copy of the McGovern report. (Ibid., National Security Adviser, Memoranda of Conversation, Box 5) An undated memorandum from Kissinger to the President on an increase in food aid is ibid., Presidential Subject Files, Box 6, Food (4). In June 1974, Senator McGovern chaired hearings of the Senate Select Committee on Nutrition on global food issues. A report on these hearings was released on September 9. (*The New York Times,* September 10, 1974, p. 7)

[2] Reference is to the options in Ash's memorandum to the President attached to Document 264.

President: 500,000 for Egypt and 200,000 for Syria—is that the high option or the middle option?

Kissinger: Egypt, probably not Syria for the middle.

President: The key for me is the impact on the housewife. In the original text there was a proposal for a food reserve. That is what Humphrey, McGovern are talking for and Butz is against.

Kissinger: I would drop that. Butz doesn't oppose reserves, but wants it privately held. I think it is better to hold it for the Food Conference.

President: Let's concentrate any decision on the size.

[Omitted here is discussion unrelated to food aid.]

Kissinger: I will give you a paper soon. Proposing an oil tax to promote conservation, and high food aid, would give us something to cut off.

President: I like the speech theme of relating food and oil prices.[3]

Kissinger: I would not be specific but just say "increase" and drop out the food reserves.

[Omitted here is discussion unrelated to food aid.]

[3] The President is referring to his speech before the UN General Assembly, which he delivered the next day. See footnote 3, Document 264.

266. Memorandum of Conversation[1]

Washington, September 17, 1974, 12:15 p.m.

PARTICIPANTS

President Gerald R. Ford
Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Earl L. Butz, Secretary of Agriculture
Roy L. Ash, Director, Office of Management and Budget
Alan Greenspan, Chairman, Council of Economic Advisors
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

SUBJECT

Food Policy

The President: The purpose of this meeting is to decide on a food aid policy. Various options are laid out in the Ash memo.[2]

The low option is $700 million plus. It's the same dollar value as before but a lower quantity because of the price rise.

Secretary Butz: This is the outlay and to it is added reflow, freight, etcetera. So the amounts total $800 million. Some of these, like tobacco and rice, we can get at somewhat lower prices. The basic question . . . I am for the middle level. I think you should go higher than the dollar level of before if you can find the money. There are enough conditions to do it without strain.

The President: If we took Option C or B, what would be the impact on the housewife?

Secretary Butz: You can't reserve half a billion without having some price impact. I can't say how much, but it would be mildly inflationary. You would get the plaudits of the liberal press. My problem is I don't have the money in my budget.

The President: Suppose we just said "an increase in" without specifying.

Secretary Butz: Little effect.

The President: Suppose we said "significant increase."

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[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 5. Top Secret; Nodis. The meeting began at 12:30, concluded at 1:30 p.m., and took place in the Oval Office. In addition to those officials already listed as being in attendance, Rush and Cole were present. (Ibid., President's Daily Diary) All brackets are in the original.

[2] Attached to Document 264.

Secretary Butz: I wouldn't do that.

Mr. Ash: You could end up with the worst of both worlds. You would focus here on the increase, and foreigners would see it is not an increase in quantity.

The President: Butz said in the case of wheat and rice prices, they would be lower than last year.

Secretary Butz: We supply 40% of the world's commercial rice.

The President: I don't understand your budget.

Secretary Butz: I have the lower amounts budgeted. I just can't find an extra $200 or $400 million.

Mr. Ash: The Agriculture budget was vetoed for $150 million, and this would add $250 million. You have adequate authorization to get the money from wherever you want. It accumulates by up to $1.9 billion a year. And you don't need to go to Congress.

The President: Where does it come from?

Mr. Ash: It is an automatic supplemental—it goes up after the contract is let.

Secretary Butz: My budget now is in veto and I am negotiating. I can't add $300 million and negotiate with the Committee Chairman. He doesn't like this now.

The President: Let's think of a scenario which gives us a foreign policy and humanitarian benefit. We could make a commitment for an increase, unidentified. Then we commit on a quarterly basis.

Secretary Kissinger: In quantity, Options A and B represent a decrease. This is one of the few weapons we have to deal with oil prices.

The President: Do the recipients deal with quantities, not dollars?

Secretary Kissinger: I don't think the individual countries will make that connection. The problem will be cutting countries which expect it. I would rather cut for those who would be disappointed anyway and use it for foreign policy.

Secretary Butz: I agree. There are countries that have been living for years on Title II.

Mr. Ash: Henry has a good chart which shows the impact which different levels give.

Secretary Kissinger: I don't give a damn about Bangladesh or humanitarian grounds. I want it for foreign policy.

Secretary Butz: Can't you recognize that we have had a bad year but that we will make every effort to make a commensurate effort with last year?

Secretary Kissinger: It is actually good, but it sounds bad.

Mr. Greenspan: Why can't we say the crops aren't in yet and we don't know?

Secretary Kissinger: The President is scolding everyone at the United Nations for being miserly on energy, and the less we say we'll do on food, the less effect it has. We are trying to tell the Third World they must be cooperative, and in turn we will try to cooperate.

Secretary Butz: What we really have to offer is food.

The wheat and rice crops are practically harvested.

The President: You will have a good feel by March of what kind of winter wheat crop you will have. Can't we just go with the first two quarters and defer the later quarters?

Mr. Ash: At what rate will we actually be spending the money, aside from what we say?

The President: In the speech, we have the idea that the oil producers have an asset, and we have an asset. If we want them to cooperate, we must reassure them in a strong way that we want to reciprocate. If it worked, we could get some cost of living benefit.

Secretary Kissinger: At Option 3, we could get enough with a few to get the benefits you seek.

The President: India gets a substantial amount under Title II, without us.

Secretary Kissinger: But this is useful in weaning India away from the Soviet Union.

Mr. Greenspan: A few words about the price outlook. There are risks, and I recognize the important tradeoffs. Especially the oil thing. Anything we can do is at least as important as budget restraint. When there are small reserves, there is a strong impact of withdrawals on price. Anticipation or unexpected withdrawals could get you a substantial price reaction. People now are so sensitive to the situation now that I worry. If we could hold things down by quarters, it would help. There is a corn-wheat tradeoff and if the corn crop gets frost, there could be a price reaction which could be blamed on PL–480.

Mr. Ash: There are also those who want export controls.

Secretary Butz: That undercuts you with the oil producers.

The President: Is that pressure higher or lower?

Mr. Ash: I think the speech language is okay.

[The President reads it aloud.]

Secretary Butz: We should add that each country will determine how its food reserves will be held.

I think if you make a commitment to more than double our assistance.

Secretary Kissinger: We can say "substantially increase."

Secretary Butz: Or, "we are prepared to harken—or respond—to appeals for export controls." [After phrase about "deaf ear."]

The President: I am bothered by the phrase "declining crop."

Secretary Butz: I would say "disappointing summer."

Secretary Kissinger: I would not give them this lever by letting them say we couldn't do more anyway. We want to point out that the oil producers are putting export controls and we are taking a cooperative approach.

The President: If we do it quarter by quarter, we have options.

Mr. Ash: The question is at what rate we disburse—at the high- or low-option rate. I recommend we disburse at a lower rate with the prospect of increasing if we can.

The President: With the exception that for good foreign policy reasons, we increase when we need it.

Secretary Kissinger: I would start at the higher rate. Some of these countries will do things we don't like and we could cut them for that as we would have to anyway. While the UN is going on, I would like to let them continue thinking that we are doing something new, but we can tell them we don't necessarily guarantee it for the year.

The President: Who makes the decision?

Mr. Ash: We have an interagency system which does it under whatever policy guidance exists. But we could make the decisions one by one without an overall policy framework.

Secretary Kissinger: For example, we have to do something for India. If we are to make a breakthrough, it is over the next three months. I would like to demonstrate to the Soviet Union that they don't get much for their investment, but these countries slip away.

Secretary Butz: Why don't you keep as flexible as possible and we will work to get the most possible. We do it quarter by quarter, but we agree we need more in the budget.

I will tighten up on the agencies to the extent possible. But you will take a lot of heat.

The President: How does this compare with McGovern?

Secretary Butz: McGovern had stacked hearings.[3] His plan would give away the Treasury.

The President: How about keeping them at the low levels at most. Lower than the low options.

Mr. Ash: We shouldn't publish any program or total. We will have to meet again on specific decisions.

The President: I would like for the next meeting to know where we are in the actual execution: What have we used, what we have left, etcetera.

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[3] See footnote 1, Document 265.

267. Memorandum From the Executive Director of the Council on International Economic Policy (Eberle) to the Executive Committee of the Economic Policy Board[1]

Washington, October 25, 1974.

SUBJECT

Status of U.S. Policy Development for World Food Conference

The World Food Conference will be held in Rome, November 5–16, 1974. At the third preparatory meeting of participating governments, ten draft resolutions were prepared for consideration and adoption at the World Food Conference.[2] Position papers have been prepared on each resolution, in consultation with selected agencies. These papers will be presented by COB October 30 for EPB approval. It is anticipated that speeches to be made by the principals (Secretaries Kissinger and Butz) at the World Food Conference may contain policy points not covered by the position papers, so that the contents of the speeches may also need revision.

The discussion in the SRG on Friday, October 25,[3] revealed that there are some fundamental issues which require resolution. Unfortunately, the final preparations have not been timely. The interagency clearance process was handled in an ad hoc manner, with the result that many issues have not previously been given full consideration by key agencies. Consequently, the positions of some agencies are still unclear.

The October 25 SRG discussion reviewed the major issues posed by the ten draft resolutions and the position papers, and certain general conclusions emerged.

I. It was agreed that there will be no commitments to any specific numerical targets, including those involving USG expenditures, commodity levels, or program objectives.

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[1] Source: Ford Library, U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 57, Economic Policy Board Meetings, EPB—October 1974. Limited Official Use. Printed from an unsigned copy. On October 29, Malmgren gave a report on U.S. preparations for the World Food Conference to the EPB Executive Committee that was based on this memorandum. (Ibid.)

[2] The third preparatory committee meeting was held in Rome September 23–October 4. On October 24, Eberle circulated a CIEP paper outlining the policy issues raised by the draft resolutions to the participants in the October 25 CIEP–SRG meeting. (National Archives, RG 429, Records of the Council on International Economic Policy, 1971–1977, Box 255, Senior Review Group Meetings, 1971–1974, 54234 Eberle Calls for CIEP/SRG Meeting on October 25 at 4 p.m., Rm 208, OEOB 10/23/74)

[3] A summary of the October 25 CIEP–SRG meeting is ibid.

II. There is a fundamental disagreement as to whether U.S. willingness to negotiate a grain reserve system should be linked to negotiating multilateral trade agreements. Some agencies believe basic national interests are involved with the issue, involving both commercial and foreign policy interests. This poses a related issue on which there is also disagreement concerning the appropriate forum in which to begin discussions of an international grain reserve system.

III. It was agreed that the U.S. would oppose any resolutions regarding grains reserves which establish target levels, specific burden sharing criteria, obligations of specific countries to hold reserves, sanctions, or other specific elements of a grain reserves system. It was also agreed that the language regarding burden-sharing criteria would be deleted from the position paper.

IV. It was agreed that the U.S. continues to favor national control of reserves, and does not favor internationally held grain reserves.

V. It was agreed that the U.S. will continue to reserve the right to determine later how it will fulfill any reserves commitment. Agreement in principle to a grain reserve system is not a commitment to hold reserve stocks by the USG itself.

VI. Given the tight supply situation for fertilizer and the high possibility that domestic availabilities will fall short of domestic requirements, the U.S. should not commit itself to assuring the availability of fertilizer to other countries.

In the meeting of the SRG, Ambassador Martin and the State Department representative indicated that the speeches to be delivered by the principals might contain numerical targets, which would commit the USG to financial expenditures or to other specific objectives. Other agencies had not seen the draft speeches, but expressed their concerns about the contents and about this unusual clearance procedure in the economic-commercial area where commitments affect other economic alternatives.

268. Message From the Assistant Secretary of State for Economic and Business Affairs (Enders) to Secretary of State Kissinger[1]

Washington, October 31, 1974.

Tohak. Subject: Economic Policy Board Meeting on the World Food Conference.[2]

1. Meeting started with Eberle saying there were three areas in which the U.S. did not have coordinated positions: (a) whether or not there should be targets for grains reserves, food aid, agricultural research, and what the targets should be if adopted; (b) the whole question of how to relate the reserves negotiation to the multilateral trade negotiation; and (c) whether or not we would support multi-year planning for food aid.

2. I responded by saying that the only numerical targets essential to the success of the meeting is the grains reserve figure. It is simply not possible for the U.S. to call a major meeting of this kind, identify the food security problem as a pressing international need, and not come up with an estimate of what the world needs to achieve food security. On relationship to the multilateral trade negotiations, I agreed that it is an issue but that it need not be addressed now. Building up reserves would increase the world demand for grains and provide us new markets; no doubt we must also address the question of what happens in periods of surplus; those decisions can be made subsequent to the World Food Conference and would not be prejudiced by your speech. On multi-year planning for food aid, I said that your speech identified a process for developing such planning, but is not a commitment to a specific formula or numbers.

3. Butz, Ash, Simon, and Seidman all pushed to remove any specifics or targets from your speech, arguing in various ways that it was either not necessary (because the Conference is largely targeted on attitudes) or not possible (because the U.S. Government had incompletely coordinated positions). Of those present only Butz had read the speech.

[1] Source: Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 8, 10/25–31/74. Secret; Sensitive; Flash. The original is the text as approved for transmission before a Tohak number was assigned. On October 31, Kissinger traveled from Dacca to Rawalpindi. From October 23 to November 9, Kissinger visited Europe, South and Central Asia, the Middle East, and North Africa.

[2] The relevant portion of the October 31 EPB Executive Committee meeting minutes reads: "There was a general discussion of a draft of Secretary Kissinger's speech to the World Food Conference. The Executive Committee members will forward specific recommendations through Mr. Seidman to Mr. Enders who will transmit them to Secretary Kissinger." (Ibid., U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 57, Economic Policy Board Meetings, EPB—October 1974)

4. Simon concluded by saying that he would have to[3] read the speech, and the group will consider whether there are issues in it that must go to the President. He characterized the difference between what Eberle was saying and what I was saying as "semantical" and said that he thought that drafting changes might be all that would be required.

5. I pointed out that we must have all commitments for transmission to you by 1800 local this afternoon. I am meeting with Seidman and Simon in a few minutes to review their comments. If they have something they wish to take up with the President, a meeting with the President would follow almost immediately at 1100.

6. (Scowcroft to Kissinger) Butz apparently raised the objection to specifics and targets in your speech, and Seidman thereupon indicated there was no way usefully to discuss it without that portion of the speech. The situation at the moment is a shambles but we will try to work it through without damage.

Warm regards.

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[3] An unidentified hand crossed out the words "will not" and substituted "would have to."

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269. Message From the Assistant Secretary of State for Economic and Business Affairs (Enders) to Secretary of State Kissinger[1]

Washington, October 31, 1974.

Tohak. Subject: World Food Conference Speech.

1. Prior to the 11:00 a.m. meeting of the Economic Policy Board with the President, Simon and Seidman agreed that we don't really have disagreements on the speech that need to be brought to the President's attention. They agreed that I should meet with their representatives to refine their comments on the draft for submission to you this afternoon.

2. However, the question was raised at the meeting with the President.[2] I am not sure by whom or how. Seidman says that Eberle de-

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[1] Source: Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 8, 10/25–31/74. Secret; Sensitive; Flash. The original is the text as approved for transmission before a Tohak number was assigned. It was sent via the White House channel.

[2] On October 31, President Ford met with EPB Executive Committee members in the Cabinet Room from 11:28 a.m. until 12:22 p.m. (Ibid., President's Daily Diary) No memorandum of conversation from this meeting was found.

scribed the speech to the President and indicated the "two or three major issues." Seidman said the President made these remarks:

(a) The food aid statement should be kept within the parameters of his meeting in September;[2]
(b) The speech should have a "two-way" construction: we should make clear what we expect others to do; we should take a position of tough bargaining;
(c) Since the speech will be broadcast on election day, the political people in the White House should look at it to make sure "there are no bombshells."

The President further indicated that he wished to have a copy of the speech (which Simon gave him), and he would like to be kept advised of interagency discussions.

3. I have now the details of Treasury, OMB, CEA, and CIEP comments. I will be putting them together with all other comments on the text in a consolidated message to be sent to you in the next few hours.[3]

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[2] See Document 266.

[3] On October 31, Scowcroft sent a message to Kissinger, Tohak 97, that concluded, after more than 14 pages of specific suggestions and arguments, with a paragraph summarizing overall agency observations: "Butz stated his view that the speech was overly long and contained too much detail. As you know he argues against numbers and targets. The economic officials (Simon, Ash, Eberle, Greenspan) also argue for taking out numbers wherever possible. Seidman asks whether the tone emphasizes too much of what we will do for others, and not really enough of what they must do for us. He wonders how it jibes with the President's recent emphasis on tough bargaining abroad. Several agencies ask why more isn't made of population, one of the main determinants of the problem." (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 8, 10/25–31/74)

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270. Message From the President's Deputy Assistant for National Security Affairs (Scowcroft) to Secretary of State Kissinger[1]

Washington, November 2, 1974.

Tohak. 1. Dick Cheney called to tell me that the President wanted me to convene a meeting this morning to discuss the two controversial issues in your WFC speech: the size and degree of detail on the reserve, and the commitment to increase quantity of food aid. The Pres-

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[1] Source: Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 9, 11/1–5/74. Confidential; Eyes Only; Flash. The original is the text as approved for transmission before a Tohak number was assigned. Sent via Kissinger's Special Assistants, L. Paul (Jerry) Bremer and David Gompert.

ident said he wanted to get views from all elements—the domestic side and economic side, as well as foreign policy. He asked that meeting include Rumsfield, CEA, State, Treasury, Agriculture, NSC, Seidman, and anyone else we thought was appropriate.

2. He specifically requested more information on the 60 million ton figure for the reserve: was the 60 million made up of specific proportions of different grains, simply an overall total, or what? He also wanted data that would give him a framework for comparison of the significance of 60 million tons, such as total U.S. production of the grains in the reserve, total world production, U.S. exports, world consumption, etc.

3. The President wanted the data and the views of each agency cabled out to him[2] so he could make a decision. If he still had problems he plans to[3] call a meeting on Sunday[4] morning when he returns.

4. Am trying to locate the relevant people now for a meeting at 9:00 a.m. I will chair and Enders and Hormats[5] will carry the ball. Will keep you advised.

Warm regards.

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[2] President Ford spent November 2 campaigning in Salt Lake City, Utah, and Wichita, Kansas. (*The New York Times,* November 3, 1974, p. 24)

[3] An unidentified hand crossed out the word "would" and inserted "plans to."

[4] November 3.

[5] An unidentified hand inserted Hormats's name.

271. Memorandum From the President's Deputy Assistant for National Security Affairs (Scowcroft) to President Ford[1]

Washington, November 2, 1974.

SUBJECT

Results of Meeting to Review Issues in World Food Conference Speech[2]

In accordance with your instructions, I met with Bill Seidman, Earl Butz, Roy Ash and Treasury, State, CEA and CIEP early Saturday morning to discuss the two issues posed in Secretary Kissinger's memorandum to you on the WFC speech.[3]

I. On the issue of announcing a world reserve target of 60 million tons, all agencies agreed on a common recommendation.

There were initially two views:

1. *The target figure should not be announced in the speech.* The major points made in favor of this argument were: we do not know at this point whether China and the Soviets will join in a reserve program; we have not established a burden sharing formula; and we are not now sure of the rules on sales and intervention. Therefore, we should not mention a specific target at this time.

2. *Announcement of the target is necessary.* The major points in favor of this were: It would not be credible for the US to have called a major conference, spent a year preparing for it, and now have no view on what reserve target would be necessary to provide for food security. Our major objective is to get the Europeans, Japanese and others to assume a significant share of the burden for stockpiling food for emergencies, thereby relieving us of part of the cost and responsibility. This requires that we have a reserve target at which to aim in negotiations. And it is better to negotiate toward an agreed target number for reserves rather than first negotiate intervention rules, which

[1] Source: Ford Library, National Security Adviser, Presidential Subject File, Box 6, Food (3). Secret; Sensitive. A note at the top of the memorandum indicates that the message was sent to the President, who spent November 2 campaigning in Salt Lake City, Utah, and Wichita, Kansas. It is attached to a November 2 memorandum from Scowcroft to Cheney that reads: "When you deliver the following message to the President, would you please convey to him that, while Secretary Kissinger believes firmly in his position on levels of food aid, he does not feel the issue to be sufficiently grave as to require another interdepartmental meeting." This memorandum is also marked as having been sent. All brackets are in the original.

[2] Scowcroft's November 2 message to Kissinger describing the meeting that day is ibid., Scowcroft Daily Work Files, Box 9, 11/1–5/74.

[3] Not found.

might lead to a commodity arrangement and might not result in an adequate reserve figure.

The discussions ultimately centered on whether the 60 million tons was a hard and fast figure, and to what degree it could be defended. Recognizing that announcing the 60 million ton target would imply no American commitment as to what share we would hold and would have no impact on the grain market this year, everyone agreed that putting that figure in the speech would be useful; they also agreed that we should avoid any implication that we are permanently wedded to that figure, but rather make clear that this is our current estimate—with a final figure to result from further analysis and negotiation. All parties agreed to recommend to you acceptance of the following language. "Our estimate is that as much as 60 million tons of reserves above current carry-over levels may be required." [I have queried Secretary Kissinger, and this language is acceptable to him.]

II. On the issue of whether the US should pledge an increase in spending on food aid or an increase in the volume of food aid, there were major differences.

State believes that without a commitment to increase the quantity of food aid, our position at the Conference will look hollow. Reflecting Secretary Kissinger's very strong view, State argued that the US must demonstrate its willingness to use its food resources constructively if its position in trying to get OPEC countries to use oil responsibly is to have any credibility. It emphasized that our food aid commitment will be seen as a major test of America's willingness to resolve the global food crisis. And, it pointed out that it is likely that for political and humanitarian reasons, we will eventually go beyond last year's quantity, so we should get credit for it at Rome.

All others at the meeting argued against going beyond your UN statement, which pledges an increase in "spending" on food aid, but not necessarily an increase in volume.[4] [Last year (FY 74), the quantity of food aid was 3.3 million tons, which cost $639 million; to increase this year's volume of food aid above that figure would, in light of increased food prices, cost roughly $978 million. This is $236 million above the FY 75 budgeted figure of $742 million.] Secretary Butz said that, in his view, announcing an increase in the quantity of food aid now could be harmful to support for food aid on the Hill and jeopardize possibilities of securing future PL 480 funds. Substantial prior consultation would be necessary if we wanted to make a commitment of this sort. Roy Ash argued that a quantity increase (increasing outlays by $236 million over planned FY 75 levels) would make it neces-

[4] See footnote 3, Document 264, and Document 266.

sary to cut other programs in order to keep within your $300 billion outlay ceiling. Bill Seidman argued that an announcement of an increased volume would have an adverse domestic impact, would create upward pressure on food prices, and might be politically damaging on election day. Treasury opposed announcing an increase in volume on the grounds that it would have, at this point, an adverse impact on domestic food prices, and that even though we might ultimately increase food aid in light of world needs, we need not say so at this time. In summary, all agencies except State believe that we should not go beyond your UN commitment to increase food aid "spending."

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272. Editorial Note

On November 3, 1974, National Security Council staff member Robert Hormats cabled Secretary of State Henry Kissinger, who was on an 18-day trip to Europe, South and Central Asia, the Middle East, and North Africa, on the issue of the announcement of U.S. food aid at the World Food Conference: "As you know, the President has left this to your judgment. While announcing an increase in the quantity of food aid would probably not be catastrophic, there is a risk that it will increase food prices and thereby impair our ability to increase the quantity of food aid. Also, we are isolated within the government on this point. All agencies except State oppose announcing an increase in amount as do all White House groups except NSC; you could be criticized and sniped at from without as well as within. There are two similar formulations which I would recommend you consider. While less dramatic than your present formulation, either would accomplish your essential purpose while dampening the potential criticism at home. —Announce that the U.S. will increase its food aid contribution; or —Announce simply that the U.S. will increase its food aid. In either case, you are not precluding an increase in amount, although you would be begging the question. In backgrounding, however, you could state that we certainly would meet the President's UN commitment to increase food aid spending, and that we expected to increase the amount of food aid as well; but that the latter would depend heavily on the food price situation in coming months." (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 9, 11/1–5/74)

That same day, President's Deputy Assistant for National Security Affairs Brent Scowcroft also sent a message to Kissinger: "I just saw the President briefly. He called me, said he was anxious to watch the football game, but that he wanted to know how you had resolved the food aid language and about your talks with the Shah. On the food aid, I told him that I had passed his decision to you but had not heard yet exactly how you planned to deal with it. He said that he hoped you could 'fuzz it up somewhat.' He said that we want to get the message across in your speech that we want to do all that we can but that we want to convey that message 'without tearing things up back here.' He said he was sure that you would be able to put some words together which would do that—he thought that the way it had been phrased in the speech was too categorical. I pass this on almost verbatim they way he said it to me. He did not convey it in a way which suggested that he was giving new instructions, only by way of amplification of what he sent to you last night." (Ibid.)

The World Food Conference took place in Rome November 5–16. Kissinger addressed the conference on the first day. On the subject of food aid, he said: "Nevertheless an expanded flow of food aid will clearly be necessary. During this fiscal year the United States will increase its food aid contribution, despite the adverse weather conditions which have affected our crops. The American people have a deep and enduring commitment to help feed the starving and the hungry. We will do everything humanly possible to assure that our future contribution will be responsive to the growing needs." For the full text of Kissinger's speech, see Department of State *Bulletin*, December 16, 1974, pages 821–829. Secretary of Agriculture Earl Butz also addressed the conference. For the text of his November 6 speech, see ibid., pages 829–831. Excerpts from Kissinger's speech were printed in *The New York Times*, November 6, 1974, page 12.

On November 5, Kissinger sent a report to President Gerald Ford, through Scowcroft, on his address: "The main purpose of my trip to Rome was to present our views and proposals to the opening session of the World Food Conference. The speech was well received and proves once again that our initiatives and analysis of these complex economic issues are necessary to get cooperative international action. The food problem is clearly of great concern to the overwhelming majority of the world community. We will now have to be sure that prompt and efficient follow-up is pursued by all agencies concerned." (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 9, 11/1–5/74)

273. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Ford[1]

Washington, November 6, 1974.

SUBJECT

World Food Conference Follow-up[2]

It is important that a World Food Conference Follow-up Group be established as soon as possible so that it can begin work immediately after the Conference.

To provide an appropriately high level focus and to ensure that the thrust of our initiatives is carried through along the lines that you and I have discussed, it is important that such a Group be established at the Cabinet level. I would recommend that I chair the Group and that Earl Butz be Vice Chairman. To ensure proper input from members of your Economic Policy Board, some of whom would in any case be members of the Follow-up Group, I would propose that the Group coordinate its recommendations, as they relate to U.S. agriculture and trade policy, with the Board's Executive Committee. I would, of course, be in touch with Simon, Seidman, Butz, and Eberle on major issues in any case.

Should you approve, I would propose to sign the attached memorandum establishing such a Group.

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[1] Source: Ford Library, National Security Adviser, Presidential Subject File, Box 6, Food (3). Confidential. Sent for action. Scowcroft initialed the memorandum on Kissinger's behalf. Kissinger left Rome on November 5 for the Middle East and North Africa. He returned to Washington on November 10.

[2] On November 2, Scowcroft cabled Kissinger in Tehran on the need to quickly establish a WFC follow-up group, both so that it could begin work as soon as the conference was over and so as "to forestall any action by the President's Economic Policy Board to assert control." Scowcroft, Enders, Hormats, and Kennedy agreed that Kissinger should chair the group, in order to "demonstrate the importance you attach to this subject, enable you to ward off attempts of other agencies to take over the Group, and ensure that appropriate Cabinet members become personally involved, thus raising the issue above bureaucratic or technocratic debate." Scowcroft also discussed the need to determine the group's relationship to the EPB, "because its [the EPB's] members want to play a significant policy role in this area, because they will try to undermine your position if they feel excluded from the process, and because your taking the initiative now will nip in the bud the criticism—which has arisen as the result of allegations of insufficient prior consultation on your WFC speech—that you are trying to circumvent the Board." Scowcroft suggested that Kissinger "agree to have the Follow-up Group coordinate its actions, as they relate to US agricultural and trade policy, with the EPB. This would leave control in your hands while giving the EPB a policy input." (Ibid., Scowcroft Daily Work Files, Box 9, 11/1–5/74)

Recommendation

That you approve establishment of an International Food Review Group, along the lines I have outlined. (Tab A)[3]

[3] Attached but not printed. The President initialed his approval of the recommendation. In a November 12 memorandum to Butz, Ingersoll, Ash, Greenspan, Eberle, and Seidman, Kissinger outlined the follow-up group to the World Food Conference. (Ford Library, National Security Adviser, Presidential Subject File, Box 6, Food (3))

274. Memorandum From the President's Assistant for Economic Affairs (Seidman) to President Ford[1]

Washington, November 8, 1974.

SUBJECT

Kissinger Memo (11–6–74) re World Food Conference Follow-up[2]

Secretary Kissinger has proposed formation of an International Food Review Group to follow-up on the World Food Conference (WFC). Secretary Kissinger's memorandum raises the principal question of who should have the basic responsibility for food policy—a domestic policy oriented group or a foreign policy oriented group.

The important issues from the WFC will include food aid, grain reserves, trade negotiations, and domestic food policy. These issues appropriately have been handled by the Economic Policy Board (EPB) and, to assure the continuity of our efforts in the context of our overall economic objectives, they should continue to be handled by the EPB.

The cabinet-level International Food Review Group proposed by Secretary Kissinger would result in an unnecessary proliferation of decision-making groups. When addressing World Food Conference follow-up issues, the Executive Committee of the EPB will include representatives from State, Agriculture, STR, and the NSC. This group would be identical to the group proposed by Secretary Kissinger.

Given the importance of food policy issues, the Executive Committee also decided that the Food Deputies Group will meet and report weekly to the Executive Committee, and that Gary Seevers will

[1] Source: Ford Library, National Security Adviser, Presidential Subject File, Box 6, Food (3). No classification marking. Sent by Seidman on behalf of Simon, Ash, Greenspan, Eberle, and Cole.

[2] Document 273.

continue as Chairman. If there is a need for a separate working group to focus on follow-up WFC issues, such a group should be established by Gary Seevers and should report to him. The working group proposed by Secretary Kissinger does not provide for representation of Treasury, OMB, and CEA, agencies which should have an input at the working level.

The institutional arrangements recommended above are consistent with current decisions on policy responsibilities, avoid the creation of unnecessary groups, and allow all the concerned agencies to properly coordinate their inputs.

Recommendation

That the World Food Conference follow-up be handled under EPB supervision and that you not establish an International Food Review Group as proposed in the subject memorandum.[3]

[3] The President did not indicate his approval or disapproval of the recommendation, but see footnote 3, Document 273.

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275. Memorandum From the White House Chief of Staff (Rumsfeld) to President Ford[1]

Washington, November 9, 1974.

SUBJECT

Increased Food Aid Commitment

In the cable at Tab A, Secretary Butz asks that you authorize an increase of food aid in the amount of 1 million tons over FY 74.[2] A for-

[1] Source: Ford Library, President's Handwriting File, Subject File, Box 21, Foreign Affairs—Foreign Aid (1). Confidential.

[2] Attached but not printed at Tab A is telegram 15523 from Rome, November 8, which reads: "Increasingly critical nature of food situation, especially in South Asia as revealed in talks here, leads US delegation to WFC (Treasury abstaining), strongly supported by Senators Hatfield, Clark and Humphrey to urge that chairman of US delegation be authorized to state that in view of increasingly critical food situation in a number of countries US will ship at least one million more tons of food under its food aid program this year than it did in FY 74, bringing total to minimum of 4.3 million tons. I would also express to conference our strong hope that US action would be followed by other donors of food aid and countries able to help finance food imports on concessional terms."

mal recommendation on the Butz proposal will be coming to you separately, but I think it important to review the chronology of events on this issue in order to put it in perspective.

Secretary Kissinger had included in early drafts of his speech to the World Food Conference a pledge that the US would increase both the quantity and volume of food aid. The Economic Policy Board, which reviewed the speech on October 31, recommended against a commitment to increase the quantity of food aid and suggested that the language not go beyond your UN commitment to increase "spending" on food aid.

This and other comments on the speech were relayed to Kissinger, who accepted all recommended modifications in the speech except for two issues: the quantity of food aid and the matter of the size of the world food reserve we would recommend. You asked Scowcroft to convene a meeting of the relevant agencies on November 2 to discuss these remaining issues and present recommendations to you. If necessary, you indicated you would convene a meeting on Sunday, November 3, to resolve the issues. At the November 2 meeting, the food reserve issue was resolved, but all agencies (including Agriculture) except State and NSC were firmly opposed to pledging an increase in the quantity of food aid. The results of this meeting were cabled to you and, in response, you told Kissinger that he should "go as far as he can in language and commitment to support the concepts in which we believe, keeping in mind the difficult domestic circumstances we face at this critical moment." Following your guidance, Kissinger modified the speech language to read that "the US will increase its food aid contribution . . ."

Based on reports of a Butz press conference on November 4 that the US would increase its food aid this year only from 900 million tons to 1 billion, I sent him a cable (Tab B) pointing out that he should adhere closely to the US position as embodied in the Kissinger address.[3] Butz cabled back his concurrence.[4]

In addition to yesterday's cable requesting a policy change on an issue which had been hammered out after sharp and extensive debate only a week ago, the fact that you had been asked to modify the US position was given to *The New York Times*, where it appears on the front page of today's paper.[5]

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[3] Attached but not printed at Tab B is White House telegram WH43143 to Rome for Butz, November 5. At the bottom of the memorandum to the President, Rumsfeld wrote: "Tab B is the cable I told you I had sent. D."

[4] Not found.

[5] Rumsfeld wrote at the bottom of the memorandum: "We should discuss this. Don."

276. Memorandum From the Director of the Office of Management and Budget (Ash) to President Ford[1]

Washington, November 9, 1974.

SUBJECT

Announcing an increase in P.L. 480 Food Aid at the World Food Conference

Under pressure from other countries and Senators Hatfield,[2] Clark,[3] and Humphrey, Secretary Butz has requested that you authorize the U.S. delegation to announce a one million ton increase in P.L. 480 food aid for this year. Pressure is building in the press for a favorable response.

Your instructions to the delegation as recommended by the Economic Policy Board ruled out any commitments to specific increases in food aid at the World Food Conference. This was consistent with your earlier decisions to increase the amount we spend on food aid, to defer final decision on total program size until later in the year, and to review levels on a quarter-by-quarter basis, in part because of uncertainties about:

(a) *commodity situation.* There was uncertainty about U.S. production, due to unassessed damage from early frost, and about export demand. The commodity situation is worse than expected. Frost damage has been serious and the Soviet grain purchases[4] added additional pressures on supplies. There is no corn available for additional P.L. 480; the one million ton increment would have to come from wheat, where the supply situation is also tightening and prices have been rising.

(b) *budget restraint.* The proposed increase would add over $200 million to 1975 budget outlays. If a decision were made to announce the increase, offsetting rescissions and deferrals would have to be found for the package being prepared for Congress.

The Question of Timing. The decision to delay your examination of the full year P.L. 480 levels until mid-December still seems appropriate. The information on crop conditions and especially on foreign com-

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[1] Source: Ford Library, President's Handwriting File, Subject File, Box 21, Foreign Affairs—Foreign Aid (1). No classification marking. Sent by Ash on behalf of Simon, Seidman, Greenspan, Eberle, and Scowcroft. A stamped notation on the memorandum indicates the President saw it.

[2] Senator Mark Hatfield (R–Oregon).

[3] Senator Richard Clark (D–Iowa).

[4] On October 19, the Ford administration announced that the Soviet Union would buy 2.2 million metric tons of grain from the United States.

mercial purchases should improve by then, giving us a better appreciation of commodity availabilities and potential effects of large shipments on domestic prices.

The Special Title II Problem. Press reports suggest that the one million ton increase proposed by Secretary Butz will be in the Title II food grant program (largely administered by the voluntary agencies), rather than the larger Title I credit sales program. If the proposed increase is applied only to Title II, it would raise the Title II grant program about 30 percent above the level in the high option for the full year which was presented to you earlier.[5] It would also reverse our long term efforts to tighten up the less effective Title II grant program, and could divert food from higher foreign policy priorities under Title I.

Recommendation. That the Delegation *not* be authorized to commit the United States to an increase in P.L. 480 of one million tons at this time. The Delegation should be instructed to confine itself strictly to the language of Secretary Kissinger's speech which was your approved guidance.

"During this fiscal year, the United States will increase its food aid contribution, despite the adverse weather conditions which have affected our crops. The American people have a deep and enduring commitment to help feed the starving and the hungry. We will do everything humanly possible to assure that our future contribution will be responsive to the growing needs."

The Delegation could also state that the final level of food aid for 1975 is still under review within the U.S. Government.[6]

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[5] See Document 264.

[6] The President initialed his approval. During a November 13 conversation with Kissinger, Ford asked, "Butz—should we bring him back?" Kissinger replied, "It is not right that the whole issue of the World Food Conference revolved around the food aid question. There is the whole issue of the organizational arrangements for handling the basic problem." (Ford Library, National Security Adviser, Memoranda of Conversation, Box 7) In a subsequent undated message to Kissinger, Scowcroft reported: "The President also saw Butz, supposedly to receive the report on the World Food Conference. Butz apologized for the foulup on food aid and the President gave him a pretty rough going over on it." (Ibid., Scowcroft Daily Work Files, Box 9, 11/19–30/74)

277. Memorandum From the Director of the Office of Management and Budget (Ash) to President Ford[1]

Washington, November 12, 1974.

SUBJECT

Food Aid Issues Raised by the World Food Conference

As expected, the World Food Conference has increased the visibility of the food aid issue in the U.S. and abroad. In Rome, there is movement toward the long sought after U.S. goal of encouraging other developed countries to share in the food aid burden, especially in the next several critical months until a new crop can be harvested.

However, the U.S. decision not to commit now to providing more food aid in the short term will be interpreted by many as a failure "to do everything humanly possible to assure that our future contribution will be responsive to the growing needs." Standing alone, this well publicized decision will leave the U.S. open to mounting criticism as the consequences of increasingly severe food shortages abroad become apparent over the next few months.

To avoid this outcome, the U.S. should act, even while the World Food Conference continues, to *provide positive leadership* to enhance the desirable momentum toward more burden sharing that is developing in Rome, while at the same time not ending up paying a disproportionate amount of the bill. Particularly, we should try to assure that the short term U.S. and world crop situation does not undermine attempts to develop solid longer term solutions to the world food problem.

To provide this positive leadership now and in the weeks immediately ahead, the U.S. must provide answers to the following questions:

1. Given the U.S. decision not to provide additional food aid at this time, what can the U.S. do now to help maintain the momentum toward other developed countries contributing more food aid in the next several months?
2. What can be done to make Secretary Kissinger's commitment—that the U.S. will do "everything humanly possible" to help feed the starving and the hungry—credible for Americans and other nations?
3. What can the U.S. do to assure Americans and other countries that the pressures created by today's food shortages have not caused

[1] Source: Ford Library, President's Handwriting File, Subject File, Box 21, Foreign Affairs—Foreign Aid (1). No classification marking. A stamped notation on the memorandum indicates the President saw it.

us to shrink from accepting a responsible leadership role in helping develop solutions for the longer term world food problem?

Recommendation

That you ask the International Food Review Group to consider the above issues and, at the earliest possible time, to recommend actions that the U.S. should take at the World Food Conference, and in the weeks immediately following the Conference, to provide positive leadership on the world food issue within the limits of our responsibility and the resources we are willing to make available for such an effort. (Seidman, Scowcroft and Cole concur.)[2]

[2] The President initialed his approval.

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278. Telegram From the Department of State to Secretary of State Kissinger in Kyoto, Japan[1]

Washington, November 21, 1974, 0613Z.

256799/Tosec 215. Subj: World Food Conference: Appraisal. From Katz for the Secretary.

What Was Achieved

1. Representatives of about 130 governments met for two weeks of intensive effort to lay out strategy for meeting food problem. Conference, supplemented by about 900 media and 700 non-government organization reps focused world attention on food supply as long-term problem which cannot be met by US alone or developed countries together. Interdependence thread runs through nineteen resolutions adopted from ten proposed by SYG Marei plus dozens introduced during conference. Some of these are hortatory; others fill in framework established in your speech.

2. Specifically, we secured recognition of special role for major grain producing, consuming and trading countries to meet as soon as possible to establish food reserves system. Conference called upon

[1] Source: National Archives, RG 59, Central Foreign Policy Files. Secret; Immediate; Exdis. Drafted by Director of the Office of Food Policy and Programs James Placke; cleared by Morris, Martin, Buffum and Eltz (S/S–O); and approved by Katz. Repeated Immediate to USOECD Paris and the Consulate in Frankfurt for Enders. Kissinger was accompanying President Ford on a state visit to Japan.

IBRD–FAO–UNDP investment, as you proposed, and McNamara is anxious to move on this. Your proposals on global nutrition surveillance system, applied nutrition research and programs to combat deficiencies have been assigned to existing UN institutions to implement, and we will be following up. Proposals for IBRD/IMF study of food financing gap was accepted in fact.

3. Among non-US initiatives, LDCs managed to push through their group an OPEC-initiated formula, accepted by conference, for establishing Agricultural Development Fund. Formula recognizes major role for funding by oil exporters. Prospects for oil exporter contributions through this device remain unclear, but it is another means for bringing home responsibilities accompanying their wealth.

4. Provision for continuing attention to food problem through World Food Council recommended by conference may be useful in maintaining momentum over long-term. In present form, Council does not have operational responsibilities and therefore should not complicate carrying-out specific initiatives.

What Was Not Achieved

5. We made no headway on establishing exporters planning group after formation of exporters group met resistance in bilateral discussions with our prospective partners (EC, Australia, Canada and Argentina). They are highly suspicious of our objectives, and it was not raised in conference sessions. We are continuing to press this concept and are aiming for at least a preliminary meeting in conjunction with a special session of the International Wheat Council in London early next year.

6. Provision was not specifically made in conference resolutions for food financing subcommittee under consultative group on food production and investment because of adamant opposition of other Group B (developed) countries to prejudging actions to be taken by consultative group. We are taking line with McNamara, and in public, that setting up subcommittee should be among group's first business.

Follow-up Actions

7. While resolution on food security provides for concept of limited negotiating group on grain reserves as per your reserves coordinating group proposal, conference did not establish group or name countries as we would have preferred. However, to have pursued this objective would have jeopardized favorable resolution language without likelihood conference would have established group.

8. It must be kept in mind that all WFC resolutions, including those on follow-up institutions, must be reviewed by ECOSOC and approved by UNGA. ECOSOC may review them as early as Nov. 29, and subsequently they will come up in Second Committee before going to

floor of GA. We are generally satisfied with conference resolutions on follow-up and will work to ensure that no major alterations are made in New York. Along with IO, we will be developing guidance for USUN on this aspect.

9. Aside from immediate problem of keeping resolutions on track in New York, first priority is launching reserves and exporters groups. Through bilateral contacts during conference, agreement was generally reached on holding prenegotiation meeting of essential participants in reserves group at London during special International Wheat Council session early next year, since both US and others need time to formulate positions. We have encouraging but not definitive indications from Soviets about their participation. Prospects for PRC participation in reserves group, which is desirable but not essential for its functioning, seem dim in view of Chinese reservation on both food information and food security resolutions at WFC, on grounds these impinge upon national sovereignty.

10. In pursuing exporters group, we will talk to other exporters to deal with their suspicions and elaborate on what we think group needs to do in light of WFC outcome—again aiming toward meeting during special Wheat Council session. It may be that other exporters will not agree now to more than "informal caucus" of exporters in context of reserve system discussions, rather than more formal or separate exporters meeting.

11. In Tom Enders' absence, I will convene this Friday[2] initial meeting of working group of International Food Review Group to bring all agencies up-to-date on WFC results and our current policy objectives, and b) launch necessary interagency work on developing our position for initial meeting on food reserves.

12. We will also utilize coming state visits, especially Trudeau,[3] to pursue WFC follow-up.

Ingersoll

[2] November 22.

[3] Canadian Prime Minister Trudeau visited Washington on December 4.

279. Paper Prepared by the Administrator of the Agency for International Development (Parker)[1]

Washington, undated.

FOOD AID

I believe there is a confluence of events which are about to impose major public pressures for an increase in food aid. This could put the President in an extremely awkward position.

The President's decision to leave unspecified the amount of U.S. food aid within a general pledge was predicated upon what were, at the time, logical premises, and to date, accepted as unalterable. I now perceive a significant increase in Congressional and public pressures, and thus feel there is an immediate need to reassess our premises. Specifically, the premises which are open to review are:

—Domestic demand levels;

—Commercial export demand levels (especially those of other developed countries and socialist economies);

—The priorities of the taxpayer to public financing of food aid.

To enlarge on the above premises:

Domestic Demand Levels:

—Domestic demand must be recognized not as actual needed consumption alone, but also as consumption plus waste;

—Though the U.S. is the world's most efficient producer of food it is also the most inefficient consumer;

—Food costs as a percentage of income are considerably lower in developed countries than in less developed countries. (We still spend only 17 percent of our income on food as compared to as much as 90 percent in developing countries. Further, we consume 2,000 pounds of grain per person each year as compared to 400 pounds in developing countries.)

Thus, the obviation of waste can be the margin that may reduce internal demand and make more food available for aid purposes without distorting the market process.

[1] Source: Ford Library, L. William Seidman Papers, Box 68, Economic Policy Board Subject File, Food. No classification marking. Attached to a handwritten November 24 note from Parker to Seidman that reads: "I'm afraid the President is going to come back from a fine Far Eastern trip + walk into an unsuspected problem—food aid. This is both a substantive + a people-relations problem. If a move, either before the pressure or planned-to-be-after the pressure is not made, I fear the President could be put into an awkward position. I'm putting forth the attached on a *personal* basis, without clearance from the others involved (including my most direct boss, HAK). I've tried to put the whole situation into 'bullet-type' language. If you need amplification please let me know." President Ford was in Japan November 19–22, Korea November 22–23, and the Soviet Union November 23–24.

Commercial Export Demand Levels:

—If domestic and export demand pressures are eased through conservation and reduction in waste against a fixed available supply, adverse price reaction to increased allocations for food aid will be less likely to occur.

—The WFC indicated a willingness by the oil producing countries to contribute to sharing the food aid responsibility;

—There may be a willingness on the part of both traditional donors who are not food exporters, and newly affluent countries to reduce their demand and thereby make available funding for additional food aid.

Taxpayer Priorities:

—The U.S. public, as taxpayers, with an anticipated deep and broad concern, is clearly about to attach a much higher priority to the allocation of tax funds for food aid.

—The latest manifestation of this is Friday's call by prominent clergymen in a unique ecumenical and lay movement, (led by Father Hesburgh of Notre Dame, and supported by Cardinal Cook, Rabbi Tannenbaum, and a number of laymen including Averell Harriman) for an immediate two million ton increase in food aid (see attached clipping.)[2]

—This parallels bipartisan efforts in the Senate to meet with the President on the same issue, the spontaneous and unplanned interest in food by members of the Amnesty Board, a Sunday evening NBC "White Paper"[3] and strong support from many U.S. private and voluntary groups who attended the World Food Conference. All these efforts reflect a growing groundswell of public opinion in favor of humanitarian food aid increases;

—We must capitalize on this leadership to seek reductions in the amount of demand through a reduction in waste.

What Needs To Be Done:

The President will soon be required to respond to a call for increased food aid.

—In order that he may act responsibly and responsively, the President should express his belief that the public is capable of reducing

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[2] Attached but not printed. At a press conference on Friday, November 22, Reverend Theodore M. Hesburgh, Terence J. Cardinal Cooke, and Rabbi Marc H. Tannenbaum called for an additional $800 million in U.S. food aid, some 4 million tons, to be provided over the coming year. Hesburgh, who was President of Notre Dame University, represented the Overseas Development Council, while Tannenbaum represented the American Jewish Committee. (*The Washington Post*, November 23, 1974, p. A2)

[3] The White Paper was a long documentary series launched by the National Broadcasting Corporation network in 1960.

waste in order to make available the equivalent of one million tons of additional food aid.

—Based upon the belief and the concern expressed by the public, the Congress, and the international community, the President should announce an increase of an additional one million tons of food aid for this year's allocation;

—The increased allocation, supported by the popular American willingness to reduce waste, should be considered an example to other non-food exporting donor nations;

—The President should note his dependence on religious and lay leaders as an essential element in promoting public willingness to reduce demand through a reduction in waste, thereby setting a worldwide example for the non-food exporting donor nations to follow;

—If such other nations follow the U.S. domestic example, and reduce their demand on available U.S. food supplies, the U.S. will make available another one million tons of food for other aid donors (both traditional and new) to acquire.

Implementation:

—Make or issue a Presidential statement calling for reduction of waste both domestically and internationally by the high food demand countries;

—In advance of the successful U.S. domestic "War On Waste" effort, an additional one million tons of food aid will be provided. This allocation is dependent upon American public spirit to achieve food savings and live up to our humanitarian ideals;

—If other non-food export donor nations follow the U.S. example, a second allocation of one million tons of food aid will be provided;

—Direct a prompt increase in food aid shipments and as evidence of this, call for a special additional procurement of Title II food in December;

—Call upon all private and voluntary organizations and concerned members of Congress as a response to the compassionate concerns of their constituents, to support these initiatives and in particular, to help wage the War On Waste;

—Call for a comprehensive and dynamic follow-up to the World Food Conference. In order to live up to the impressive accomplishments of the WFC, relative to long-term solutions to continuing problems, we must have the full cooperation of the Congress and be unified as Americans in our dedication to the principles of our aid program;

—Require a continuing monitoring of food aid requirements.

280. Minutes of an International Food Review Group Meeting[1]

Washington, December 4, 1974, 4:36–5:01 p.m.

SUBJECT

Follow-on to World Food Conference

PARTICIPANTS

Chairman
Henry A. Kissinger

State
Robert Ingersoll
Thomas Enders

Treasury
Stephen Gardner
Howard Worthington

Agriculture
Earl Butz
Richard Bell

OMB
Roy Ash
Donald Ogilvie

CEA
Alan Greenspan

CIEP
William Eberle
Amb. Harald Malmgren

EPB
William Seidman

NSC
Robert Hormats
James Barnum

SUMMARY OF CONCLUSIONS

It was agreed that:

—The Working Group would flesh out the U.S. proposals at the World Food Conference for an Exporters Group, a Reserve Group, and other such organizations, and submit its recommendations to the Review Group for discussion in two to three weeks.

Secretary Kissinger: First of all, let me explain what I think are the foreign policy interests in the food problem. My hope is that by explaining our foreign policy interests, it will help us in our later considerations. I think that one of the basic strategies we should pursue—what we want to create—is an overall statement of policy toward the food problem in relations to us and in the face of contingencies in the energy and food fields. In my view, systematic planning is one way—probably the only way—that we can get this food problem solved. I think it was a tragedy that the World Food Conference got off onto food aid and did not stick to planning. I wish now that we would have

[1] Source: Ford Library, National Security Adviser, Presidential Files of NSC Logged Documents, Box 53, NSC "NS" Originals File, 7405985—Minutes of International Food Group Meeting, December 4, 1974. Secret. The meeting took place in the White House Situation Room.

played down the food aid thing. In my view, the answer to the food problem is a systematic approach toward production, stockpiling and so forth.

Secretary Butz: There is no other answer.

Secretary Kissinger: I think that for us to have gotten into a debate in Rome over who should be giving what was a pity. The basic theme—the basic problem as I see it from a foreign policy viewpoint—is that the food problem is a structural problem of the world economy. And, I think we should correlate our solutions with other countries. One of our major contributions is going to be aid, there is no doubt about that. But, in my opinion, I think it a pity that so many countries are obsessed with this food aid thing. They are off the track.

My main purpose for this meeting is to get a basic realignment of our fundamental objectives. I think we should fight on food aid. Don't get me wrong. I think we have to participate in aid, but I think it should be treated as a subsidiary problem, not the main one. We have to create the impression in the world that what we say counts. This is very important. In my view, we need, number one, to create a Food Exporters Group. Now I know this is going to create problems—especially from the Europeans.

Secretary Butz: Canada and Australia have reservations also.

Secretary Kissinger: But they have indicated an interest in partial participation, haven't they?

Mr. Enders: Yes, they are willing to participate to some extent.

Secretary Kissinger: We also need to get them involved in some sort of Reserves Group. We need some programs in that field. Where does fertilizer fit into the picture?

Mr. Enders: We have made some headway on the Fertilizer Institute. It's coming along.

Secretary Kissinger: When I was talking to the Shah (of Iran) during my last trip,[2] he indicated an interest in a regional fertilizer bank. He even said that he is willing to finance such a thing. Can this be pursued?

Mr. Enders: In our consideration of that, the major question that arose was the desirability, from a national security standpoint, of creating a fertilizer industry in the Middle East. You run up against the problem of regional control over two key industries. It's a question of having two monopolies in the Middle East.

[2] Kissinger visited Iran from November 1 to 3.

Secretary Kissinger: I would not want us to join in the creation of a fertilizer and oil monopoly in the Middle East. That would not be in our interest.

Secretary Butz: That would be bad, but the trouble is that nitrogen (for the fertilizer) is where the oil is. I think that the major thrust of our policy should be technical assistance. I think that fertilizer is only one of half a dozen or so issues that all fit under the overall term of technical assistance.

Secretary Kissinger: I agree, and that is essentially what I mean. What are your views, Earl (Secretary Butz)?

Secretary Butz: On the World Food Conference?

Secretary Kissinger: Yes.

Secretary Butz: Well, I think it is unfortunate that food aid got out of hand. Actually, it was only a few of the countries that got hold of it and blew it way out of proportion. The follow-through (subsequent meetings) was good, though. There was some real work done there. I think we ought to get organized on technical assistance. That's where the emphasis should be. Now, we still have to face this problem of food aid—we're on the hook for that—but the emphasis should be on technical assistance.

Secretary Kissinger: Don't get be wrong. I am for the high option on the food aid package, but I don't believe that aid deserves the relative importance it received.

Secretary Butz: The level of food aid is a problem, and we have to solve it this year. We're on the hook.

Secretary Kissinger: Do you have your budget yet?

Secretary Butz: Yes, we have $730 million for food aid. We won't ship that much, though. I have the mechanisms available to me to exceed the budget, but it's a cash outlay, and that's a problem. You know, we've made a commitment of wheat for Sadat[3] (Egypt) that we have to fulfill. We've made other commitments as well. We just have to face up to these commitments.

Secretary Kissinger: (To Mr. Ash) I understand you have a proposal on food aid ready to go forward for the rest of the year. Is that right?

Mr. Ash: Yes, we will be developing that at a meeting on Friday.[4]

Secretary Kissinger: We need a strategy for exporting countries, we need nutritional programs . . .

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[3] Anwar al-Sadat was President of Egypt.

[4] December 6. See Document 281.

Mr. Bell: On this question of exporters, can you explain what you mean?

Secretary Kissinger: Well, take a finite number of exporters—say five—they all face a common problem. What I'm talking about is that they could draw up plans for foreseeable demand, and then they will have something on which to plan for longer term basis.

Mr. Bell: Then you are thinking more in the long term.

Secretary Kissinger: Yes. I know the exporters are worried about the availability of grains now and for next summer. I'm thinking of their needs in the longer term.

Mr. Enders: I think what the Secretary is saying is that the exporters need to develop a sense of the gap between the volume of trade and the volume of production. There is going to be a shift of power to those countries that are exporters.

Secretary Butz: It's not a simple problem. In Rome, some of those countries were looking for two million tons of wheat here and there. Canada is going to furnish some. The financing of exports is a separate problem. We can't disassociate ourselves from the financial aspects.

Secretary Kissinger: I'm not saying that. What I'm saying is that the exporters should have some plan in relation to needs. If financing is needed, then okay. There needs to be a common strategy.

Mr. Bell: In 1975 their common strategy is all-out production.

Secretary Butz: Has there been any follow-up on this question of common strategy?

Mr. Bell: Not really.

Secretary Kissinger: Based on our experience in the energy field, there is going to be complete resistance to a common strategy. What I'm thinking of is that maybe, in the beginning, there will only be common data banks. If you don't have something like this, you get total fragmentation.

Mr. Bell: We do have data banks already.

Secretary Kissinger: Well, I do have to confess that my proposals at the World Food Conference were based on an overall strategy. Let's get the Working Group together to put some meat on these proposals and then the Review Group will meet later, say in a couple weeks. Agreed?

Secretary Butz: Agreed.

281. Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Enders) to Secretary of State Kissinger[1]

Washington, December 7, 1974.

FULL YEAR PL–480 DECISIONS

The OMB-chaired PL–480 meeting December 6 decided to send four PL–480 options to the President. (Tab A[2] is the dollar option. Tab B[3] the quantity option.) OMB expects to get the decision memorandum (not yet done) to the President December 9; they anticipate a decision Tuesday, December 10.

It is essential that you discuss this matter with the President before he makes his decision.

The Four Options

All agencies agree on the formulation of the low and high option. The low option must be essentially political; the high can accommodate both political and humanitarian programs. At the mid range OMB wants to give the President a choice between a political and a humanitarian stress. Their mid range option emphasizes large programs to Bangladesh and India: ours (which you approved this last week) gives at least equal priority to funding for major political clients (Chile, Pakistan, Korea, and Indonesia).

The Availability Problem

Under the terms of PL–480 legislation food assistance must be a residual after domestic consumption, expected exports, and at least minimal carryout have been taken care of.

On December 4, responding to increasing estimates of export demand (including commercial demand from India and other LDCs), USDA revised its official estimates of PL–480 availabilities for wheat downward from 4.0 to 2.7 million tons.

The current USDA estimate of wheat availabilities for PL–480 formally constrains the President. In fact, however, the estimate can be revised to suit whatever policy decision is made (this has often occurred

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[1] Source: Ford Library, National Security Adviser, Presidential Subject File, Box 17, PL–480. Limited Official Use.

[2] Attached but not printed at Tab A is an undated chart entitled "PL 480 Funding Alternatives and Country Programs."

[3] Attached but not printed at Tab B is an undated chart entitled "PL 480 Tonnage Alternatives."

in the past). The significance of the estimated lower wheat availability lies in its price implications. If we take the estimate at face value, there is clearly some risk that programs exceeding USDA projected availabilities (our mid option and the high option) would cause domestic price to rise. USDA believes that by careful management price increases can be avoided. Treasury disagrees. CEA is in the middle. You should allude to this issue in your discussion with the President, making the following points:

—It must be recognized that the market is tighter now than it was in September. But the USDA figures have a spurious specificity. Export estimates are probably inflated by our registration system, and USDA agrees that we can get by with a smaller carryout than planned. USDA experts told the interagency group that they would be comfortable with any figure for PL–480 wheat availability up to 3.8 million tons. That is the amount of wheat programmed into the high option.

—We cannot expect to run a major foreign policy program such as PL–480 only as a residual disposal after all commercial opportunities have been satisfied. If the PL–480 goals stand on their own, we should be willing to run some price risk. At the levels we are talking about, the risk is no doubt small.

Budget Implications

At the September meeting[4] Butz made the argument that he was still on continuing resolution authority (CRA) and thus that the overall level of USDA spending could not go above the FY 1974 figures. Butz still has no budget, although the expectation is for Congressional passage before the end of the session. However the tie to CRA is specious. USDA has authority to borrow up to $12 billion on CCC account: these funds will be available to support PL–480.

The more troublesome issue is Butz's fear (which Ash has been entertaining) that he will have to take cuts elsewhere in the USDA budget to offset increases in PL–480. We discussed this in the interagency group, agreeing that such a linkage is unacceptable. You should raise this issue with the President, saying:

—We recognize that the President has just completed an extraordinary effort to cut close to $5 billion from spending. Any increase in PL–480 must be weighed very carefully. Whatever the President decides to do, however, should not be tied to offsetting decreases in the

[4] Apparently a reference to the September 19 meeting of the Cabinet Committee on Food. See footnote 5, Document 264.

USDA or any other budget. It will be helpful to make this assumption explicit when recording agency votes.

Humanitarianism in Congress and the Humphrey Amendment

There has been repeated evidence of rising Congressional concern that our PL–480 program is now balanced too heavily on the political/ security side. Both the House and the Senate have attached amendments (Johnson and Clark) to the USDA budget constraining our ability to give food assistance to political recipients. The most recent such amendment Humphrey appended to the Senate version of the FAA three days ago. It limits Title I allocations to countries that are not among the most seriously affected (MSA) to $350 million. Our middle option calls for $439 million for non-MSAs: the high option calls for $509 million for non-MSAs.

OMB's middle option meets this problem by shifting funds away from Chile, Korea, Indonesia, and Pakistan to the subcontinent.

Points you should make to the President on this issue are as follows:

—The push on humanitarianism from the Congress is serious and growing. Basic cause is the dip in total PL–480 allocations in the last two years: our hard core security commitments have taken a larger and larger portion of available funds.

—Answer thus is not so much to abandon those political commitments, but to restore food aid to a level at which we can respond to both political and humanitarian requirements.

—In our judgment we will have no great difficulty in talking Humphrey out of his amendment if we can program at the high option.

—OMB middle option requires major substitution of rice for wheat in India and Bangladesh, but makes no increase in total India program and little in Bangladesh. India doesn't want rice. OMB option is thus inferior to ours on three counts: it gives no more food to subcontinent, it short-changes our political clients, and it degrades our India program.

Agency Positions and Argumentation

This is the current line-up. OMB wants the low option. CEA and Treasury want the OMB middle option, because it uses less wheat than ours and thus has less potential price effects. USDA can go along with our mid option, which moves large amounts of rice into Korea, for which Butz has particular affection. USDA's position, of course, is conditional on not having to take countervailing cuts elsewhere in its budget.

For the President, the choice will be between the middle and high options. You may wish to use these arguments:

—Difference between mid and high option is more to India, Bangladesh, Israel.[5]

—Real foreign policy benefits to generosity in a year of need.

—Commodity amounts in the high option are ten percent less than the high option the President tentatively agreed to last September.

—Since then it has become apparent that we must send more grain to Bangladesh if the Bengalis are to make it through to next November when their rice harvest comes in (otherwise there will be famine).

—It is politically desirable, and there is also a strong humanitarian argument, for doing more than the minimum 500 thousand tons which is in the middle option for India. The high option includes 750 thousand tons. This compares with a still uncovered grain import need of roughly 3 million tons.

—Including Title II donations, total PL–480 to India under the high option would be about a million tons.

—As continuing Congressional pressure for humanitarian assistance indicates, there is a very real constituency for helping needy overseas.

Fallback

If it appears the high option will not fly, you may wish to suggest the following alternatives:

—Take the State middle option; add to 150 thousand tons of rice to be divided between India and Bangladesh (with rice in long supply, price effects will be helpful; political effects with Passman are also helpful).

—Commitment of additional 500 thousand tons of wheat for India and 250 thousand tons of wheat for Bangladesh from *FY 1976 funds* (these grants would enable both countries to get through to the next crop without serious difficulty, and maximize our political gains with them. It would be a real concession, in that PL–480 funds are seldom budgeted before August, and commodities could not be moved before September or October. Decision would also be in line with our efforts to obtain long-term increase in PL–480. Obviously if the next harvest also is weak, we would have mortgaged a significant element of our flexibility).

Thomas O. Enders[6]

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[5] Enders added this sentence to the memorandum by hand.

[6] Enders signed "Tom" above his typed signature.

282. Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Ford[1]

Washington, undated.

SUBJECT

Food for Peace Program for FY 75

In September you considered alternative levels for the full-year FY 1975 food aid program.[2] You indicated you would reexamine the issues again in December before making a final decision. A decision this month is needed if we are to be able to ship abroad during this fiscal year the quantities of commodities involved in whatever program level you decide upon.

Roy Ash's memorandum is a balanced and succinct presentation of the choice before you.[3] Competing factors of inflation/fiscal control on the one hand and foreign policy and humanitarian concerns on the other are correctly described. With the exception of Alternative II, the illustrative country allocations accurately reflect our foreign policy priorities. This memorandum elaborates the foreign policy implications and the four alternatives.

The highest foreign policy objectives, namely, the Middle East and Indochina, are met in all four options. Furthermore, Title II (administered largely through the Voluntary Relief agencies), of highly humanitarian content, is unchanged in the four options. From the standpoint of foreign policy, the differences between the various options concern our relations with traditional political allies and the adequacy of our response to the food problem on the Asian subcontinent. It should be noted that all the alternatives have been redesigned to place more emphasis on the Asian subcontinent than seemed necessary in September.

Our commitments to increase the amount spent on food aid and to do everything possible to increase the amount of food aid we provide this year has been kept in mind. But price increases have had the effect of limiting the amount which reasonably could be recommended. Commodity amounts in the high option—Alternative IV—are ten percent

[1] Source: Ford Library, National Security Adviser, Presidential Subject File, Box 6, Food (4). Confidential. Scowcroft wrote at the top of the memorandum: "Pres. has seen." Attached is a December 9, 1974, memorandum from Kennedy to Kissinger, concurred in by Ellerman, that recommends that Kissinger sign the memorandum to the President, which, Kennedy wrote, "is consistent with the views held by State's Economic Bureau and AID."

[2] See Document 264.

[3] Not found.

less than the high option presented to you in September and on which we have since been tentatively basing our quarterly programming.

—Alternative I provides barely credible programs to Chile, India, and Bangladesh, and only token gestures to Korea and Pakistan. Indonesia and a number of smaller countries are eliminated entirely. This alternative will complicate our relations with Korea, Pakistan, Indonesia and the smaller countries. In addition, the meager levels of the programs in India and Bangladesh will not only disappoint those governments, but both domestic and international criticism directed at our apparent intention to give priority to political and security programs over humanitarian needs will intensify.

—Alternatives II and II are essentially mid-range options in which the total funding levels are essentially the same but country allocations and commodity mixes differ.

• Nearly all of the dollar increase in food aid provided by Alternative II is allocated to the Asian subcontinent. Although still not adequate to the large need there, it does represent a response that will mute some of the more strident criticism. This option does nothing more for the traditional recipients, Korea, Pakistan, and Indonesia; and thus the foreign policy problems which accompany token programs in these countries remain. This alternative requires major substitution of rice—which is much more expensive—for wheat in India and Bangladesh, and thus makes no increase in the total quantity of the India program and little in Bangladesh. India doesn't want rice. As contrasted with Option III which follows, this alternative gives no more food to the subcontinent, short-changes our traditional allies, and degrades our India program.

• *Alternative III* involves little additional budget outlay over the second option. By the addition of some wheat and with some minor cuts on the subcontinent, it does provide credible programs in Korea, Pakistan, and Indonesia; and it thereby avoids the foreign policy problems associated with the previous two alternatives. Although all major foreign policy and humanitarian objectives are met by this alternative, the programs for the Asian subcontinent fall short of the great need there. As with Alternative II, criticism can be expected for what some will see as a still inadequate response to the problem on the Asian subcontinent.

—*Alternative IV* meets all foreign policy objectives satisfactorily and provides a laudable and realistic response to the needs of the Asian subcontinent and of many smaller nations whose needs are just as pressing if not so publicized. It also provides minor additional increments for the Middle East and the traditional political recipients. Admittedly there may be some risk of domestic price effects at this program level and USDA probably will need to adjust its planned carryover stocks downward. But we cannot expect to run a major foreign policy program such as PL–480 only as a residual disposal effort after all commercial opportunities have been satisfied. Moreover, if the PL–480 humanitarian and political goals stand on their own as I believe they do, we should be willing to run some price risk. At the levels we are talking about, I believe the risk is small.

After reaching a decision, you may want to advise Secretary Butz that any increase in outlays needed to support the chosen program level will not require corresponding cuts elsewhere in Agriculture's budget. Without such reassurance, Secretary Butz will be forced to move very slowly to implement your decision, if he can do it at all, and much of the potential favorable impact of your decision could be lost.

This is an important and difficult decision. Any increase of a major foreign policy budget item (and that goes for the mid-range alternatives about as much as for the high option) could generate controversy in light of cuts in domestic programs. Nevertheless, I believe that the foreign policy imperatives and the humanitarian concerns are such that an increase is called for in our PL–480 food-aid program.

I recommend that you approve Alternative IV.[4]

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[4] The President did not initial his approval or disapproval. However, a handwritten note attached to the memorandum reads: "Alt II was approved subject to further review." According to Scowcroft in telegram Tohak 4 to Kissinger in Brussels, December 11, "The President went over the PL 480 program and the foreign assistance budget this afternoon [December 10]. On PL 480 for FY '75, the President chose Option 3, which is the next to highest option, at a level of 1.16 billion. The President did not accept as final the country mix suggested in Option 3, however. He asked that alternative mixes be drawn up for his determination at a subsequent date." (Ford Library, National Security Adviser, Trip Briefing Books and Cables for President Ford, Box 7, December 14–16, 1974—Martinique, Tohak, 12/10–13/74)

283. Memorandum From Robert Hormats of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, undated.

SUBJECT

Meeting with the President on FY 75 PL–480 Program[2]

Roy Ash has proposed the memo (Tab A)[3] for your meeting on PL–480. The program has been stalled for over a month as a result of the controversy surrounding country allocations and the Humphrey Amendment. (The memorandum at Tab B describes the Amendment.)[4] If nothing is done soon, we will be unable to ship the amounts programmed; we will, as a result, end up with a food aid level smaller than last year's.

The Humphrey Amendment requires non-MSA's to receive not more than 30% of Title I assistance. It would eliminate food aid to Indonesia, restrict Chile and Korea to the token amounts already shipped, and cut Vietnam to $73 million. Violation of the Amendment would, however, alienate Humphrey and other of the strongest and most effective supporters of the aid and PL–480 bills; it would probably bring about Title restrictions next year. The issue is how to avoid the adverse foreign policy impact of the Amendment without alienating Humphrey and friends.

There are three alternatives:

—Comply strictly with the Humphrey Amendment as is; this would please Humphrey but provide insufficient amounts for Vietnam, Korea, Chile, and Indonesia. This is Option A in our memo (Tab C), Option 1 in the OMB memo.[5]

[1] Source: Ford Library, National Security Adviser, Presidential Files of NSC Logged Documents, Box 53, NSC "NS" Originals File, 7500228—Meeting with President Ford on PL–480 Program. No classification marking. Sent for information. The attached NSC correspondence profile indicates that the memorandum was sent to Kissinger on January 13, 1975, and that Kissinger noted the memorandum.

[2] No record of this meeting was found.

[3] Tab A, attached but not printed, is a January 13 memorandum entitled "1975 P.L. 480 Country Program Allocations."

[4] Tab B, attached but not printed, is an unsigned January 10 memorandum from Hormats to Kissinger describing the Humphrey amendment.

[5] Tab C, attached but not printed, is an unsigned and undated memorandum from Kissinger to the President discussing P.L. 480 options.

—Reclassify Vietnam as a MSA, after consulting with Humphrey. This would provide an extra $100 million to distribute among Vietnam, Chile, Korea and Indonesia. This is Option C in our memo, Option 2 in the OMB memo.

—Increase the total program to the "high option," $1.38 billion. (This would increase amounts available for Vietnam, Korea, Indonesia, and Chile by $63 million above Option A, while allowing you to conform to the Humphrey Amendment.)

Roy Ash will probably be indifferent as between his Options 1 and 2 (our Options A and C), but would probably oppose an increase in the total PL–480 figure to the "high option" level. Options 1 and 2 do not increase the budget level. Ash would probably point out that Option 2 may be difficult to achieve on the Hill because of "the substantial Congressional hostility to additional aid to Vietnam."

There is no doubt that Option 2—the Vietnam transfer—will be difficult. It is, however, worth trying. Vietnam conforms to all the criteria utilized by the UN in drawing up the MSA list but was excluded because it is not a UN member. Should you be unable to achieve it, the "high option" will alone get you the amounts you need for foreign policy purposes. (An argument supporting the "high option" is at Tab D.)[6]

[6] Tab D, attached but not printed, is an unsigned January 10 memorandum from Hormats to Kissinger on "PL–480 Commodity Availability."

284. Briefing Memorandum From the Deputy Assistant Secretary of State for International Finance and Development (Boeker) to Secretary of State Kissinger[1]

Washington, January 27, 1975.

Grain Reserves: Main Issues

You asked this morning for a summary analysis of the main issues in developing a US position on a grain reserves arrangement prior to

[1] Source: Ford Library, National Security Adviser, Presidential Agency Files, Box 17, State Department, 10/5/74–9/30/75. Secret. Sent through Robinson. Drafted by Placke. Neither Paul Boeker nor Robinson initialed the memorandum. Attached is a January 30 memorandum from Davis to McFarlane that notes: "Bob Hormats has no objection to the Grain Reserves paper."

the meeting of ten major importers and exporters we have called in London February 10–11.[2]

The central issue is a choice between an arrangement based upon:

—*consultation* to reach a consensus on measures for implementing stock accumulation and decumulation guidelines, or
—*commitments* that would assure participants preferential access to supplies in times of shortage and impose reciprocal obligations prohibiting subsidized exports in times of surplus.

Agriculture supports only guidelines and consultation. State, joined by Treasury and STR, supports firm commitments. OMB, CEA and CIEP are ambivalent but leaning toward the USDA position.

We believe that an essentially hortatory approach will not meet the food security problem. Those who can afford to purchase their requirements, e.g., Japan and the USSR, have no motive to bear the cost of stocks so long as the US market is open to them. The USSR accounts for 80 per cent of the deviations from trend in wheat imports—its large and erratic import requirements are the main source of price/supply disruptions. Without US commitment to an arrangement that includes rules for preferential allocation of supplies among participants, the Soviets would have little incentive to bear the costs of stocking reserves. Without Soviet participation a reserves scheme is severely limited in the protection it can offer.

In any reserves arrangement, the United States has only one inducement or concession to offer—improved assurance of access to US stocks in periods of shortage. In return, the United States seeks equitable distribution of the burden of carrying world grain stocks between exporters and importers with special provisions for large LDC importers such as India and Egypt. We also ought to obtain reciprocal assurances from other exporters, expecially the EC, of prohibitions on subsidized exports during periods of sustained surplus.

Agriculture argues that only a consultative arrangement is negotiable now. In its view, negotiation of commitments by others would be extremely difficult and commitments by the United States would be unacceptable to the US agricultural sector, as represented by the American Farm Bureau Federation.

Countering Agriculture's domestic political point are the positions of some Congressional figures such as Senator Humphrey, who recently

[2] Kissinger requested the paper at a Department of State staff meeting that morning. The minutes of the meeting are in the National Archives, RG 59, Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Entry 5177, Box 6, Secretary's Staff Meeting, January 27, 1975. Telegrams 2147 and 2163 from London, both February 11, report on the ad hoc grain reserves meeting. (Ibid., Central Foreign Policy Files)

told Tom Enders that he continues to strongly support reserve commitments and believes that support in Congress for this view is growing.

Secondary Issues. At the working level, the issues of the size of a reserve and whether government stocks are required have been set aside for the time being. We have agreement that a stock of up to 60 million tons is needed—but USDA and OMB lean toward 45 million tons. We are satisfied there is an adequate legal basis for either government-owned stocks or government-induced private stocks to meet a US reserve commitment. Both of these issues can be resolved more readily after the choice between consultation or commitment in a reserves arrangement is made.

Next Steps. The IFRG Working Group will meet tomorrow to complete an issues/options paper for consideration at a Cabinet-level meeting you may wish to chair early next week. (Butz will be unavailable until Monday, February 3.)

285. Memorandum From Robert Hormats of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, January 29, 1975.

SUBJECT

FY 75 PL–480

A decision is needed on PL–480. Two months have already gone by. Further delay will only precipitate criticism that we are not responding to the MSA problem out of concern for the "political" content of the program. And it will mean that, however generous the final decision, we will be unable to ship the food contained in the program.

Instead of hoping that further negotiations with Humphrey, Hatfield et al. will lead to a mutually satisfactory compromise (it has not so far and time is on his side); it would be better to reach a decision

[1] Source: Ford Library, National Security Adviser, Presidential Subject File, Box 17, PL–480. No classification marking. Sent for action. The attached NSC correspondence profile indicates that Kissinger noted the memorandum.

on over-all level and to continue work for a more reasonable interpretation on country allocation under that level in the context of your proposal to establish new relations with the Congress. In the interim we can begin to ship to a number of needy countries.

The choice under these circumstances concerns budget outlay level only—between the new option, which I proposed and you agreed to earlier, (1283 outlay/1413 commodity cost), and the earlier Presidential decision (1165 outlay/1299 commodity cost).[2] Neither precludes an arrangement which would increase the percentage of the program available for non-MSA's. The former gives you $301 for non-MSA's as opposed to $267 in the latter.[3] The higher level permits some flexibility with Indonesia, Korea, and Chile so long as Vietnam does not take its rice allocation. Less room is provided than what you need, but we can still work with Humphrey for relaxation of the 30/70 provision in order to revise the non-MSA level to $375.[4] The shipments to India and Bangladesh will be much greater than either of them has expected.

Recommendation

That you *now* recommend to the President the higher 1283/1413 level.[5]

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[2] All four figures are in millions of dollars. Attached but not printed is a table concerning the dollar distribution of these two options.

[3] Both figures are in millions of dollars.

[4] This figure is in millions of dollars.

[5] On February 3, Butz announced that the United States would provide $1.6 billion in food aid during the 1975 fiscal year. *The New York Times* noted of this decision: "Both the funding of $1.6-billion and the amount of food it will provide correspond roughly with the highest of three budget options top advisers proposed to President Ford nearly two months ago." (*The New York Times,* February 4, 1975, p. 5)

286. Memorandum of Conversation[1]

Washington, February 22, 1975.

SUBJECT

Commodity Initiative

PARTICIPANTS

The Secretary
Deputy Secretary Ingersoll
Thomas O. Enders, Assistant Secretary for EB
Julius L. Katz, EB/ORF
Robert Morris, E
Charles Frank, S/P
Paul H. Boeker, EB/IFD
Jeffrey Garten, EB/IFD

The Secretary: Would you please outline the basic proposal?

Mr. Enders: We have a proposal for a new commodity framework.

The Secretary: You can't clear it, but you can design it.

Mr. Enders: The proposal entails an umbrella code for trade in commodities, a new international institution which involves major commodity exporters and importers. Among the principles of the umbrella code, are access to supply and access to markets. The proposal grapples with the North-South issue. It also addresses the UNCTAD problem and pertains to the producer-consumer conference on oil as well as to the upcoming Special Session of the United Nations.[2] The basic concept is for you to take preemptive action politically, but the proposal also has substantive economic interest. For the United States, for example, there is a substantial economic penalty to the wide swings in the prices of commodities. We are very concerned that in the future, when the United States will be importing a greater percentage of its consumption that because of the cyclical price swings, investment in raw materials will not be sufficient.

The Secretary: How would this plan operate?

Mr. Enders: We would have an umbrella organization—call it a world commodity organization. The organization would have a code which would specify contractual arrangements.

[1] Source: National Archives, RG 59, Central Foreign Policy Files, P820123–0999. Limited Official Use; Nodis. Drafted by Garten and approved in S on May 11.

[2] The Seventh Special Session of the United Nations General Assembly took place from September 1 to 16.

The Secretary: Wouldn't this be like the Charter of Economic Rights and Duties?[3] That is something we cannot accept.

Mr. Katz: Yes, it would.

Mr. Ingersoll: But there would be different actors.

The Secretary: Who would they be?

Mr. Enders: It would be a special group composed of major importers and exporters.

The Secretary: But how do you know you would not end up with another Charter of Economic Rights and Duties?

Mr. Enders: There is no way to tell, but we could always abort the effort.

The Secretary: Why would this exercise turn out better than the producer-consumer energy conference, which we all agree will be a disaster? What exactly would we negotiate?

Mr. Enders: We would negotiate an overall set of obligations. They would pertain to such things as access to supply. We would also try to negotiate some type of anti-cartel provision. Of course, these things must be balanced by provisions relating to access to markets and access to financing.

The Secretary: But, when these raw materials producers turn into cartels and become like OPEC, they don't need access to financing.

Mr. Enders: But, in effect, very few producers would be in that position.

The Secretary: Let me understand this. Isn't this a big commodity agreement?

Mr. Enders: No Sir.

The Secretary: Who would be interested unless we set a price?

Mr. Enders: The real purpose here is setting up a procedural mechanism. Part of this is preemptive. With the British swing towards market organization and with UNCTAD, the Algerians and others able to exploit this as a North-South issue, it is important that we respond.

The Secretary: What does it offer the producers?

Mr. Enders: Tariff concessions on processing industries and better access to financing. There would be an effort on the part of producers to get some price stabilization. No doubt we would have to go into some arrangement of this type.

Mr. Morris: We would emphasize internationally coordinated rules regarding national stockpiles.

[3] UN General Assembly Resolution A/RES/29/3281, December 12, 1974, adopted the Charter of Economic Rights and Duties of States. The United States voted against the resolution.

The Secretary: Who would have stockpiles?

Mr. Katz: They would have to be financed.

Mr. Enders: Another part of the overall proposal is domestic stockpiles to give us negotiating leverage and bargaining power.

Mr. Boeker: Where we could negotiate suitable arrangements we would be willing to subordinate our domestic stocks to international arrangements.

Mr. Ingersoll: There would be massive domestic objections. This is especially true concerning moving processing to other countries.

The Secretary: I still don't understand what we get out of it.

Mr. Enders: Access to supplies, moderation of price fluctuations. We may be facing a trend of decreasing supplies globally, and we need investment growth.

The Secretary: How does this help?

Mr. Enders: Through separate agreements.

The Secretary: (looking at Mr. Katz) You don't agree?

Mr. Katz: You are very perceptive. I don't agree with the umbrella approach. It is not very relevant to LDC goals. I do agree with Tom's underlying concern. Fluctuation in commodity prices is a problem. Access to supply is, however, not well secured by pledges. Commitments would have to be highly hedged. The same goes for market access. The end result would be highly qualified rules. We need a change in our attitude, however, toward market interference. In the past, we have played a fairly agnostic if not negative role. To get increases in our production capability I am not particularly concerned with our increasing dependence. We have a general interest in increasing production capacity anywhere we can. We should increase investment incentives. Our approach should be more to the economics of the situation not in the direction of codes, and we should remember that LDCs do not want increased production. Actually it is in their interests to retain a situation of fewer rather than more supplies.

The Secretary: Why have codes?

Mr. Enders: We need the right type of environment.

The Secretary: But can't you ignore codes?

Mr. Katz: Yes. That is what has happened with respect to coffee and tin. Our experience is that when you get into specific agreements and specific problems, you get professional, serious negotiations.

Mr. Boeker: The advantage of a code is basically political. It would give more drama to a U.S. policy reversal.

Mr. Katz: We could do this unilaterally. It would have equal political impact.

The Secretary: What do you think, Bob?

Mr. Ingersoll: I am worried about a code. I am not antagonistic to commodity agreements, but I can't understand how the United States won't get its brains beaten out in a multilateral drafting of a code. The result might be that we won't get what we wanted and, if we do, we would lose more than we gained.

Mr. Enders: The real purpose here is political. The content of the code is not as important. If it failed we would have an umbrella organization.

The Secretary: What would we be up against domestically? Treasury would go amok, wouldn't it?

Mr. Katz: Treasury would be sympathetic to rules if commodity agreements were not involved.

The Secretary: Then, we would have nothing.

Mr. Ingersoll: I must say, I am tempted to swing in the direction of commodity agreements.

Mr. Enders: The British are going in this direction.

Mr. Katz: The British are not really changing.

Mr. Ingersoll: What about the Europeans?

The Secretary: I think the Europeans are moving towards cartelization.

Mr. Katz: I am not opposed to commodity agreements; they just won't work. People have misread what OPEC is. It is not a real cartel. It has never been put to the test of allocating production.

Mr. Enders: The main point is political; breaking up the bloc of 77.

The Secretary: I am not against commodity agreements. I am just trying to understand this proposal.

Mr. Katz: We could break up the bloc of 77 with four agreements: coffee, cocoa, tin, and copper.

The Secretary: How would that break up the bloc of 77?

Mr. Katz: It would involve all the major countries. We would show we are prepared to take on commodity problems and to deal with the facts at hand. The other thing that bothers me about an institution is that it increases the political problem.

The Secretary: Could we get consumers together?

Mr. Ingersoll: Could you do the separate commodity agreements without the umbrella?

Mr. Enders: Yes, but with less political impact.

The Secretary: How do you get from the umbrella to separate agreements?

Mr. Ingersoll: We may get further with a few agreements.

Mr. Frank: The idea is not to do it all at the same time.

Mr. Morris: Robinson is agnostic regarding separate agreements.

The Secretary: How about getting the consumers together first? I am for commodity agreements. I am assuming that the Europeans will double-cross us any chance they get.

Mr. Enders: The White House people understand the need for a new position.

Mr. Boeker: However it is done, two elements are essential: financing and domestic measures.

Mr. Katz: Financing is very important. Part of it could be collected from trade itself.

Mr. Morris: Maybe we could propose a financing organization alone and begin with that.

Mr. Enders: This is where it's different from the Charter of Economic Rights. Now we are putting money on the table. We are talking about access to markets and financing and about tariffs. People will be more serious. There is no question that we need national stockpiles.

The Secretary: Aren't we liquidating stocks?

Mr. Enders: I am talking about stockpiles for economic purposes.

The Secretary: I want to get into commodities, but I am afraid to get into negotiations without knowing the principles we want.

Mr. Enders: We do know. Contracting parties will exchange commitments. They will do this only in the framework of specific agreements.

Mr. Katz: This is not meaningful.

Mr. Enders: What you actually get depends on the specific agreements.

The Secretary: Would you please do a paper examining the advantages of this two-step approach and what the alternative routes would be? I would be reluctant to get into a consumer-producer dialogue without having our position lined up with consumers.

287. Memorandum From the Assistant Secretary of the Treasury for Trade, Energy, and Financial Resources Policy Coordination (Parsky) to the Executive Committee of the Economic Policy Board[1]

Washington, undated.

SUBJECT

Summary of report on Commodity Policy for Non-Fuel Minerals

On February 25 the Economic Policy Board directed its constituent agencies to form a task force to reexamine U.S. commodity policy for non-fuel minerals and report its findings to the Board on April 30.

Attached is the report summarizing the task force's findings. The body of the report, which is presently several hundred pages long, will be forwarded as soon as it has been edited.

Gerald L. Parsky[2]

Attachment

Summary of Report to Economic Policy Board on Commodity Policy for Non-Fuel Minerals

I. Background

This reexamination of commodities policy was undertaken in anticipation of increasing pressure in international forums for commodities agreements and out of concern that the commodity market instabilities of the 1972–74 period might mark the dawn of a new era for which past commodity policy was no longer suited. Consequently, this study aims to assess the likelihood that we are in a new era, analyze the merits of the major new commodity proposals, and, to the extent time permitted, assess the alternatives and point out areas where further consideration might be fruitful.

To permit more intensive analysis, the Board accepted the task force's recommendations that the study focus on the six non-fuel min-

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[1] Source: Ford Library, U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 58, Economic Policy Board Meetings, EPB—April 1975 (2). No classification marking. Attached to the minutes of an April 30 EPB Executive Committee meeting, which indicate that the committee reviewed the attached report and decided: "Procedures for further consideration of commodity agreement policy" would be examined at a review of international economic policy scheduled for May 3.

[2] Printed from a copy bearing this typed signature.

erals which the less developed countries identified in UNCTAD as suitable for commodity agreements. These six account for more than half the value of U.S. non-fuel mineral imports.

II. Conclusions

Our tentative conclusions for the six minerals studies are as follows:

1. This study tends to confirm the desirability of continuing our long standing existing commodities policy: a preference for non-interference by governments but a willingness to entertain proposals on a case by case and commodity by commodity basis.

a. *No New Era*—The extreme volatility of the commodity markets during the 1972–74 period is more likely to prove the exception than the rule. While business cycles will be more synchronized in the future than during the average of the 1960s, the extraordinary amplitude and synchronization of the 1972–74 period are not likely to be recurrent. The market instability during this period was exacerbated by an unusual amount of speculative buying.

b. *Commodity Agreements In General Are Not the Answer: Economic or Political*—The commodity proposals which have been tabled internationally rely on two major mechanisms: a price setting mechanism and a buffer stockpile to support it. We looked at the likelihood that such agreements would provide a solution to the problems of commodity markets. Our conclusion is that the prospects, in general, are not good.

Economic Value

First the benefits are not certain. While stabilization seems a desirable goal to some, short term stabilization can lead to longer term instability. Past agreements for tropical products have only been marginally successful and never last long. The evidence of benefits is at best inconclusive.

On the other hand, for most of the six commodities studied, the evidence of high economic costs is fairly clear:

i. The LDCs in UNCTAD have proposed commodity agreements for these commodites, yet less than 10 percent of U.S. imports of these commodities come from LDCs. To sustain the price for this 10 percent through agreement would probably require imposing import/export controls, domestic production controls, or quotas with their attendant costs in administration and market disruption. Moreover, it would be technically difficult to implement an agreement for one of these commodities—iron ore.

If a buffer stockpile were used, the capital cost would be quite high—our econometric model suggested $1.2–4.8 billion for copper, lead and zinc—and it is not really technically feasible for iron ore. Moreover, some, including many in industry, believe buffer stockpiling would interfere with the investment process.

ii. *Bauxite and Tin*—Bauxite (aluminum ore) does not appear to be a serious candidate for a commodity agreement or buffer stockpile. It is traded primarily between different parts of integrated companies, ore grades differ, and no real market reference price exists. Even the producer countries don't seem to think a price agreement is feasible: they have relied on export taxes to increase their revenues.

For twenty years a tin buffer stock agreement has existed in which all major consumers and producers except the U.S. have participated. Its impact on the market is difficult to assess but it will shortly be renegotiated and the U.S. may be pressed to join. This study reached no significant specific conclusions, positive or negative, with respect to tin.

iii. *Qualification*—Our conclusions, based on a two month study, are not so negative that we would preclude further study of these commodities on a case by case basis. The likelihood of anything beneficial emerging in general seems slight, but further consideration of both the tin agreement and buffer stockpiles for copper seem warranted. Our econometric buffer stockpile studies, possibly the first of their kind, suggest that in theory, at least, a buffer stockpile could be useful. The capital cost is very high—in the billions—but sharing with other consumers and producers might reduce U.S. costs below $1 billion.

Political

For the four domestically produced commodities—copper, lead, zinc, and iron ore—commodity agreements will prove a very unsatisfactory response to the LDCs' political pressure for better terms of trade (resource transfer). While a few LDCs might benefit significantly, as previously indicated, only $1 out of every additional $10 spent by the U.S. consumer through higher prices for these commodities will go to the LDCs. The other $9 will go to producers in the U.S. and the resource rich developed countries, notably Australia and Canada.

If resource transfer is the objective, direct aid is more satisfactory for these four minerals. If commodity agreements are used, the LDCs can be expected to renew their demands in a few years. They will correctly maintain they benefited very little from agreements despite the fact that the U.S. consumer paid a high price. By that time, an artificial pricing structure would have been created that would be politically difficult to disassemble.

III. Alternatives

Alternatives to commodity agreements were considered. One is to strengthen the market mechanism through better information exchange, intergovernmental consultation, futures markets, and through pursuit of supply access agreements in the MTN negotiations. These steps would reduce the information scarcity and anxiety over supplies which contributed to excessive speculation during the 1972–74 period.

If direct aid to the LDCs is considered necessary for political reasons, then compensatory financing like the Lome (Stabex) agreement[3] which the Europeans recently signed could be considered. The economic effects seem to be minimal—but it has political appeal, perhaps because, like the lottery, the actual return to individual countries may substantially exceed the average expected return.

Another alternative is an economic emergency stockpile. It would make supplies available in times of extreme shortage. Sales would be authorized under very stringent conditions, such as those required for imposing export controls. It would primarily aim to help consumers, but would have some immediate appeal for producing countries because stockpile purchases will strengthen prices. It has attracted some legislative attention and will be studied further by the forthcoming Commission on Supplies and Shortages.

IV. Further Study

Time constraints prevented adequate consideration of other commodity related issues. One which clearly deserves further study is how a better international climate for priviate investment in natural resources can be created. In 1973, 80 percent of exploration investment for non-fuel minerals was made in four developed countries. This means economically marginal deposits are being exploited because private investors consider the climate in developing countries too hostile for investment. A change in this climate would benefit both developed and developing countries. A real opportunity for mutual benefit may lie here.

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[3] On February 28, 1975, the EC and 46 LDCs signed the Lomé Convention, whose provisions included an earnings stabilization fund for LDC primary commodity exports known as Stabex. (*The New York Times,* March 1, 1975, p. 1)

288. Memorandum From Malcolm Butler of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Scowcroft)[1]

Washington, May 11, 1975.

SUBJECT

EPB Meeting on Food Reserves Proposal, Monday, May 12, 8:30 a.m.[2]

The Problem

At the World Food Conference last November the Secretary announced U.S. support for an "international system of nationally-held food reserves." State and Agriculture, and to a lesser extent other agencies, have spent most of the intervening five months arguing about how the U.S. should implement this commitment. The difference between the State and Agriculture positions on an international reserves scheme is fundamental, and the inflexible positions taken so far threaten to make a meaningful U.S. initiative impossible.

Agency Positions

The State Department proposes a "tight" global system, which would require automatic responses to a given shortfall in world production. The binding international agreement would include a commitment to impose export controls, in order to prohibit exports to non-participants in a tight market. Export controls are unacceptable to the Agriculture Department, which has counter-proposed a "loose" global system in which the agreement would be to consult on further action under pre-negotiated supply conditions. Both schemes would involve reserves of 50,000–60,000 metric tons of grain. Other agencies are concerned about the economics of a global system, and have proposed a smaller "tight" system—perhaps 20,000 metric tons—which would offset production shortfalls and food price increases for the lesser developed countries.

The struggle between "tight" and "loose" global schemes has dominated inter-agency discussions, and diverted attention from analytical developments of these and other options.

The Secretary's Speech

Until last week this debate has taken place in the working group of the International Food Review Group (IFRG). State has been draft-

[1] Source: Ford Library, National Security Adviser, Presidential Subject Files, Box 6, Food (4). Confidential. Sent for action.

[2] No record of this meeting was found.

ing a food security speech for the Secretary including the "tight" global option. Last week the Secretary decided to give the speech in Kansas City on Tuesday, May 13, and this forced State to undertake an informal clearance process with key IFRG principals. They immediately came up against implacable opposition from Secretary Butz, who will not agree to the export controls which are basic to the tight system. State thereupon withdrew the speech and substituted a broader one on international economic independence. The section of this speech on grain reserves (Tab A), however, is equally unacceptable to Agriculture. "Priority access to reserves" is a proxy for export controls, and Agriculture has refused to clear.

EPB Meeting

A "principals only" session of the EPB meeting has been called for Monday morning, May 12, to bring this debate into the open. Enders will attempt to obtain approval of language changes which paper over the problem, Butz will argue that the "loose" system would still allow the Secretary to make a significant proposal, and OMB will make its predictable—and in this case valid—comments on lack of agreement on basic objectives. It will be clear in any case that there is no basis for committing the Secretary to a firm and specific initiative of significance.

LDC-Only Compromise

We have sketched this problem for Secretary Kissinger in earlier memos, and have suggested that a more limited system to provide food security to the LDC's would provide the Secretary with a meaningful proposal which would meet a recognized critical need and be acceptable within the U.S. Government. Intensive work has been under way in the last few weeks on this option. CEA has developed it analytically in some detail, and OMB has included it in a re-drawn options paper which was submitted to the IFRG Working Group.[3] It is not as comprehensive as a binding international agreement, but it is a valid option. It could be combined with the "loose" global reserves system, and experience which we gain could be useful in moving more confidently toward a tighter system in the future.

Recommendations

—The speech could stay general unless the Secretary can make a solid proposal. It makes no sense to launch an initiative which has to be buried in weak language in the middle of the speech. (Peter Rodman, who has more general problems with the current draft, strongly supports this conclusion.)

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[3] Not further identified.

—The IFRG Working Group should give priority attention to an options paper to be submitted to the IFRG by Monday, May 19. This should include a fully developed LDC-only system.

—This should move through the NSC channel, perhaps broadened to include CIEP/EPB if necessary. (In this area, CIEP has competent staff with whom we can work.)

Attached at Tab B are talking points for your use during the meeting.[4]

Tab A

Paper Prepared in the Department of State Bureau of Economic and Business Affairs[5]

Washington, May 9, 1975.

Basic Elements of An International System of Grain Reserves

—Combined reserves should be large enough to meet 95% of shortfalls in production below the long-term trend.

—Grain exporters and importers should agree to share the responsibilities and the costs of the system, taking into account their wealth, and their production and trade in grains.

—Each participating country should be free to determine the method by which its reserves will be held and thus to apply such incentives as may be required for their build-up, holding and eventual draw-down.

—Agreed guidelines should encourage members to take advantage of good crop results to build-up reserves.

—The system must assure priority access to reserves and other supplies by participating countries in times of shortage.

—Guidelines should be agreed in advance for the draw-down of reserves, which would be triggered by short-falls in world production. While these guidelines need not be rigid, they must establish the clear presumption that all members would join in making available their re-

[4] Tab B is attached but not printed.

[5] No classification marking. Attached to a May 9 memorandum from Enders to IFRG Working Group members that reads: "Attached for your information and comment is a summary of the substantive points on grain reserves to be made in a foreign policy speech to be given by the Secretary of State at Kansas City on Tuesday, May 12 [*13*]."

serve supplies when needed, and conversely, that these reserves would not be released prematurely, and thus unnecessarily depress market prices.

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289. Editorial Note

Secretary of State Henry Kissinger's proposed May 13, 1975, speech to the Kansas City International Relations Council provoked opposition from administration officials on both procedural and substantive grounds. On May 12, Council of Economic Advisers staff member Edward Schuh wrote CEA Chairman Alan Greenspan: "The IFRG Working Group has been working on the grains reserves problem for 5 months. With this speech Kissinger and State are finessing that whole exercise. They are playing a dangerous game on a subject that is very important to U.S. agriculture." After offering specific criticisms of the speech, Schuh concluded, "State has chosen to ignore all the protests and comments against their commodity-agreement type grain reserve. *I recommend as strongly as I possibly can that we object to the basic elements* of this proposal. It essentially amounts to abandoning the free market system of agriculture that we are attempting to establish. In effect, it would make us a part of the CAP of the EEC." (Ford Library, L. William Seidman Papers, Box 113, Seidman Subject File, Agriculture 1/75–7/75) In a May 12 memorandum to President's Assistant for Economic Affairs William Seidman, Council on International Economic Policy Executive Director John Dunn criticized Kissinger's speech on grounds of timing, bureaucratic consultative procedure, and substance. (Ibid., Box 74, Economic Policy Board Subject File, Kissinger, Henry: Speech on World Economic Structure, May 13, 1975) Also on May 12, Office of Management and Budget Director James Lynn sent a May 7 OMB memorandum to Seidman that urged action to counter "this effort by State to gain Cabinet support for an international commodity agreement on grains outside established channels, without adequate analysis and by attempting to persuade Cabinet officers individually." (Ibid., Box 113, Seidman Subject File, Agriculture 1/75–7/75)

Kissinger discussed the speech with Secretary of the Treasury William Simon and Seidman by telephone in two telephone conversations on May 12. (http://foia.state.gov/documents/kissinger/0000BFA3.pdf and http://foia.state.gov/documents/kissinger/0000BFA5.pdf) That same day, Kissinger informed Assistant Secretary of State for Economic and Business Affairs Thomas Enders by telephone that Seidman had identified "really massive objections." Kissinger said that he saw no "sense in giving a speech which soon will be disavowed by all the agencies." Enders assured Kissinger that he and his staff could incorporate "the tone points of Alan Greenspan, but the difficult one is going to be the grain reserves one." Kissinger, who had been unable to reach Secretary of Agriculture Earl Butz, asked Enders to contact him. When Enders asked whether he should incorporate the objections into the speech, Kissinger replied, "Well, only if there is still a speech left then." After Enders affirmed that he would not whittle away the speech and, wishing to avoid "endless sniping afterwards," Kissinger instructed Enders "to sit down with Seidman to make sure that the points are represented." (http://foia.state.gov/documents/kissinger/0000BFD8.pdf) The final text of Kissinger's speech, entitled "Strengthening the World Economic Structure," in which he did offer principles for a grain reserves system, is in Department of State *Bulletin,* June 2, 1975, pages 713–719.

290. Memorandum From Robert Hormats of the National Security Council Staff to Secretary of State Kissinger[1]

Washington, May 22, 1975.

SUBJECT

Commodities

Report on Interagency Task Force

As you know, an NSC/EPB Interagency Task Force on International Commodity Issues is now in place. (Summary of last meeting at Tab A.)[2] Its study of six minerals recently concluded that commodity arrangements or stockpiles for them were either impracticable or unnecessary; other commodities should be explored on a case-by-case basis.[3] The work of the Task Force is now being broadened to include (a) compensatory finance and earnings stabilization issues, (b) an ex-

[1] Source: Ford Library, National Security Adviser, Presidential Files of NSC Logged Documents, Box 56, NSC "NS" Originals File, 7503556—Commodities—Interagency Task Force. No classification marking. Sent for information. Scowcroft wrote at the top of the memorandum: "HAK has seen."

[2] Tab A, attached but not printed, is a summary of the May 16 organizational meeting.

[3] See Document 287.

panded role of the IMF/World Bank, (c) economic stockpiles to strengthen our hand vis-à-vis producers and to add a modicum of price stability, (d) promotion of investment in raw materials in developing countries, (e) the multilateral trade negotiations and their relationships to commodities, and (f) issues related to market volatility. A paper for NSC/EPB principals should be ready by the end of June.

The Task Force has a reasonable prospect of ensuring that the agencies needed to produce a constructive policy operate in harmony rather than at cross purposes, in a climate of suspicion. While substantive and theological differences remain, there is at least now the prospect of a useful study of commodity policy which will provide analysis and raise options to appropriate levels for decision.

Interim Strategy

How should we handle commodity issues in the interim—before we have an explicit set of new policies, or in the likely event that our policies are not all the developing countries want?

Jules Katz (Tab B)[4] and I (Tab C)[5] have offered similar suggestions on a scenario and the basis for a commodity policy. *Our political line—to support these approaches—should be one of sympathy to specific problems and willingness to listen and be open minded.*

We also need to point out quietly, but firmly, at a technical level the errors of fact and logic in the diagnosis of the developing countries. These countries claim, for instance, that income and wealth differentials between themselves and the developed countries can be attributable to past and present imperialism and capitalist exploitation, that cheap energy and other resources from the developing countries are the foundation of high living standards in the developed countries, that overconsumption in the developed countries deprives developing countries of adequate consumption. For all these reasons, they argue, the market system should be dramatically changed through intergovernmental agreements designed primarily to increase the flow of resources from developed to developing countries. They argue, further, for "reparations" for past "exploitation" and a total revamping of the international economic system to achieve this. Chief among the changes are what they loosely refer to as "commodity arrangements."

Several points need to be made in response:

—Raw material trade is not primarily from poor to rich countries. Outside of tropical products like sugar, coffee, cocoa, and bananas, the

[4] Tab B, attached but not printed, is an undated paper on "International Commodity Strategy."

[5] Tab C, attached but not printed, is a May 16 memorandum from Hormats to Kissinger on a "Scenario for Dealing with Energy and Raw Material Issues."

wealthy countries (US, Canada, Western Europe, Australia, and South Africa) account for about 60% of commodity exports.

—The resource-poor developing countries rather than developed countries suffer the greatest impact from commodity price increases.

—The terms of trade for commodities vary over any considerable period of time—sometimes improving for the exporters, sometimes for the importers.

—Reduced aggregate consumption in the developed countries is matched closely by reduced demand for products of developing countries. Less consumption by developed countries does not mean more for developing countries (except perhaps in some limited areas such as fertilizer). The factors which cause a slowdown in consumption in developed countries have the same effect on their imports of developing country production.

A basis for common agreement will not be found if developing countries attempt simply to bring about a unilateral transfer of wealth on grounds either of morality, retribution, or reparations for past sins. But neither should we rebut this rhetoric with our own ideology. We should, instead, take the high road—asserting that, correctly conceived, collaborative actions by the governments of producing and consuming countries could be achieved for mutual benefit. A strengthening of the *present* international economic system can provide for growth from which every country can benefit, and procedure [*produce*?] means for dealing with specific problems of individual countries. Resource transfers have been and will continue to be effected under the present system. The developing countries themselves would suffer the most from its disruption.

There are a *variety of areas where affirmative initiatives,* worked out in collaboration with other OECD members, can *achieve mutually beneficial results.* These are, for the most part, best taken with respect to individual problems, or commodities. Disaggregation of the overall commodity problem will move it from the realm of political rhetoric into that of substantive negotiations and accommodation. (Katz' paper and my earlier memo suggest potential areas.)

It is also in our interest to take maximum advantage of the World Bank/IMF to finance buffer stocks, support exploration and production to increase supply availabilities, and undertake compensatory financing of balance of payments shortfalls. This institution is the strongest and most "Western-influenced" of the international institutions; and it is the one which operates on the most solid economic, and political, principles. To the extent we can ensure that this, and such institutions as the GATT—which can be a useful vehicle for negotiating principles and rules of supply and market access—bend to the needs of the developing countries without sacrificing our fundamental principles, we can prevent these and other institutions from being pushed to the breaking point.

291. Memorandum From the Economic Policy Board to President Ford[1]

Washington, undated.

During the past several weeks, we have participated in discussions on important international economic issues. Recent public presentations by the Secretary of State have been sufficiently ambiguous to preserve the opportunity for you to decide policy issues. This is also true of a speech he will deliver at the OECD this week.[2] However, as a result of this process it has become obvious that in the international field, we are in danger of compromising our basic commitment to the free enterprise system. At this point, we believe it is important for you to focus on the principles on which our strategy in the international area is founded.[3]

1. Much of the Third World is pushing for a new international economic order based on socialist principles. While we would like to avoid a confrontation, we clearly cannot acquiesce in, or compromise with, this new economic order. A socialist economic order outside the United States would require us to either (a) become socialist or quasi-socialist or (b) become economically isolationist.

2. The issue that is posed is fundamental:

—Do we respond by reaffirming our own commitment to the basic principles of free enterprise and free markets, but offering to discuss and negotiate on problem areas in a spirit of practical cooperation?

—Or do we respond by being forthcoming and indicating that we are prepared to accept the inevitability of a fundamental change in international economic arrangements, but still bargaining hard on a case by case basis on particular issues?

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[1] Source: Ford Library, U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 58, Economic Policy Board Meetings, EPB—May 1975. No classification marking.

[2] Kissinger addressed the OECD Ministerial Council in Paris on May 28. See Document 293.

[3] On May 23, Scowcroft wrote Kissinger, who was in Ankara, that, according to Seidman, Simon, Greenspan, Lynn, and Dunlop, all had "a major philosophical objection to the whole approach, in whole or in part," of Kissinger's proposed OECD speech and "that Simon wants to take the issue straight to the President as one of basic philosophic approach." (Ford Library, National Security Adviser, Scowcroft Daily Work Files, Box 10, 5/22–31/75) Later that day, Scowcroft cabled Kissinger to report another conversation with Seidman, who had reaffirmed the existence of "a very basic disagreement about the approach to the 'new economic order.' " Seidman said "that Simon, Greenspan and Lynn felt that the speech prejudged issues which had not yet been resolved and in a manner to which they were fundamentally opposed" and supported taking the issue to the President the next morning. Scowcroft and Seidman decided to continue to work toward achieving interagency agreement without the President's involvement. If these efforts failed, however, unresolved issues would be put before President Ford on May 26. (Ibid.)

3. We do not want to pursue a policy based on promising the rest of the world a great deal now, knowing that we do not intend to deliver on these promises, implied or stated, at a later time. Instead, we should be maintaining our leadership role which seeks to preserve the economic system based primarily on private ownership and free competitive markets.

4. We believe that our interests can only be served by speaking out frankly and forthrightly concerning our basic disagreement in principle with those who are demanding a new world economic order. The principles of free markets and free enterprise are, after all, what we stand for and what we believe in. If we fail to speak out in their defense, no one else will be able to do so.

5. Clearly, an area where this fundamental choice is confronting us is in the third world's pressure for international arrangements with respect to commodities. It was central to the breakdown of the preparatory conference on energy in Paris[4] and it will be presented to you throughout your upcoming European trip.[5] If we posture ourselves as willing to discuss this area with an eye toward "new solutions" or "new arrangements," the world will perceive this as a willingness on our part to compromise our basic system. In any statements referring to discussions on this issue, we should not be afraid to strongly assert that the United States, as well as the less fortunate countries, can best be served not by a system of government agreements on various aspects of international trade and finance, but rather by continued reliance on the effective private institutions which have evolved in these areas.

6. This policy does not mean that we need posture ourselves as seeing no avenues of improvement in the existing system. However, if we agree, or give the appearance of agreement, to changes in the international economic system abroad, we will be in danger of jeopardizing the principles you have been building at home and our economic and military strengths will increasingly count for less in the world.

The Economic Policy Board

W.E. Simon

L.W. Seidman[6]

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[4] Preparatory talks for the international energy conference proposed by French President Giscard began in Paris on April 7. The negotiations broke down on April 15 over disagreements about the agenda.

[5] Between May 28 and June 3, President Ford visited Belgium, Spain, Austria, Italy, and the Vatican.

[6] Printed from a copy bearing Simon's and Seidman's typed signatures.

292. Memorandum of Conversation[1]

Washington, May 24, 1975, 10:40 a.m.–12:45 p.m.

PARTICIPANTS

President Ford
Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

President: It makes me mad the way we have procrastinated on uranium enrichment.

Scowcroft: Lynn has held it up.

Kissinger: We are missing a chance to get a stranglehold like OPEC has on oil.

President: We will be ready to go by June 30.

Kissinger: There is another of these economic deals coming to you. I am not reliable on economic matters. But these issues are not basically economic. My role is to project an image of the U.S. which is progressive. Greenspan is a theoretician. He wants to vindicate a system which no one will support. Schmidt told me that unless we pull ourselves together on raw materials, he will go it alone.[2] I want to fuzz it up. I don't want to accept a New Economic Order but I don't want to confront Boumedienne.[3] I want to fuzz the ground. On substance I agree with Simon. I am not against Simon—only Schlesinger. [Laughter][4]

President: Let them work out commodity agreements—they won't work.

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[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 12. Secret. The conversation took place in the Oval Office.

[2] On May 21, Scowcroft sent President Ford a memorandum transmitting Kissinger's report of his breakfast meeting with Chancellor Schmidt in Bonn. Kissinger noted that the Chancellor "considers a forthcoming approval on commodities as essential. If US insists on status quo, Federal Republic would go it alone and Europe would separate from us." (Library of Congress, Manuscript Division, Kissinger Papers, Box CL 143, Geopolitical File, Germany (Federal Republic of Germany), Chronological File, May 1975)

[3] President Houari Boumedienne of Algeria was a leading spokesman for LDC issues.

[4] Brackets are in the original.

Kissinger: We made points with Giscard and Schmidt with my Kansas City speech,[5] and we said nothing.

President: When does this come up?

Kissinger: I think perhaps we can work it out. Perhaps Monday.[6] I just want to be able to say "we have heard you and we are willing to discuss raw materials"—but not agree to indexing.

President: Let me look at the language. But I see no reason to talk theory when we can in a practical way just screw up the negotiations.

Kissinger: I don't think we should buy the New Economic Order or say the present system is great with just a little tinkering.

President: I agree.

Kissinger: Take the Brits. If we could say, "They have come out with proposals. We don't agree on all the points but think they have asked the right questions." I think we should be tough on the substance, but not on the theory.

President: If it comes up, I will express it in my way because that's the way I feel.[7]

[Omitted here is discussion unrelated to commodity policy.]

[Kissinger:] Schmidt's course is very similar to yours.

President: He certainly is more capable than Brandt.

Rumsfeld:[8] How about Bahr?

Kissinger: He is soft-headed—a pro-Communist.

You have money in the bank with the European leaders who have met you. Schmidt thinks we have underestimated the depth of our economic difficulties. He thinks we have no one who knows what he is talking about in economics. He likes Shultz.

President: That's interesting, because Shultz is like Alan [Greenspan].[9]

Kissinger: Yes, but Shultz knows foreign policy and he doesn't push the theory. Shultz wasn't too different than Connally—whom the economists hated—but he gave them a feeling of participation.

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[5] In the report on his May 21 breakfast meeting with Schmidt, Kissinger noted that the Chancellor "welcomes the readiness of the Kansas City speech to consider a new commodity approach as he himself has advocated for some time." Regarding Kissinger's Kansas City speech, see Documents 288 and 289.

[6] May 26.

[7] From May 28 to June 3, President Ford traveled to Belgium, Spain, Austria, Italy, and Vatican City. During his May 28–31 visit to Brussels, where he attended a NATO summit meeting, he held bilateral meetings with NATO heads of government and state.

[8] Rumsfeld was called into the Oval Office earlier in the conversation.

[9] Brackets are in the original.

Schmidt will separate from us on raw materials if we insist on theoretical positions, because he can't afford a depression. That is what he is most interested in. I would like to send him a speech draft.

He will not follow us on a confrontation course with the LDC's. If he won't, neither will France, Great Britain or Japan. He wants to work with us. If you can reassure him on the economic facts. . . . If we will work with him on the economy, he will support us on everything else.

President: What does he want?

Kissinger: He likes the idea internationally of doing what you did domestically—an economic conference. To see how we can build in growth. There will be opposition—but internationally you don't have to agree to anything but talk.

The second thing—if you got some world leading economists over here for a meeting—private people.

Rumsfeld: It is a spectacular idea.

Kissinger: I would announce it when you got back, but tell him when you have lunch.[10]

Rumsfeld: Goldwin could start on it now.

Kissinger: The trick in the world now is to use economics to build a world political structure.

President: How would Alan react?

Kissinger: We wouldn't oppose it but he would want to discuss theory. We should not raise the theoretical system but will support whatever works. We can object to individual ideas on many grounds but not on grounds of a theory that no one will buy.

Schmidt is pathological on a few points—one is offset agreements. He will not agree to another one. Our Treasury group want to push it. If we insist, he will pull money out and put it back in.

You should confirm your close cooperation with him. He is your closest ally. You have done wonders with Giscard, but you can't rely on France.

[Omitted here is discussion unrelated to commodity policy.]

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[10] President Ford and Chancellor Schmidt had lunch on May 29 in Brussels. A memorandum of their conversation is in the Ford Library, National Security Adviser, Memoranda of Conversation, Box 12.

293. Memorandum of Conversation[1]

Washington, May 24, 1975, 3:30 p.m.

SUBJECT

IEA and OECD Ministerial Meetings

PARTICIPANTS

State
Secretary Kissinger
Deputy Secretary Ingersoll
Under Secretary Robinson
Assistant Secretary Enders
Mr. Ernest H. Preeg (Notetaker), Director, EUR/RPE

Treasury
Secretary Simon
Under Secretary Bennett
Assistant Secretary Parsky
Assistant Secretary Cooper

White House
L. William Seidman, Assistant to the President for Economic Affairs

NSC
Mr. Robert D. Hormats, Deputy for International Economic Affairs, NSC

Secretary Kissinger: We must find a better method for dealing with speeches. There is no way to get a speech written with such a large group of people involved. Is every passage marked in red to be negotiated?

Mr. Seidman: We tried to pick out the major issues. We have substantial agreement that there are three basic issues we need to consider.

Secretary Kissinger: I understand these to be the new economic era, commodity policy, and buffer stocks. The rest can be negotiated by the various parties. I don't pretend to run the State Department. Enders runs State while Bill lets Parsky run Treasury. On this basis, we will be at war in three weeks.

With regard to the new economic era let me explain my view. I believe we have to avoid an international dispute where Americans say the existing system is great and the LDCs call for a new economic order. This is a losing wicket. The Europeans won't support us. Nobody will support us, particularly since there are so many socialist govern-

[1] Source: National Archives, RG 59, Central Foreign Policy Files, P820125–0304. Secret; Nodis. Drafted by Preeg on June 2 and approved in S on June 5. The meeting took place in the Secretary of State's office.

ments in industrialized countries. And given the fact of Marxist domination in the thinking of LDCs, it is suicide to defend the existing system. We would be like the Austrians in the 19th century.

We can take concrete issues—like energy—on technical grounds and make progress. In fact, we cannot resist the new economic order if we don't act on concrete issues. My view is to stake out our positions so as to prevent people like Uyl[2] running around poor-mouthing us. We should be more forthcoming on the rhetoric, and have substance that supports a more positive response. As for the specifics of the substance, I won't fall on my sword on particular technical points.

As for the text of the speech, on page 14 you are against me saying we want a system that we "perceive to be just."

Secretary Simon: That is not a problem for us, but we do oppose reference to new economic era, new attitudes, new approaches etc.

Secretary Kissinger: Okay, I am willing to change from new to "willing to deal with imagination and compassion." On pages 23–24, for example, all I want to achieve is to sound forthcoming without linking to specific programs.

Under Secretary Bennett: More forthcoming, yes, but not new.

Secretary Kissinger: I am willing to fix the speech so as to convey a forthcoming attitude and fight where necessary on substance.

Assistant Secretary Parsky: We have said commodity by commodity approach. But when we say new programs, it means something else. You should be forthcoming, but in a way . . .

Secretary Kissinger: Parsky is moving ahead in his thinking—from 1860 to 1865.

Under Secretary Bennett: The other industrialized countries want to coddle the OPEC.

Secretary Kissinger: No, they haven't been bad on energy. On the broader North/South question I want to split them. The biggest challenge in the UN is the non-committed countries. That is why we have Moynihan going up there to take them on.[3] On Portugal, we are isolated even though we are right. I would like to split the LDCs at the UN Special Session and keep some of the industrialized countries with us. And I am willing to give them something on rhetoric to accomplish this.

Can we rework this draft this afternoon? Enders and Parsky should be able to work this out together.

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[2] Joop den Uyl was Prime Minister of the Netherlands from 1973 to 1977.

[3] Daniel Patrick Moynihan was appointed U.S. Representative to the United Nations on June 10 and entered on duty on June 30.

Mr. Seidman: The President would like to see the draft. Alan Greenspan also has an interest.

Secretary Kissinger: Yes, but not for the President to arbitrate. We should have an agreed State/Treasury draft to put forward.

Now regarding buffer stocks . . .

Secretary Simon: The problem on buffer stocks is not only us, but Burns also . . .

Secretary Kissinger: Okay, this is not an essential point. We will put it to the EPB or somewhere else later, for decision.

Assistant Secretary Parsky: There is also the question of earnings stabilization.

Secretary Kissinger: I would like to keep something in on this one. The new language seems fine. It merely conveys the thought we are willing to discuss this subject.

Assistant Secretary Parsky: I agree. Now with regard to the introduction to the commodities section, if we say "new", there are many in the government who have an interest in such a change in policy.

Secretary Kissinger: I want a more forthcoming posture now. The substance will be needed before the UN Special Session. Let's get together on this. We need a small State/Treasury/White House group to do this. We should not kick this issue into big forums.[4]

Secretary Simon: I agree.

Assistant Secretary Parsky: With respect to the Agricultural Development Fund, the President is committed to it[5] but the impression in this speech is that there is new money.

Assistant Secretary Enders: It is not a new budget item, but it is an increase above the 1974 level.

[Omitted here is discussion unrelated to Kissinger's OECD speech.]

Meeting ended 4:15 p.m.

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[4] For the texts of Kissinger's statements and informal remarks at the IEA and OECD Ministerial meetings, as well as the IEA communiqué and the OECD communiqué and declaration, see Department of State *Bulletin,* June 23, 1975, pp. 837–858. Excerpts from his two speeches were printed in *The New York Times,* May 29, 1975, p. 19.

[5] On April 21, President Ford discussed the International Agricultural Development Fund with Director General of the World Food Council John Hannah. The President told Hannah: "Basically, this idea makes sense. I think that it is feasible in the Congress and that it can be sold in this country." (Ford Library, L. William Seidman Papers, Box 113, Seidman Subject File, Agriculture 1/75–7/75)

294. Memorandum of Conversation[1]

Washington, May 26, 1975, 8 a.m.

PARTICIPANTS

President Ford
Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Secretary William Simon
Secretary Morton
Secretary Dunlop
Frank Zarb, Administrator, Federal Energy Agency
L. William Seidman, Assistant to the President For Economic Affairs
Mr. Greenspan, Chairman, CEA
Donald Rumsfeld, Assistant to the President
Max Friedersdorf, Assistant to the President for Congressional Relations
John O. Marsh, Jr., Counsellor to the President
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs
Robert Hormats, NSC Staff
Roger Porter

The President: The purpose of this meeting is to discuss the relations with the LDCs, particularly as they relate to the issues of commodities and raw materials. There is apparently some dispute, or difference. I can't imagine there is a substantial difference, but only one of phraseology and perhaps philosophy. I just want to state my own views—the way I see the issues. I strongly believe in the free enterprise system. I have always been in favor of it and I see no reason for changing. On the other hand I believe strongly in pragmatism. Sometimes I think it is important to solve problems rather than to be too concerned about phraseology. I think the significant thing is the solution to the problem. You frequently can solve problems domestically, between conflicting interest groups through a papering over of wording differences, and I think you solve differences between political systems in the same way. You may have to give a little on words in order to achieve something necessary to solve problems. I don't believe that you get practical solutions by being too sticky on phraseology.

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[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 12. Top Secret. The meeting in the Cabinet Room began at 8:07 and ended at 8:56 a.m. The President's Daily Diary lists the following attendees, in addition to those listed on the memorandum of conversation: Lynn, Burns, Cheney, Executive Director of the Domestic Council and Assistant for Domestic Affairs James A. Cannon III, and Press Secretary Ronald Nessen. (Ibid., President's Daily Diary)

But we are obviously not going to compromise on our basic philosophy. We will defend strongly the system that has done well by us and by others, but we will try pragmatically to work out differences on such issues as coffee, tin, tea, etc. In this way we can defend our system without establishing a new world economic order. Anyway, we can't establish such an order because we don't have the capability and I don't think that even if we did we should participate. We should state the problems we face and defend our interests in the process.

I would like to listen to some other approaches now.

Secretary Kissinger: There are really two issues. The issues we are discussing today surfaced as a result of a process of clearing speeches. There are clearly people here with strong convictions on the various subjects. We will set up procedures by which views are solicited ahead of time. This should enable us to deal with the various points of view.

The next issue is what stance the United States will take on the many international economic issues on which the LDC's are essentially united on general philosophy. The LDCs are generally characterized by a view which originated in the London School of Economics and in a Leninist form of Marxism. This gives legitimacy to their leaders staying in office. In a democratic system they would have to alternate in office. The democratic system was set up by aristocrats. They knew who they were and had their own resources, so they could afford to leave office.

Western Europe—U.K. and Italy—are also moving along the lines of a greater degree of socialism.

I agree that we should not accept the proposition of the new economic order; on the other hand we must not go to the barricades. We will be totally alone if we do—beaten back and back, with no support. My position is that we should not debate whether it is a new order or an old order but fight on technical issues. If we get into a fight, a technological [*theological*] fight, between free market and regulated market we will be beaten back. Schmidt for instance told me clearly that the energy meeting was the last time that the FRG will support the U.S. on these sorts of issues.[2] If we do not move we cannot count on their solidarity. They will declare their independence of us.

We made out our position clear in Kansas City. We intend to take a firm position. But in order to do so we must get ahead of the parade and then turn it to meet our needs. We can control the situation better by seeming conciliatory and cooperative. And many of these issues are political issues so that we can use other leverage when the time arises.

[2] Apparently a reference to the preparatory talks for the international energy conference proposed by President Giscard, which began in Paris on April 7 and broke down on April 15 over disagreements about the agenda.

The President: It seems to me there are two issues. One, recognition that you have to negotiate some of these matters, and two, the procedures by which you negotiate. There will obviously be tough negotiations dealing with individual commodities. But we must recognize that there are situations in which we have to negotiate, and we want to be in the strongest position to do so. I can't imagine that in the current situation you will find the LDCs in a position of total solidarity as they were on oil.

Secretary Kissinger: In energy, I did not expect anything to come out of the consumer-producer conference. But we needed the conference to hold the consumers together. The reason for the prepcon was that it was easier for us to defend ourselves in the conference than to debate incessantly the issue as to whether there should be a conference. It helped us to keep the consumers together.

Secretary Simon: As you know, Mr. President, I don't deal in theory; but I think it is extremely important how we posture ourselves. The world economic order is a broad effort on an issue of principle, which is in opposition to U.S. interests. If we don't defend the free market, I ask you, who will. We have a great deal of company. We are not isolated.

The President: We will have a forceful spokesman in the UN stating U.S. views. He will be able to take on those who support the new economic order and defend our interests.

Secretary Simon: There are many in the world who support the Socialist principles of the world economic order, but there are many who look to us for defense of the system. They would be surprised if we did not defend the system strongly. We have a real stake in the system. We are better off to talk about the importance of market principles, although we should recognize that it has deficiencies and attack these in a compassionate and cooperative way. We should not imply that we are moving in the direction of embracing this new system. If we do not take on this new approach, we will lose control. Our efforts to defend the free market system will be applauded.

The President: I don't see the British jumping up to defend the system. Who else believes this strongly enough to jump up to defend it.

Secretary Kissinger: Schmidt will tell you his views on this, that he will not take these countries on on ideological grounds.

Mr. Greenspan: I don't think we ought to get out in front of others on relations with LDCs. The difference is one of emphasis. We have to assess the efforts of various strategies. There are others in the room who can assess this better than I, but let's not talk ourselves into believing that the U.S. depends economically on the LDCs. It may depend politically and in a security sense but not economically.

Secretary Simon: If we give the impression of being forthcoming and then stonewall it will worsen the situation.

Mr. Burns: I have the strange feeling that we are having a debate over false issues. The question is one of free enterprise as opposed to socialism. But socialism is in a state of evolution. Yugoslavia and Czechoslovakia, for instance are moving toward a more open and competitive system. There are also advocates of free enterprise in Poland and Hungary. Support for the market is alive and growing.

It appears from reading this speech of Henry's that we are going to acquiesce in manipulation or market control arrangements. That will not make things any better; this will harm the world economy. I don't see why we need to take the lead in this direction. If the LDCs want to do this let them do it without us. I have the feeling we are leading the world in a direction which is not in our interest.

The President: Arthur, I have the impression that the speech was more tactical. Our objective is to defend what we want, which is the preservation of the system. The speech is designed to put us in a stronger position to do so.

Secretary Simon: But what Arthur is saying is that bringing it up implies that we are going to bend in principle.

Secretary Kissinger: If we don't go this far we will have problems. Others will insist on resumption of the energy conference. We will be in the position that we are not prepared to talk about it all. It is a question of how best to posture ourselves in what is inevitable—a discussion of these issues. We need to do this in order to keep the energy conference together. We cannot say we only want to talk about oil—for which the price has gone up for us—and not talk about other issues which are important to the developing countries.

Obviously we can't accept the new economic order, but I would like to pull its teeth and divide these countries up, not solidify them.

Secretary Simon: But if we do it this way and then oppose them case by case they will say that you were not telling us the truth.

Secretary Kissinger: But there may be some issues on which we don't have to confront them. On some of the issues we can work out agreement.

Mr. Dunlop: Mr. President, I am going to have to confront some of these similar problems in the ILO meeting.[3] In a sense what we are discussing today is ideology. Socialism means something to a lot of countries, free enterprise means nothing outside of the United States.

[3] The International Labor Conference met in Geneva June 4–25.

These countries can unite behind rhetoric or ideology, but the diversity among them is enormous. Their economic needs are highly diverse. Our strategy ought to be to try to get them apart.

The question here is how to develop a political environment in which our leadership can be recognized. We have a contribution to make on various sectoral issues. We can be helpful to these countries.

Mr. Morton: The developing countries know—as a result of the oil cartel—the way the world is changing from a buyers' to a sellers' market. They want to do all they can to make this happen even though most of their products are not in short supply and come from diverse sources. We can't be advertising too much the free enterprise process since this will not be constructive abroad and will certainly not be helpful in influencing these countries. This will not help us to have a major U.S. input, which we need to influence things. We have to recognize that these people are trying to gain a bigger piece of the action through the new economic order. I agree with Henry. We should not isolate ourselves.

The President: In Europe there are by and large Socialist forms of government. In the U.K., the Netherlands and West Germany under Schmidt, they recognize the importance of free enterprise but the leaders are primarily Socialists. The voters select Socialist governments. Free enterprise groups are not as vocal or as successful politically as those in the United States. We must deal with the realities of the situation. All of us in this room believe in the free enterprise system. The question is how to protect that system in the present environment. We need not go around reiterating the virtues of the private enterprise system. I would rather be successful on a pragmatic basis—fight hard in individual negotiations. If we do that job well, then we will be successful.

Secretary Kissinger: I agree with Bill Simon, there will ultimately be a conflict. The question is whether it will be general or on a case-by-case basis. Our job will be to discuss the particular issues and divide the LDCs. We can't do this on a theological basis. The LDCs will unite and the developed countries will split up. We are much better off doing this on a concrete basis in which there are some who have something to gain. We should appear forthcoming so that we are not outside of the process. We should not put them in the position where they can unite by defending a few platitudes. We certainly don't have to talk about all commodities or reach agreement on all of them.

The President: We can certainly say that we believe it is important to work with the LDCs and the producers on these issues. We can then defend free enterprise best in this way. This is useful in dealing with Schmidt and he will support free enterprise in the end, when the chips are down.

Secretary Kissinger: On practical issues Schmidt will support us nine out of ten times. On ideological issues he will be pushed by the French and others.

Mr. Burns: If we do lead the parade we may be pushed into international cartels. We will be in a weaker position to block them. The LDCs have said they want trade, not aid. We can be forthcoming on trade, but we should not lead the movement toward cartels.

The President: I didn't get the impression from the speech that we are leading the parade. We were indicating that we understood the problems. The impression I had is that we were not going to get into anything that distorted the free enterprise system but that we were willing to talk. We can talk and discuss these issues without agreeing.

[Secretary] Simon: But there is a danger that our talking might imply that we are willing to make a deal.

Secretary Kissinger: If we don't address these issues we will have three months of confrontation. We can use the ambiguities to accomplish our objectives. It is better to have the Finance Ministers be bastards, that's where I want it.

The President: Well, now we know our approach. As long as we keep the integrity of our system we will be able to resist pressure. Others will be aware of our views. We will have no difficulty defending our major interest.

Thank you for coming so early in the morning.

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295. Editorial Note

On June 18, 1975, Secretary of State Henry Kissinger met with senior Department of State officers and Daniel Patrick Moynihan, soon to begin duty as Representative to the United Nations, to discuss U.S. participation in the Seventh Special Session of the UN General Assembly, scheduled to convene on September 1. Kissinger told Moynihan and his staff that "we must make a serious effort to address the concerns expressed by the nonaligned countries. We need a forward-looking position and only on that basis can we develop tactics for dealing with this bloc. I don't want to take an ideological stance and simply argue the virtues of the market economy." He stressed that, "Our basic strategy must be to hold the industrialized powers behind us and to split the Third World. We can only do that if we start with a lofty tone and a forthcoming stance. That alone will permit us to hold the industrialized countries together. Bloc formation in the Third World can be inhibited only if we focus attention on practical measures in which they have a tangible stake. We must speak early in the session and put forward specific and progressive ideas—something for our friends to hold on to. Such a position can hold the stage for several weeks. Whether we can avoid confrontation is more problematic. I think the OECD speech strategy has worked quite well to date. That is the foundation on which we must build." Kissinger also spoke of his wish "to try to bring EPB along procedurally. What we have to avoid is this atmosphere of acrimony. I want to fight the issues on substance. I don't want to compound the problems by springing things on them at the last minute, giving them three days to clear a major speech. This creates resentments which complicate the process of implementation." If interagency agreement on substantive issues proved elusive, "then I can take the issue to the President and he will support me." (National Archives, RG 59, Central Foreign Policy Files, P820123–1250)

In meetings on July 16, August 6, and August 13, Kissinger and his senior staff reviewed the progress on the drafting of his speech at the Special Session and discussed strategy and issues likely to arise there. (Ibid., P820123–1693, P820123–1987, and P820123–1920) Kissinger also discussed the evolving U.S. position with Congressional representatives on June 17, July 24, and August 20. (Ibid., P820123–1297, P820123–1802, P820123–0352)

Department of State officers were not the only administration officials planning for the Special Session. On July 23, Assistant Secretary of the Treasury Gerald Parsky forwarded an interim progress report on the work of the joint Economic Policy Board/National Security Council Commodities Task Force to the Economic Policy Board. The goal of the Task Force, which was jointly chaired by the Departments of the Treasury and State, was an agreed U.S. position for the Special Session. (Ford Library, L. William Seidman Papers, Box 50, Economic Policy Board Subject File, Commodities—International) During a July 29 EPB Executive Committee discussion of the interim Task Force report, there arose "considerable debate as to what the U.S. position might be at the U.N. General Assembly in September." The Committee decided that the "areas of disagreement between the various members of the Executive Committee will be committed to writing and options are to be developed for a Presidential decision." (Ibid., U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 58, Economic Policy Board Meetings, EPB—July 1975)

On August 8, the EPB Executive Committee reviewed an updated EPB/NSC Task Force report. According to the meeting minutes, "The discussion focused on the philosophical approach on commodity policy which the United States Government should take at the UN Seventh Special Session in September, the U.S. Government position on a tin agreement, and our positions on buffer stockpiles, investment in minerals development, compensatory financing, and various individual commodities." Secretary of Labor John Dunlop "emphasized the need for timely and careful consideration of the draft language which would be used outlining our philosophical approach to commodity policy. Ambassador Dent recommended that in our approach to commodity policy we emphasize the promotion of agricultural technology transfer, the development of agricultural production structures, and the need for a liberalization of agricultural trade to benefit all consumers throughout the world." The committee instructed Parsky and Deputy Assistant Secretary of State Julius Katz to "prepare a brief document outlining any remaining decisions necessary with respect to U.S. commodity policy on such issues as increased investment in minerals development, compensatory financing, and a U.S. position on the Tin Agreement." (Ibid., EPB—August 1975)

Also on August 8, National Security Council staff member Robert Hormats wrote Kissinger: "On the issue of commodities, State will have provided you with an analysis of a recent report (Tab B) of the EPB/NSC interagency task force on commodities. As State will point out, the report has not pursued adequately a number of the potential initiatives which the United States could take, is especially cool on the idea of buffer stocks (which have not been adequately explored to the point that we can make any judgment at all), and unduly restricts the International Finance Corporation of the World Bank to participate in private investments in raw materials in the developing countries. State and Treasury are attempting to work out a paper which highlights their differences on the commodity issue." (Ford Library, National Security Adviser, Presidential File of NSC Logged Documents, Box 57, NSC "NS" Originals File, 7505449—Meeting on International Economic Policy Issues)

On August 27, the EPB/NSC Interagency Task Force issued another report. According to the summary of the report, "the Task Force agreed to the following principal conclusions: (a) Price-fixing commodity agreements are an inefficient means of transferring resources to LDCs. (b) Commodity agreements for those commodities produced in the United States which seek to maintain prices within an agreed range through the use of export or production controls are not economically desirable from the consumer's or, in many cases, the producer's viewpoint. (c) There was no general conclusion about the efficacy of commodity agreements using other techniques for stabilizing prices. One preliminary econometric simulation indicated that a buffer stock could reduce price fluctuations with relatively small operating costs under a certain set of circumstances, but it would entail substantial capital costs and in some cases, have other drawbacks. (d) The United States should discuss commodity agreements on a case-by-case basis. International discussion should stress means to strengthen the commodity markets and to deal with particular commodity problems. (e) The United States should pursue supply-access agreements through the MTN. (f) While the United States should adopt a flexible approach to individual commodity negotiations, it should continue to oppose indexation, generalized multi-commodity agreements, and specific commodity agreements that attempt to maintain prices above long-term market levels." (Ibid., L. William Seidman Papers, Box 58, Economic Policy Board Subject File, EPB: Special Issues/Action)

296. Memorandum of Conversation[1]

Vail, Colorado, August 16, 1975.

PARTICIPANTS

President Ford
Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

[Omitted here is discussion unrelated to Kissinger's speech to the UN Special Session.]

[Kissinger:] On my UN speech to the Special Session, I would like to present a number of technical proposals. Here are some of them. You agreed on a $200 million fund for an agricultural development fund. We thought it could come from existing allocations. It turns out that isn't so. This is the only item with budget implications, and it could go into next year's budget.

We are looking at a new commodity arrangement to stabilize not the prices of commodities but overall earnings. We are looking into using IMF funds. We don't yet have full agreement within the government on these. The issues are highly technical. We are now coordinating.

We are looking at a tin agreement. Everyone's okay on that. And one on copper. All are agreed that we can enter negotiations. We have a list of conditions here but we won't push these to the point of interagency

[1] Source: Ford Library, National Security Adviser, Memoranda of Conversation, Box 14. Secret; Nodis. The memorandum of conversation indicates the meeting was an "Evening Session." President Ford and Kissinger met from 6:20 until 7:25 p.m. in the Presidential vacation residence. (Ibid., President's Daily Diary)

splits. There are a lot of other noncontroversial items. [He reads them off.][2] The major issues which might come to you are: Earnings stabilization—that's a new concept. Simon is okay, but Greenspan might object.

President: As I understand, this session is for this specific purpose.

Kissinger: The danger is the underdeveloped will try to railroad their rhetoric in. What I would like to do is to submit a big list, so we would get through the Special Session—since there is no way to discuss all these during the Session. There is almost no way it can impact on this year's budget.

What I would like to avoid while I'm gone[3]—Cheney said there was uneasiness. I would like to work through Seidman and keep Cheney and Rumsfeld out of it.

President: He is the Secretary of the EPB so he is the right one. Who will he work with?

Kissinger: Enders and Robinson. But I don't want them to edit the speech itself. I will let them clear every idea, but to give these guys a crack at every sentence is no good.

Brent, will you work with Seidman and Enders?

President: Have your people work with Seidman. And, Brent, you keep me posted on how the discussions are going.

Kissinger: I will give Brent a copy of the book with each issue.

I don't want to say, though, that the present economic system is the best. That would just turn 30 countries against us.

President: I am interested in practical results. You proceed along these lines.

Kissinger: This session is only an invitation to having technical discussions. I will clear the whole book, but not the drafts.

President: I would like to look at the drafts.

Kissinger: As soon as I have one.

[Omitted here is discussion unrelated to Kissinger's speech to the UN Special Session.]

[2] Brackets are in the original.

[3] Kissinger was travelling in the Middle East from August 21 to September 3.

297. Memorandum From the Deputy Secretary of the Treasury (Gardner) to Secretary of the Treasury Simon[1]

Washington, August 20, 1975.

SUBJECT

Kissinger Speech to U.N. Special Session (expected to be September 2)

Ed Yeo and I attended a meeting with Secretary Kissinger this morning to review the proposed outline of his speech.[2] Jim Lynn, Mike Dunn, Paul MacAvoy, and Bob Hormats also attended. Present from State were Tom Enders and Chuck Robinson.

To summarize the discussion, the Secretary outlined the basic strategy he wishes to use in the preparation of the speech.

1. The speech must represent positions we are agreed on in government and consistent with our domestic policies at home.
2. It must be a platform for obtaining the support and agreement of the industrialized nations.
3. It must appeal to the self-interests of the developing countries to permit them to move with us.

Kissinger said that any particular proposals in the outline were not necessarily key except three or four, but that he must have enough proposals to use as a basis for this strategy. He made it very clear that he wanted to go forward only with the solidified Administration positions. He said candidly that what he clearly wanted to do was make a speech that sounds responsive but would require the technical implementation to be referred to the usual international forums.

The strategy is to develop support and to help resolve what he considers to be the North-South problem so that we can get to the eventual resolution of the East-West problem. He wants to strengthen the community of interests among our trading partners and thinks the industrialized countries have no appetite for confrontation and will leave us if we adopt that course. He repeated the phrase I have heard him use before that foreign policy is fueled by economic issues. He said that if we make these

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[1] Source: National Archives, RG 56, Records of the Deputy Secretary of the Treasury, 1974–1976, Accession 56–80–8, Box 5, State Department. No classification marking. Copies were sent to Yeo, Cooper, and Parsky.

[2] The outline of Kissinger's speech is attached but not printed. An August 20 memorandum from Treasury staff member Robert Vastine to Gardner and Yeo on the subject of this meeting notes: "The major difference between State and Treasury is one of approach. Do we clearly present at the U.N. our underlying, fundamental belief in the market-oriented system, or do we continue to attempt to meet the LDCs half-way, going as far as we can—often farther than we would like to go in terms of our own economic interests—in mollifying their demands?" (Ibid.)

ideological issues they will be insoluble with the LDC's, but he also thinks they will not be insoluble if they can be reduced to technical issues.

He made it very clear that he is very sensitive to the fact that our economic initiatives abroad must be rationalized with the economic and political domestic climate. Finally, he also said with great candor that we are getting so bloodied by the Congress with foreign aid proposals that he believes that foreign aid as it now stands is insupportable and we must find ways to link foreign aid with our own economic interests.

Jim Lynn immediately raised the impact on the budget of issues in the outline and said he saw maybe nine that could affect the budget. Kissinger said he had been told there was only one. So we went through, back and forth, the prospective budget impact of the outline.

Ed Yeo pointed out that the swap idea was impractical and that we would have to circle that one.[3] Kissinger accepted this and then complimented Ed on the agreement that had been developed between State and Treasury on our compensatory financing mechanism position.[4]

MacAvoy took issue with practically all of the commodity proposals in the outline and the concept of participating actively with the presumption that price-fixing would be a key part of these agreements. Kissinger seemed to understand the difficulty and concurred that a more appropriate position for the U.S. would be that of supporting buffer stocks and reserves to even out shortages. MacAvoy then described a plan that is being analyzed for budget impact involving grain reserves and told Kissinger that of all the commodity ideas, this was the most promising. When Paul had finished, he had established substantial doubt that other commodity agreements should be brought into the speech, and the international food reserves working group analysis is to be accelerated.

Other items discussed in the outline included an international agreement to protect private investment, which may stay in in some

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[3] According to an undated memorandum provided by the Department of State to Gardner for this meeting, Kissinger would propose a "swap network for high-income LDC borrowers. This proposal would set up a network of 2 to 4 year swaps (offsetting loans of national currency) between financial institutions in LDCs, OPEC and DCs, to be drawn on in periods when high-borrowing LDCs are crowded out of international capital markets. Resources, perhaps up to $5 billion, would be provided in three equal parts by OECD members, OPEC surplus countries, and high-income LDCs that would have access to the facility. Alternatively, proposal for a semi-commercial bank with the same structure providing 2 to 4 year lines of credit. (Proposals are under discussion between State, Treasury and the Federal Reserve.)" (Ibid.)

[4] According to the undated memorandum provided by the Department of State to Gardner for this meeting, Kissinger proposed calling for "Substantial liberalization of IMF compensatory financing mechanism to help LDCs offset fluctuations in their export earnings. (State and Treasury are negotiating on this proposal, which will be referred to the International Monetary Group.)"

form. In addition, the sensitivity of the U.S. announcing that it would join a fifth replenishment of IDA in view of our lack of progress on the fourth replenishment was pointed out.

There are a number of other items touched on but the real consensus of the meeting was that Kissinger was leaving and he wanted to get some basis for his speech and strategy, and that basis would be fully staffed and agreed to by all of us, presumably. And finally, he promised me that he would circulate the final draft for editorial comments—a position he had absolutely rejected at the outset. He mentioned also at the beginning of the meeting that he expected to have the final clearance done by Seidman (EPB), Scowcroft, and Enders.

We will work on all of these issues with the appropriate task force and interagency groups.

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298. Memorandum From Secretary of State Kissinger to President Ford[1]

Washington, August 27, 1975.

SUBJECT

Budgetary Implications of the UNGA Speech

As you know, over the past several months I have concentrated on putting together the U.S. position for the Seventh Special Session of the UN General Assembly. In so doing, I have worked closely with other agencies and Congressional interests to ensure an approach which has firm support within the Administration and the country at large.

The proposals the United States makes at the Seventh Special Session will transcend the work of the Session itself and set the tone of U.S. relations with the developing world for at least the next year. A positive American approach can help ensure a constructive dialogue which is politically and economically advantageous to this country. I have therefore attempted to put together a package of proposals which will meet in a concrete fashion some of the critical problems of the de-

[1] Source: Ford Library, L. William Seidman Papers, Box 37, Economic Policy Board Subject File, Action Memoranda. Secret.

veloping countries and will provide a work program on which international organizations can usefully focus their time and energy over the next two or three years. This approach will demonstrate constructive U.S. leadership, take the initiative from and blunt the criticism of the developing countries, as well as point out that we expect to receive as well as to provide benefits in our relations with the developing world.

I have, of course, been very much aware of the budgetary impact of our proposals, and have discussed these measures at length with Jim Lynn. Most of the package can be implemented with little or no impact on the budget. The centerpiece—an export earnings stabilization proposal which would mobilize as much as $10 billion through the IMF—requires no budgetary outlay. The proposal on U.S. food aid contributions can be accommodated within the existing budget levels for PL–480. The budgetary impact of the proposals on commodities is minimal or non-existent. The same is true of the proposals on trade and private investment.

There are two major proposals, however, which would require the commitment of U.S. funds for their implementation.

First, I would propose to announce our readiness to make a direct contribution to the International Fund for Agricultural Development (IFAD) of $200 million, if others are prepared to make appropriate contributions. We would seek appropriations of a maximum of $100 million in FY 76 only if the negotiations moved rapidly and such a payment were an essential element of them. IFAD is an extremely important initiative—a major follow-up item to the World Food Conference. Since the creation of the fund was originally proposed by the OPEC countries, our support for it would be a concrete signal to the producer countries that we are prepared to respond positively to constructive ideas from them. Without a direct contribution from us, however, there is little likelihood that IFAD will get off the ground.

Second, I would propose a substantial replenishment of the resources of the International Finance Corporation (IFC). In order to be meaningful, a replenishment of $400–$450 million would be required of which the U.S. share would be $100–$125 million with budget outlays of $33–$42 million beginning in fiscal year 1977.

This replenishment would serve two objectives.

On the one hand, it would enable the World Bank group to increase its involvement in the development of mineral resources. The traditional sources of capital for the minerals sector are not prepared to invest the amounts of money necessary to guarantee sufficient supplies of basic minerals at reasonable prices in the years to come. An imaginative program of the World Bank and its affiliate organization, the International Finance Corporation (IFC), working together to complement private investment, can make a significant contribution to more stable commodity supplies.

In addition, the replenishment would provide funds to enable the establishment of an investment trust within the IFC as a device to expand the access of enterprises in the middle-level developing countries to international capital. This proposal is designed to focus particularly on the needs of a group of developing countries of political significance to us, e.g., Brazil, Mexico, Taiwan, and Korea.

Both Bill Simon and I strongly feel that the IFC proposals should be implemented because of their political impact but also because of the significant impact they would have on the private sector of the developing countries.

I realize that 1976 will be a difficult year for the budget. For that reason I have strongly emphasized the need to come up with proposals with a minimum budget impact. I think we have been successful in this regard. Our financial support for both the IFAD and IFC proposals should receive substantial Congressional support.

I request your approval to include these proposals in my speech at the Special Session.[2]

Henry A. Kissinger[3]

[2] Owing to a last minute trip to the Middle East to broker the September 1 Egyptian-Israeli disengagement agreement, Kissinger was unable to deliver his speech to the Seventh Special Session of the UN General Assembly. Moynihan read the speech in Kissinger's stead. The text of the speech, entitled "Global Consensus and Economic Development," is in Department of State *Bulletin*, September 22, 1975, pp. 425–441. On the funding of IFAD, Moynihan said: "President Ford has asked me to announce that he will seek authorization of a direct contribution of $200 million to the fund, provided that others will add their support for a combined goal of at least $1 billion." (Ibid., p. 440) On the IFC funding issue, Moynihan announced that "the United States will support a major expansion of the resources of the World Bank's International Finance Corporation, the investment banker with the broadest experience in supporting private enterprise in developing countries. We propose a large increase in the IFC's capital, from the present $100 million to at least $400 million." (Ibid., p. 430) Excerpts from the speech were printed in *The New York Times*, September 2, 1975, p. 20.

[3] Scowcroft signed on Kissinger's behalf above Kissinger's typed name.

299. Memorandum of Conversation[1]

New York, September 5, 1975, 3 p.m.

PARTICIPANTS

Minister of Development of The Netherlands Jan P. Pronk (Chairman of the Ad Hoc Committee of the Whole of the Special Session)
Mr. von Gorkom

Secretary of State Henry A. Kissinger
Ambassador Daniel P. Moynihan, US Representative to the UN
Ambassador William B. Buffum (Notetaker), Assistant Secretary for International Organization Affairs

SUBJECT

Seventh UN Special Session

Secretary Kissinger: I wanted to discuss the Special Session with you. I have paid a great deal of attention to the preparations for the Assembly and wanted to show my support for it by coming up here today.

We are eager to avoid a confrontational atmosphere and are willing to cooperate in a positive way. I am concerned at reports there may be some delegations who prefer a stalemate.

I wonder if we could not have an outcome with a report which states agreed policy objectives and policies, with another section covering those points on which further work needs to be done. After all, no one expected there would be full agreement here on every problem.

Pronk: It's very clear the United States came here with a very constructive attitude. The Group of 77 realized clearly that the United States took a major lead, and this has made a very good impression. I believe most of the Group of 77 want a positive result, recognizing it will not be possible to settle everything. To achieve this, however, we need to have some policies that can be agreed on. I hope we could have a paper showing agreed points and indicating when and where any disagreed points would be negotiated. Good will must be shown on specific items and some concrete results achieved.

Secretary Kissinger: Some issues can be discussed in the producer-consumer forum, and we are open-minded as to what other forums might be used.

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[1] Source: National Archives, RG 59, Central Foreign Policy Files, P820123–1437. Limited Official Use; Nodis. Drafted on September 9 by Buffum and approved in S on September 19. The meeting took place on the 38th floor of the United Nations Headquarters.

Pronk: I hope we can discuss proposals for an outcome on the basis of the Group of 77 draft. Do you think that is possible?

Moynihan: We certainly cannot go through on a line-by-line basis, and there are obviously a number of points in it that cannot possibly be agreed.

Secretary Kissinger: We simply will not be put in the dock with the whole world saying the developed countries owe the rest of the world something. However, we are willing to state what development goals should be, indicate specific statements of obligations in the development field in a mutually acceptable way.

Moynihan: We have of course made a large number of concrete proposals, 41 to be exact.

Secretary Kissinger: We would accept headings of the Group of 77 paper as a way of organizing the proposals and that part of the phraseology which is consistent with our own views. However, we will not endorse the New International Economic Order as articulated in the Sixth Special Session.[2] We are not asking the LDCs to endorse our system and do not believe they should expect us to endorse all of their positions. We can do more for them than we can say publicly in terms of their own terminology. For example, if we put our name to the New International Economic Order, all hell breaks loose with our Congress and our bureaucracy. We just will not agree to be put in the dock. We are not asking the LDCs to give up their slogans. Some of our people wanted me to put into our speech considerable theology about the merits of the free market economy and call for support for this phraseology, but I removed it from the speech.

Pronk: I believe the Group of 77 is more interested in concrete proposals than in phraseology, but we will need to give them concrete programs.

[2] See Document 257.

300. Memorandum From the President's Assistant for National Security Affairs (Scowcroft) to President Ford[1]

Washington, undated.

SUBJECT

Report on the Conference on International Economic Cooperation (December 16–19, in Paris)

The Conference on International Economic Cooperation (CIEC), attended by ministers from 8 industrialized, 8 OPEC, and 11 developing countries reached agreement on a basis for beginning the North-South dialogue. They agreed to establish four commissions: energy, raw materials, development, and financial affairs.[2] These will enable a serious discussion of key North-South issues and an internal effort to implement our UN Special Session proposals, with a minimum of political confrontation and without pre-commitments on our part to accept developing country positions.

As a result of Secretary Kissinger's speech[3] and meetings with key foreign ministers at the conference, and Undersecretary Robinson's follow-on discussions and negotiations, five basic US objectives were achieved:

—public emphasis on the US desire to pursue a constructive North-South dialogue.

—an underlining of our intention to be conciliatory in working toward solutions to developing country problems as well as our expectation that the wealthier OPEC countries would assume their appropriate share of responsibility.

—extension to the new industrialized country members of the dialogue (Spain, Sweden, Switzerland, Australia, and Canada) of the cohesion in dealing with LDC problems and in responding to OPEC pressures which had already been established among the US, EC, and Japan.

—a strengthening of our bilateral ties with certain key OPEC and developing countries (Saudia Arabia, Iran, Brazil, and Algeria) through meetings with their officials during the course of the conference.

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 406, Subject File, Conferences, Conference on International Economic Cooperation (CIEC), Paris, France, Dec. 1975, Chronological File, Dec. 1975. Confidential. Sent for information. Scowcroft did not initial the memorandum.

[2] The final communiqué of the CIEC was transmitted in telegram 33158 from Paris, December 19. (National Archives, RG 59, Central Foreign Policy Files)

[3] For the text of Kissinger's December 16 speech, entitled "Energy, Raw Materials, and Development: The Search for Common Ground," see Department of State *Bulletin*, January 12, 1976, pp. 37–48.

—a weakening of the "unnatural" alliance between OPEC and other LDC's by highlighting the adverse impact of the oil price increase and demonstrating our sympathy for the problems this has caused the poorer nations.

The only acrimonious issue resulted from the desire of some developing nations, notably Algeria, to have another meeting to revise the earlier agreed general Commission guidelines to conform more to the desire of the Third World. We resisted reopening this subject, and agreed only to a meeting of the 8 co-chairmen of the Commission (we co-chair energy) plus the co-chairmen of the conference on January 26 to "review preparation for the work of the Commissions . . . within the framework of the general guidelines."

As the result of the CIEC, we now have a manageable and relatively apolitical mechanism for dealing with issues between the developed and developing world. Our dependence on these countries for markets and raw materials is increasing. And their political and economic influence is growing. More and more, their prosperity has a positive effect on our growth, and volatility in their exports and imports has a disruptive effect on our economy. A dialogue aimed at achieving mutually acceptable solutions to significant problems, and a sharing of responsibility for an orderly international economy, can be extremely important to the US interests in the coming decade.

While there are widespread doubts as to whether the Commissions (which begin their work on February 11) will achieve anything of substantive significance, without such a dialogue, and without a constructive US contribution to help it succeed, we run major risks. The Europeans and Japanese (who are far more dependent on the Third World than is the US) might attempt to out-flank us in playing up to the developing and OPEC countries. And political and economic tension between us and the Third World would build. Frustrations could lead to an adverse climate for US investment in the Third World, a weakening of trade ties, less reliable raw material supplies and a more hostile political environment.

Through the dialogue the US will be able to pursue a variety of policy options, both bilateral and multilateral, to better secure its economic (trade, investment, and raw materials) and political interests. OPEC and the wealthier developing nations, such as Brazil, will likely be more constructive participants in an orderly world economy. And Third World governments will be able to secure domestic support to move closer to the US on important questions in a way which they would find difficult to do if we did not participate constructively in the dialogue or if the absence of dialogue led to an atmosphere of confrontation.

301. Briefing Memorandum From the Director of the Policy Planning Staff (Lord) to Secretary of State Kissinger[1]

Washington, January 14, 1976.

Strategy for UNCTAD IV

With the CIEC Ministerial and the Jamaica IMF meeting completed[2] and planning for the commissions well under way, we are beginning to focus on another event of major significance to North/South relations—the fourth United Nations Conference for Trade and Development (UNCTAD IV), to be held in Nairobi from May 3–28, 1976, with Chuck Robinson leading the US Delegation.

While the entire array of global economic issues will arise, the conference will focus heavily on *commodities, technology, LDC debt and finance problems,* and the *institutional role* of UNCTAD itself. As we explain below, we can expect tough sledding on each of these issues both on substantive grounds and because of the UNCTAD organization itself, which has historically been the most confrontational of the UN economic bodies.

It is important that the overall UNCTAD issue is presented to you at this early date for several reasons. First, our strategy for the conference should be a factor in your future decisions relating to the scope and importance to be accorded the CIEC commissions, whose work in many cases will parallel the UNCTAD program. Second, UNCTAD will certainly arise in your conversations with LDC leaders between now and May. Third, since the coordination of general UNCTAD IV strategy among the developed countries will formally begin with special OECD meetings in February, UNCTAD may emerge in your meetings with industrialized country leaders, many of whom view the Nairobi meeting with some apprehension. In addition, if the OECD ministerial is held before May, we can expect a good part of it to deal with UNCTAD IV. Finally, making this conference even a mild US diplomatic success will require substantial executive branch effort. Since we can expect major interagency difficulties, we may be seeking your assistance at a relatively early date.

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[1] Source: National Archives, RG 59, Records of Secretary of State Henry Kissinger, Entry 5403, Box 19, Nodis Memcons, December 1976. Confidential. Sent through Robinson. Drafted by Jeffrey Garten and Michael Ely of the Policy Planning Staff. Neither Lord nor Robinson initialed the memorandum.

[2] The IMF Interim Committee met on January 7 and 8; the IMF Development Committee met on January 9. Both meetings took place in Kingston, Jamaica. See Document 128.

In this memorandum, prepared in close cooperation with E, EB, and IO, we discuss the politically significant issues which will arise in Nairobi, and we suggest a preliminary USG strategy.

Chuck Robinson has already taken a personal hand in planning for UNCTAD IV. He has asked the State–AID Task Force chaired by EB to develop a paper elaborating on the substantive issues which he plans to send to you early next month prior to interagency clearance.

The Significance of UNCTAD IV

UNCTAD IV will be highly significant politically for several reasons:

First, the conference has the potential to set back North-South relations, as it could degenerate into the kind of confrontational exercise that characterized its predecessors. We are concerned about this possibility not only because the G–77 will be making its usual array of demands, but because we have several major constraints on our flexibility: an uncertain domestic economic climate, the domestic political and congressional atmosphere, and the fact that we have implemented most of your Seventh Special Session initiatives which are cost free in terms of money or US domestic impact. Thus, from here on implementation of most other North-South economic proposals, old or new, will be very difficult for us. The ultimate consequences of an unsuccessful UNCTAD IV cannot be known, but it is possible to envision growing LDC frustration manifested in further radicalization of the "non-aligned", strengthening of the now weakening OPEC–LDC alliance, more irresponsible bloc voting in international institutions, and possibly some adverse economic actions such as international defaults on debts to the West.

Second, the conference will be of extreme importance to LDC's, who will undoubtedly play it as one phase of an intensified North-South negotiation, extending from the Seventh Special Session through the CIEC, UNCTAD IV, the next UNGA and the MTN. Moreover, UNCTAD as an organization has special meaning for the developing world, having prepared the intellectual foundations of much of the New International Economic Order and frequently being the LDCs' preferred vehicle for carrying out policies ranging from commodities to technology.

Third, UNCTAD could be a problem for our relations with developed countries (DCs). We must combat the temptation of some of our allies to press proposals which divide the OECD countries. Two major possibilities concern debt moratoria and the SDR/aid link. We are almost isolated on the latter.

Fourth, UNCTAD represents some political opportunities. It is possible that a creditable effort on our part to reach compromises on one or two key issues—particularly commodities—could continue the Seventh Special Session/CIEC/Jamaica momentum. It is also possible that we can take advantage of the confluence of UNCTAD and CIEC and of the desires of several of the more moderate G–77 to make the CIEC work, and thus use the UNCTAD Conference to build up an agenda for CIEC as well as other specialized non-UN bodies. If we can squelch divisive proposals among DCs, UNCTAD IV gives us the chance to further harmonize DC policies toward the Third World, including concerted pressure on OPEC for moderate pricing policies and greater aid contributions. There may also be a chance of embarrassing the communist countries, particularly the USSR, who have increasingly been regarded with suspicion in UNCTAD because of the disparity between their political rhetoric and their meagre financial contributions to the developing world. In exploiting any of these opportunities the style of our negotiation will be as important as the substance of our positions, given that we already have a relatively forward position on many North-South issues.

Our Objectives for UNCTAD IV

Our UNCTAD objectives, which are part of our overall North-South goals, are as follows:

—To encourage LDC behavior conducive to our interests in such areas as investment, supply access, voting in international forums and pressure on OPEC to follow reasonable pricing policies as well as carry its rightful share of the aid burden.

—To foster economic development and to prevent LDC economic frustrations from spilling over into political and security affairs by making steady progress in meeting the legitimate economic needs of LDCs.

—To maintain a leadership role in offering and shaping pragmatic and constructive solutions to real problems.

—To strengthen the hand of the more moderate LDCs at the expense of G–77 cohesion.

—To direct as much as possible of future North-South action away from the UNCTAD forum to others; and to instill in LDCs more confidence in non-UN forums.

Major Issues of UNCTAD IV

To attain these objectives, we will be searching for forthcoming but realistic positions on at least four issues, all of which will be further detailed in the paper Chuck Robinson is having prepared.

Foremost on the LDC list of priorities will be *commodities* (other than oil and grains). The UNCTAD secretariat has cooked up a broad commodity proposal—"The Integrated Commodity Program"—which centers on a series of ten buffer stocks financed by a "common fund" to which all producers and consumers would contribute according to a formula not yet clearly specified. The program does contain several ideas which we ourselves have advocated, such as removal of obstacles to market access and reliance on buffer stocks where feasible and appropriate.

However, we have several fundamental differences with the proposed Integrated Program. First, we do not accept the common fund idea; in fact, the USG does not believe in consumer financing of stocks, which is a prerequisite to any type of common financing. Even if we could accept the idea of consumer financing in some form we would hold fast to a case-by-case approach in which we (1) first determine where buffer stocks would be appropriate, (2) discuss relevant financial issues among producers and consumers of each specific commodity for which there is stocking, and (3) only then see if a common financing arrangement would have advantages over separate unrelated financing arrangements. Our second objection to the Integrated Program relates to general provisions for access to supplies, important to us not only because we are a major importer of raw materials but because domestic political support for our commodity policy rests in great part on the notion that supplies will be more reliable because of our new policies. At the most recent UNCTAD commodity meeting LDCs did not accept the principle of supply access. Equally significant, both Canada and Australia found major difficulties in accepting it as well. A third problem arises with indexing, which the UNCTAD commodity scheme implicitly includes. We are not certain, however, that most LDCs will insist on keeping this provision alive if they feel some progress is made in other areas of the Integrated Program.

The UNCTAD *code for technology transfer* is the second major issue. The developed country objective has been to negotiate voluntary guidelines for the international transfer of technology with special consideration for LDC development. However, the G–77 is insisting on a legally binding code (e.g., a treaty), which we cannot accept. The LDC position also differs from ours in its emphasis on governmental control over the terms of technology transfer, its negative view of patent laws, and its failure to recognize a standard of international law for arbitration and settlement of disputes.

A third issue is LDC debt problems, although the results of the Jamaica IMF meeting may quiet certain LDCs somewhat on this issue. Many LDCs have been calling for a variety of measures to avoid repaying debts, including more automatic rescheduling. At the Seventh Special Session the G–77 called for a world conference on debt, but it is not clear how attached they are to this totally unworkable proposal. At Nairobi there is bound to be substantial discussion of the SDR–aid link as well. On these issues our position is as follows: While we may offer more financing, the subject of debt-rescheduling is non-negotiable at this or any other forum. We currently do not support the SDR–aid link, although nearly all European countries are giving the idea public support.

Finally, the question of *UNCTAD's future institutional role* will continually arise in Nairobi. Many LDCs are concerned that the CIEC commissions, with limited membership and more DC leverage than in most UN organizations, not supplant UNCTAD, where the cards are obviously stacked in the G–77 favor. They will therefore seek to feed issues into UNCTAD and to enlarge its scope and authority.

Preliminary Strategy

Given the traditionally defensive attitude of the USG and many other DCs towards UNCTAD, we need to plan early and from the top down in order to change our posture, both as a matter of style and substance—i.e., we need high-level political attention at the beginning of the planning process if we are to avoid ending up in a series of the lowest common denominators resulting from the interagency or the OECD consultation process. This is our best damage-limiting measure, and our only chance to seize what political opportunities exist.

We have learned that Congressional involvement in this type of activity is essential and helpful. We will want some members of Congress on the delegation.

Concerning the substantive aspects of our strategy, we see the following important elements:

First, we will want to avoid raising LDC expectations for UNCTAD IV. This can be done in bilateral talks, in the CIEC, and in the March UNCTAD prepcon.

Second, we will want to position ourselves to resolve several outstanding issues before or during the four-week conference. This will require the same kind of effort we gave CIEC in the planning stage.

Third, we must find a way to deal with the Integrated Commodity Program, which will be the most politically significant issue of the Conference. Two major issues loom unresolved (assuming we can avoid dealing with indexation): the common fund and the need for all countries to accept general supply access obligations. We will be doing more analysis of the common fund in the US and in the OECD, and we might be able to propose an alternative idea, perhaps centering on an expanded IMF buffer stock facility or some IBRD financing. Difficulties in accepting supply access obligations are an issue for the OECD high-level group on commodities as well as the MTNs. As a first step we need a more detailed analysis in the USG as to what we really want, and are prepared to give, on the access question. (At this point, our import interests want us to press for supply access assurances; our exporters want us to resist giving them.) Finally, as regards international buffer stocks, we will be analyzing an alternative concept: coordinated national stocks. In some cases, particularly copper, the latter arrangement would be more acceptable to our domestic industry than an international scheme. There might also be an opportunity in selected cases to transfer the excess of national strategic stocks to national economic stocks as a way of establishing a new US economic stocking arrangement.

Fourth, as opposed to following the Seventh Special Session format in which we attempt to dominate the Conference with a large number of initiatives, at UNCTAD IV we should attempt to stress implementation of UNGA initiatives and make at most a few new concrete action proposals, indicating that we are ready to initiate action almost immediately. We would, wherever possible, attempt to direct such action towards non-UNCTAD forums (e.g., CIEC, MTN, IMF, IBRD). One such possibility would be a new study of the SDR–aid link, perhaps as a long-term source of funding for the World Bank/IDA, to be conducted by the CIEC Development Commission in conjunction with the World Bank Group. Another would be to call for specific actions to implement your proposals for producer-consumer forums for key commodities where forums have not yet been established.

Fifth, we should strive to broaden the agenda of the conference to take the heat off the tougher issues as much as possible. For example, we might wish to highlight general trade issues at the Conference. We believe that with GSP, the tropical products package which should by then be in the negotiating phase in Geneva, and with our efforts to develop special treatment for LDCs in the MTN, we will have a positive balance sheet. This should help to show the LDC's that the MTNs, unlike UNCTAD, offer them the possibility of concrete gains.

Conclusion

UNCTAD IV is a politically significant event deserving your early attention. While we perceive some opportunities, the major stakes concern what we stand to lose in case of failure. It is thus imperative that we exert a maximum effort in the planning and execution of this conference. In addition to the issues paper you will be receiving in the coming weeks, we will return to you with an updated analysis of the situation and a more refined strategy at the time of the UNCTAD IV preparatory meeting in March. There may then be a need for more policy direction from you.

302. Letter From the Deputy Secretary of State (Robinson) to the President's Assistant for Economic Affairs (Seidman)[1]

Washington, April 22, 1976.

Dear Bill:

I promised during my recent outline of the International Resource Bank to the EPB that we would be submitting a memorandum to the President on this proposed U.S. initiative. The absence of Secretary Kissinger and the resulting compression of time in which to resolve funding issues with OMB led to direct discussions with Jim Lynn, culminating in a discussion of this issue at the NSC meeting today.[2] The President, as you know, decided to authorize the Secretary to make this proposal at the UNCTAD meeting,[3] without specifying the amount or timing of U.S. financial participation.

The plan was developed in close cooperation with Treasury. All are agreed that we should present at UNCTAD only a general outline of the IRB concept and leave the fleshing out of details to a lengthy process of negotiation in the CIEC commissions and in the IBRD policy bodies. The attached paper outlines our present concept, going into greater detail than we would table at the UNCTAD meeting.

Sincerely,

Charles W. Robinson[4]

Attachment[5]

UNCTAD POSITION PAPER

International Resource Bank

Problem

Political risks in many resource-rich countries, especially developing countries, have radically distorted the pattern of resource investments, causing commercially viable natural resource projects not

[1] Source: Ford Library, L. William Seidman Papers, Box 73, Economic Policy Board Subject File, International Resource Bank. Confidential.

[2] Minutes were not prepared for this NSC meeting.

[3] UNCTAD convened for its fourth session in Nairobi, Kenya, May 5–31. UNCTAD convened for its fourth session in Nairobi, Kenya, May 5–31. In his May 6 address before the meeting, Kissinger proposed the creation of an International Resources Bank. For the text of his speech, see Department of State *Bulletin,* May 31, 1976, pp. 657–672. Excerpts were printed in *The New York Times,* May 7, 1976, p. 12.

[4] Robinson signed "Chuck" above his typed signature.

[5] Limited Official Use.

to be undertaken. The misallocations of capital, management, and technology exact heavy economic costs on both producers and consumers.

The uncertain politics and economics of world resource development have led to indecision. Many commercially viable raw materials and energy projects have been cancelled or postponed. This causes difficulty now for the potential producing countries which face the loss of jobs and revenues if projects are not completed. Later the consuming nations will pay the price in terms of higher costs and increased vulnerability to sharp increases in raw materials prices as the world economy gains momentum.

United States Position:

The United States will propose at the UNCTAD conference the establishment of an International Resource Bank with the following objectives:

—to mobilize and encourage the flow of private and public capital, management and technology to the developing countries through multilateralizing some investment flows;

—to encourage adherence to standards of equity and fair treatment of host countries and corporate entities in resource development;

—to help assure transfer of technology on equitable terms in conformance with globally accepted standards; and

—to encourage a more rational and continuous development of resources in the developing world to promote their sound economic growth and to provide essential raw materials to sustain global prosperity.

The International Resource Bank is a key element in our strategy toward international resource issues and the dialogue between developed and developing countries. It would help us provide leadership in the upcoming United Nations Conference on Trade and Development in May and counter some of the demands from the developing countries for a $6 billion fund to finance buffer stocks.

The primary function of the International Resource Bank will be to facilitate the financing of resource investment projects in minerals, oil and natural gas. The main purpose of the International Resource Bank would be to enable resource investments to be undertaken more efficiently. Commercial viability considerations could play a more important role relative to political concerns in investment decisions. The presence of the Bank in a project should exert a moderating influence on host country disputes with private companies. The purpose of the Bank *would not necessarily be to increase total global investment in resource projects* but rather to ensure that investments are more efficient, to see that benefits from these investments are shared equitably by host governments and private companies, and to channel more investment into commercially sound projects in LDCs.

New projects financed by the IRB in developing nations for the production of oil and gas or of basic raw materials would be the subject of a trilateral concession agreement in which a consortium of private investors, the host country government, and the IRB would participate. This concession agreement would specify the following:

—an agreed plan for preproduction activities to complete technical and commercial evaluation of the project;
—the basis for financing the project, including project bonds to be issued by the IRB on behalf of the project and equity to be supplied by the project consortium, the host country, or the IFC;
—a formula for sharing the production from this investment, with first priority to holders of the project bonds and the balance split between the project consortium and the host government;
—the manner in which the project consortium would undertake to develop host country managerial and technological capability, contemplating a scheduled assumption of control by indigenous owners;
—performance and payment guarantees by both the host government and the private firms in the consortium.

The project would be financed in a variety of ways, but the IRB issuance of project bonds, secured by a lien on the production of the project, would be a distinctly new means of production finance. These bonds would be sold primarily to private firms participating in the project. They might also be sold to government or other private investors.

First responsibility for servicing these bonds would lie with the project entity which might service some of the bonds through delivery of the commodity. But the host country government and the private members of the consortium would jointly guarantee performance and payment of the bonds in the event of a commercial failure so that the IRB would bear none of the commercial risks. In the event any party of the concession agreement violated performance or payment guarantees, the IRB would be able to exercise a claim against the violating party.

IRB bonds could be denominated either in terms of the commodity or in cash terms. If they are denominated in terms of the commodity, the company owning the bond would be required to take delivery of the commodity, according to an agreed price formula, when the bond matures. In this manner the purchaser of the bond would have a future contract. The IRB would not assume the price risk.

IRB bonds denominated in cash would be secured by its lien on the production. In case the project entity defaulted, the output of the project could be attached by the IRB, and the bondholders would be reimbursed from the sale of the commodities. If the proceeds were not sufficient to fully reimburse the bondholders, the host country and the private companies participating in the project would be liable for the difference as part of their joint guarantee.

Each project may be financed by a combination of commodity-denominated and cash-denominated bonds.

If liens on production are to be an effective collateral for IRB bonds, member countries of the IRB would all have to agree that their legal systems would be used to enforce the liens.

Sales of bonds to investors outside the participants of the consortium would probably have to be done cautiously in order to test the market for such instruments. But as confidence were built, more of this kind of placement would be undertaken.

The International Resource Bank should facilitate private investment and help ensure that private companies continue to make an effective contribution in the politically sensitive area of resource investments in developing countries. The International Resource Bank will insulate private companies from political (but not commercial) risk through the bond instrument. Proceeds from the bonds will be turned over to the project entity in the form of a loan. Private companies would have an alternative to equity capital in the form of commodity bonds which carry price risk (as does equity) but are not subject to expropriation. A host country could only get at commodity-bond capital by failing to honor its guarantee of the loan from the IRB to the project entity.

The IRB would not necessarily be an insurance institution like OPIC. Rather it could provide assurance against political risk by having a multilateral institution act as intermediary between the host government and private companies.

The IRB would operate in a different manner than regular World Bank capital lending operations in a number of ways. First, it would participate as a party to the trilateral concession agreement. Second, it would operate on a project-by-project basis, raising funds in a manner tailored to the particular project financed and in a back-to-back fashion with the proceeds of bond sales being turned over to the project. Third, the IRB would secure loans by liens on the production from a specific project. Thus, in addition to paid-in and callable capital backing by member governments, the IRB would have additional security to support its financial operations.

In addition to its function of helping to finance investment projects, the International Resource Bank might provide supplemental financing to commodity buffer stocks. The IRB would not, however, promote buffer stock arrangements, which would be decided on a case-by-case basis.

The International Resource Bank could, however, operate under some form of association with the World Bank Group. The form of the association would be negotiated by the participating countries. An association with the World Bank Group could provide effective management of the institution and would help the IRB image with potential investors who regard the World Bank as a responsible international institution with a no-default record.

It could initiate operations with contributed capital of $1 billion to form a limited liability loss reserve fund. Additional callable capital may be authorized to back up the paid-in loss reserve. OPEC nations and industrialized nations would supply roughly equal amounts and developing countries could make contributions in accordance with their ability to pay. The United States contribution to the loss reserve fund would depend on the contribution of others. The IRB would have weighted voting based on financial contributions.

Our goal at UNCTAD IV will be to get broad political endorsement of the outlines of the proposal. Details of the proposal should be negotiated after UNCTAD under the aegis of the Conference on International Economic Cooperation in Paris for presentation to the next CIEC meeting of ministers. All four CIEC commissions might consider the proposal.

Many developing countries might be attracted to the resource investment financing facility part of the proposal because of a perceived need to attract foreign capital and technology to develop their resources. The International Resource Bank will be attractive to LDC's that want to minimize direct dealings with multinational companies, instead working through a multilateral institution. The IRB will stimulate host country ownership and ultimately management of resource projects.

303. Memorandum From Gerald Kames of the Council on International Economic Policy Staff to the President's Deputy Assistant for Economic Affairs (Gorog)[1]

Washington, May 4, 1976.

SUBJECT

Presidential approval of a number of FY 1978 International Development Assistance Issues

OMB staff informed me that the President made several decisions yesterday on a number of proposals which will affect the FY 1978 budget for international development assistance.[2] Following is a very brief rundown on the issues posed and the decisions made (including in a few instances, decisions to defer judgment until this fall's budget review). We can supply further details if you wish.

1. *Initiatives to be announced during Secretary Kissinger's trip to Africa and the UNCTAD Conference.*

State was anxious to get Presidential approval on three new items in connection with the Secretary's current trip.[3] Concerned with the tight 1978 budget situation, OMB questioned the need to propose additional programs—with or without specific funding commitments—so soon after the many U.S. initiatives proposed at the September 1975 UN Seventh Special Session.

• *International Resources Bank:* State proposed, with Treasury and NSC concurrences, the creation of an International Resources Bank—to be presented by Secretary Kissinger in his speech at the UNCTAD (United Nations Committee on Trade and Development) Conference in Nairobi, Kenya, which convenes this week.[4] Final details on this proposal are still being worked on in State. However, as it now stands, the Bank would, under World Bank auspices, provide incentives to potential private investors interested in extracting mineral resources (including oil and gas) in the developing countries. The proposal calls for

[1] Source: Ford Library, L. William Seidman Papers, Box 184, Name Files, Gorog, William, F., 5/1–16/76. Confidential. Copies were sent to several CIEP staff members. William Gorog served as the President's Deputy Assistant for Economic Affairs from March to November 1976.

[2] The April 22 memorandum from Lynn to President Ford that contains the President's approval of these decisions is ibid., President's Handwriting File, Subject File, Box 22, Foreign Affairs—Foreign Aid (7). Background material on the issues is ibid., Foreign Affairs—Foreign Aid (6).

[3] Kissinger traveled to Kenya, Tanzania, Zambia, Zaire, Liberia, Senegal, and Kenya from April 24 to May 6.

[4] See footnote 3, Document 302.

a total of up to $1 billion in paid-in capital and $5 billion in loan guarantees. It also envisages, in a limited fashion, using some of the fund to finance buffer stocks of certain commodities.

Originally, State wanted to make a pitch for a large OPEC contribution to the Bank. However, this was dropped in the face of OPEC reluctance to contribute, in amounts desired by the developed countries, to existing international financial institutions. Despite strong OMB opposition, the President agreed to the Bank in principle prior to Secretary Kissinger's departure for Africa. Last night the President formally approved, but did not agree to Kissinger's announcing, at this time, any specific U.S. contribution. State had wanted to pledge at Nairobi one-fifth of the total capital—or up to $200 million in paid-in capital and $1 billion in loan guarantees.

• *Sahel Development:* State wanted to announce support for a multinational program of development for the Sahelian African countries (Chad, Mali, Mauritania, Niger, Senegal, and Upper Volta), perhaps the world's poorest area, which suffered extensive damage in the recent great drought there (1967–73). The President approved announcement of this proposal during the Secretary's trip, but decisions on the actual amounts to be made available by the U.S. (AID proposes up to $100 million in 1978 and up to $200 million in 1979) will be made in the fall budget process.

• *African Development Fund:* The President approved an additional $10 million U.S. contribution for the special ("soft loan") fund of the African Development Bank.

2. *Other Multilateral and Bilateral Aid Proposals*

• *World Bank Capital Increase:* The President approved Secretary Simon's proposed $1.5 billion subscription to a World Bank selective capital increase for the next three years. Our pledge is expected to be made at today's meeting of the World Bank's Board of Directors.

• *Asian Development Bank Capital Increase:* The President approved for negotiating purposes a $600–900 million U.S. contribution to an increase in the Asian Development Bank's Ordinary Capital Resources, which provide loans for the economically stronger Asian LDCs. State, AID, and Treasury wanted up to $135 million of our contribution to be paid-in capital, but the President chose OMB's option whereby all our contribution would be callable capital, which does not represent a budget increase.

• *AID Bilateral and UN Programs:* Because of the May 15 congressional deadline for 1978 authorizing legislation, AID and State submitted proposals for: (a) additional bilateral aid funds of $300 million above the budget planning level (about $1 billion) for 1978 and $500 million above the same planning level for 1979; and (b) additional voluntary UN contributions of $60 million in 1978 and $90 million in

1979. The President accepted OMB's recommendation to defer until fall the decision on funding levels for these activities. Indefinite authorizing legislation will be transmitted to the Congress for the bilateral aid and UN programs.

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304. Memorandum From the Deputy Secretary of State (Robinson) to Secretary of State Kissinger[1]

Washington, June 2, 1976.

SUBJECT

UNCTAD IV Follow-Up

Summary

In many respects the U.S. achieved its objectives at Nairobi with acceptable resolutions on commodities, technology transfer, and the debt issue. We failed by a narrow margin to gain acceptance of our IRB proposal due largely to the disruptive tactics of the Socialist bloc supported by the Black African nations which were protesting against their exclusion from the Restricted Negotiating Group. I had a commitment for support of IRB from the six G–77 representatives in the Restricted Negotiating Group. Their failure to abide by this commitment gives us considerable negotiating leverage in the preparatory meetings which will precede the negotiation of either the common fund[2] or individual commodity agreements.

We must develop a coherent plan for dealing with this problem in multilateral fora and in our bilateral relationships. From an intelligent and consistent implementation of this plan we can

—encourage the adoption of the International Resource Bank, and
—more effectively prevent an unworkable solution to commodity buffer stock financing.

All in all I believe that we achieved reasonable success in our efforts at Nairobi and certainly we avoided the alternative of a complete breakdown in the North-South dialogue which would have included

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 431, Subject File, United Nations, Conference on Trade and Development IV, Nairobi, Kenya, May–June 1976. Confidential.

[2] The Common Fund was an LDC proposal for a $3 billion fund to finance a buffer stock program geared toward smoothing out primary commodity price fluctuations.

CIEC. However, this memorandum outlines a proposed tactical plan for completing our success by gaining acceptance of the IRB. With your approval of this outline we will develop a more definitive program.

Background

Those results of UNCTAD IV which are of the greatest significance to the U.S. include four basic issues: commodities (commodity agreements and the common fund), the debt problem, technology transfer, and the IRB. The process by which we resolved these issues was reported in detail in daily cables from Nairobi; the conclusions reached on each of these issues are outlined below:

1. *The integrated commodity program involving commodity agreements and the common fund.*

On my arrival on Wednesday morning, May 26,[3] I found the UNCTAD IV meeting in complete disarray, due largely to the inability of Group B (developed) nations to achieve a unified position on the common fund. Largely as a result of U.S. efforts we finally negotiated a proposed resolution which provided for tentative steps toward the common fund and individual commodity agreements. However, in these negotiations I insisted that all negotiations on commodities or a common fund be preceded by a series of preliminary meetings for prior consideration of the objectives and modalities. Furthermore, I insisted upon wording which allowed any nation to decide whether or not it could support the agreed objective and modalities, and thus, whether or not it would elect to participate in the subsequent negotiation. I was even able to gain G–77 acceptance of a statement in the resolution that there were differences of views as to such objectives and modalities. Therefore, I believe that this solution did not in any way conflict with basic U.S. principles. At the same time we prevented what otherwise would have been a complete collapse of the conference. This could have been disastrous in terms of future relationships between industrialized and developing nations but would also have destroyed the political gains you have achieved as a result of your special efforts in this area during the past year.

2. *Debt Issue.* The resolution of the confrontation over the common fund combined with Conference schedule pressure, resulted in an agreement on LDC debt problems which was far less forthcoming than

[3] In telegram Secto 13095 from Bonn, May 23, after informing Robinson of a conversation he had had that day with West German officials on the status of the commodities issue at UNCTAD, Kissinger wrote: "In view of the level of representation of other countries and the danger of severe criticism if there should be hitches at Nairobi in final days, I believe that you must return to Nairobi immediately to head our delegation." (National Archives, RG 59, Central Foreign Policy Files)

we had anticipated and was well within our negotiating authority. We avoided a program for establishing specific "guidelines" for dealing with debt and preserved the principle of a case-by-case approach. I believe this to be a most favorable result, particularly given the determination of the LDCs to achieve a more meaningful concession.

3. *Transfer of Technology.* Your opening speech at Nairobi was highly significant in diffusing this critical issue. Your complete analysis of the problems in accelerating technology transfer and your outline of a combination of solutions guided the negotiation of the resolution dealing with these issues. Many of your proposals were incorporated in negotiations which lacked the confrontational atmosphere that prevailed in other areas. We have to view this as a successful outcome.

4. *International Resources Bank.* We regret our inability to gain majority support for your proposed International Resources Bank (IRB).[4] This resulted from a combination of factors none of which involved the substance of this proposal:

—To be disruptive, the 14 member Socialist bloc attacked the Bank as an industrialized nation plot to continue the exploitation of the poor.

—For a combination of reasons we hadn't explained the IRB proposal to the G–77 which gave some an excuse for abstaining.

—The revolt of the Black African Group against the Secretary General and the G–77 leadership because of their exclusion from the Restricted Negotiating Group was the key factor in swinging the vote against the IRB. The last minute crisis and the factors which brought about this unfortunate result were detailed in my cables reporting on conclusion of the conference, attached at Tabs A and B.[5]

Recommended Action

I believe that we must express publicly the view that the resolutions achieved at Nairobi with regard to commodities, debt and technology transfer represent a victory of common sense in the North-South dialogue and avoided a major breakdown of the North-South dialogue. At the same time we must bring increasing pressure on the G–77 with the objective of gaining support for the IRB concept. We should attack this problem in a coherent and consistent way in our public statements, our bilateral contacts and in multilateral fora, also eventually through our participation in the preparatory meetings prior to negotiation for

[4] At a June 1 Department of State staff meeting, Kissinger reviewed UNCTAD's rejection of the IRB proposal and discussed future IRB strategy. He also held forth at length on "the UNCTAD debacle," characterizing it as "a disgrace for the Department." (Ibid., Transcripts of Secretary of State Kissinger's Staff Meetings, 1973–1977, Entry 5177, Box 10, Secretary's Staff Meeting, June 1, 1976)

[5] Attached but not printed.

the common fund and commodity agreements. These are discussed below:

1. *Public Statements:* We should develop a complete statement of our position with regard to UNCTAD IV with particular reference to the IRB which will be used consistently by all members of the Administration. This will require further analysis and interagency consultation but I believe that it should include these basic elements:

—Great progress was achieved at Nairobi towards mutual solutions to the acknowledged problems of commodities including buffer stock financing, LDC debt and the challenge of technology transfer.

—We regret the rejection of the U.S. proposal for an IRB which was intended as an innovative step designed to meet our mutual needs for more rational development of global resources assuring the LDCs of an equitable share of the benefits.

—As additional resources will be developed to meet the world's expanding needs the basic question is whether such developments will take place in the developed or in the developing world. It is clear that without resolving the problems to which IRB is directed, the 60% of the world's resources now provided by the industrialized nations will increase at the expense of the developing nations, further compounding their current economic problems.

—We view a program aimed at encouraging rational investment for resource development as an essential element in a comprehensive commodity program. For this reason, we feel that it is highly unlikely that we will be able to agree to the objective and modalities for a central buffer stock financing mechanism during the preliminary meetings unless there is at the same time a consideration of the objective and modalities for an IRB. Without this no comprehensive commodity program can succeed.

2. *Bilateral Contacts.* In our bilateral contacts we should maintain a consistent position based on individual nation voting on the IRB resolution. The breakdown of this vote is outlined at Tab C.[6] With regard to the NO votes I believe that we should treat the 14 Socialist bloc countries as appropriate for their clearly disruptive efforts at Nairobi. The 14 Black African nations voting against the resolution could be dealt with somewhat more gently given

—the confusion that existed in the final stage at Nairobi;

—their intramural problems with the G–77 leadership;

—our failure to properly inform them regarding the IRB during the previous month.

However, we should make very clear that our economic relationships could be adversely affected by their continued opposition to the IRB concept.

[6] Attached but not printed.

For the balance of the NO votes—Algeria, Libya, Iraq, Fiji and Guyana, we should take a tougher position and might consider applying in some way further restrictions on our already limited economic relationships if they refuse to change their position.

For those abstaining we should be somewhat less aggressive in our reaction but we should proceed with more or less subtle pressure to encourage their support. For those voting YES on the resolution over and beyond the 20 Group B votes, we should go out of our way to express appreciation. Except for Israel, these were all in Latin America which holds some hope for driving an opening wedge in this hemisphere on the IRB issue.

3. *Multilateral fora.* It is clear that we failed to achieve all of our objectives at Nairobi because we were not sufficiently adept at the parliamentary diplomacy required in fora of this nature. UNCTAD IV had more than the normal problems because:

—It is structured more for confrontation than for resolution of issues.
—Its parliamentary procedures are somewhat obscure.
—The Group B format created more problems than it resolved, and
—The issues were so complex and broad ranging that it was difficult to undertake the normal maneuvering with bilateral trade offs between issues.

Nonetheless, we could have achieved a good deal more at Nairobi if we had been better equipped for effective parliamentary diplomacy and I urge that in future multilateral fora involving the G–77 we give serious thought to forming our delegation with this need in mind. With regard to specific multilateral fora scheduled for the near future I suggest the following:

A. *OAS Ministerial—June 8–11.* In your OAS meeting at Santiago, we have an opportunity to make our first significant response to the IRB challenge. I believe that your speech should contain expressions of regret at the IRB rejection at Nairobi with a more detailed outline of the benefits which such a proposal could provide developing nations such as those in Latin America.[7] We should indicate our intent to push forward with this concept as an essential element in a comprehensive commodity program and without which any central buffer stock financing facility would be unworkable.

It would be a major breakthrough if one or more Latin American countries could propose the idea of an Interamerican Conference to

[7] From June 7 to 9, Kissinger was in Santiago, Chile, where he attended a meeting of the OAS General Assembly. For the text of his June 9 statement before the Assembly on development in which he discussed the Nairobi UNCTAD meeting, see Department of State *Bulletin,* July 5, 1976, pp. 5–10.

consider a comprehensive commodity approach including the IRB. I believe that this should receive our enthusiastic support and could be an important first step in arousing a competitive interest on the part of the African and Southeast Asian members of the G–77.

In your bilateral conversations at the OAS you should express appreciation to those countries who voted in favor of the IRB in spite of pressure from the G–77 organization. These are shown at Tab C. I feel that a strong protest should be made to Silveira of Brazil[8] and Escovar of Venezuela.[9] These two countries were represented in the Restricted Negotiating Group and they supported the commitment to gain overall G–77 support for the IRB in exchange for U.S. acceptance of the commodity resolution. They will argue that their leadership role was threatened by the revolt of the Black African Group, but nonetheless, we must make it clear that we view their abstention as an act of bad faith which greatly weakens any commitment we might have for participation in the preliminary meeting for discussion of the common fund.

B. *CIEC—June 8–15.* Our delegation at the next CIEC meeting in Paris should be given specific instructions to meet with the five developed country representatives on the Raw Materials Commission to develop a plan for initiating discussion of the IRB in that Commission. As all OECD members supported the IRB proposal without qualification I would anticipate their full support in this effort. We should develop a specific tactical plan for our representatives prior to their departure for Paris.

C. *OECD Ministerial—June 21–23.* In your speech at the OECD Ministerial June 21, you should express our regrets at the failure of UNCTAD IV to support the IRB.[10] You should also provide the detail of this proposal contained in your Nairobi speech but appeal to the OECD members to join with us in developing a more definitive plan which we can all support without reservation.

We will be limited in what can be accomplished in the way of a unified threat to tie the IRB to our position on the common fund as Sixteen OECD members joined in a resolution at Nairobi committing without qualification to the common fund resolution. The UK made its own generally positive statement, and France although inclined to make such a statement remained silent only in deference to the U.S. However, I urge that you discuss this with Genscher (FRG) and Miyazawa (Japan) if there is an opportunity.

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[8] Antonio Azeredo da Silveira was the Foreign Minister of Brazil.

[9] Ramon Escovar Salom was the Foreign Minister of Venezuela.

[10] See footnote 6, Document 140.

D. *Rambouillet II—June 27–28.* The issues raised at Nairobi should be a major subject for discussion at Rambouillet II.[11] This will undoubtedly lead to a discussion of the lack of unity between the OECD nations with regard to the common fund. The only unity which did evolve out of Nairobi was the U.S. initiated Joint Working Group which included the FRG, UK, France, Japan and the U.S. In spite of our differences in political evaluation of the resolution on commodities we are not far apart in our views on the substance of the matter. I believe that we should continue to hold together this group, which includes in addition to myself, Hans Friderichs, Minister for Economics and Egon Bahr, Minister for Economic Cooperation of the FRG; Frank Judd, Parliamentary Secretary, Ministry of Overseas Economic Development of the UK; State Secretary for Foreign Affairs Jean Francois-Poncet of France; and Ambassador Yoshino of Japan.[12] Because of the importance of the commodities–IRB issue and the short time before commencement of the Preparatory Meetings for the common fund, probably in the fourth quarter of this year, I urge an effort to reconvene this group at Puerto Rico as a working group on North-South issues. (We may have to include Canada although their views differ markedly as reflected in their joining in the positive statement of the Sixteen Group B nations giving unqualified support to the common fund.) This would help in preserving the momentum initiated at Nairobi in our efforts to develop a unified position. Failure to achieve this objective will leave the U.S. (and perhaps the FRG) completely isolated in the preparatory meetings for both the common fund and the commodity agreements.

E. *LOS—August 2–September 17.* The LOS negotiations contain many of the same elements inherent in the UNCTAD IV conference. We must recognize the need for more effective parliamentary diplomacy at meetings of this kind or the U.S. will lose out to the more sophisticated and effective approach employed by the G–77 and Socialist Bloc. We must have more sensitivity to and emphasis on the political factors without downgrading our capacity to deal with the technical issues. Unless we provide this kind of strength in our multilateral conference delegations we risk a serious deterioration in the U.S. leadership role which is essential for success.

The foregoing is proposed as an outline for a tactical plan responding to the IRB challenge. I would like to discuss this with you and once we have your approval will proceed with the development of a more definitive proposal.

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[11] The second economic summit was held in Puerto Rico June 27–28; see Documents 148 and 149.

[12] Bunroku Yoshino.

305. Report Prepared by the Commodity Policy Coordinating Committee[1]

Washington, undated.

Introduction

At the UNCTAD IV meeting in May, in Nairobi, a resolution on commodities was adopted by consensus, and a second resolution proposing a study of the U.S. proposal for an International Resources Bank was defeated in a close vote. All countries, including the U.S., supported the commodities resolution, although the U.S. and several others made reservations on some aspects of the resolution, principally on the issues of the Common Fund, a program of commodity negotiations, interference with the market system, and the question of indexation of commodity prices. The U.S. stated there was no U.S. commitment to particular results of preparatory work on commodities and buffer stock financing arrangements, nor a commitment to participate in the negotiation of any agreements. The U.S. also indicated in its statement its regret at the rejection of the IRB study proposal and indicated in a joint Kissinger/Simon statement two days later[2] its intention to pursue the IRB proposal in other fora.[3]

The issues for U.S. consideration during the coming months are the following:

I. International Resources Bank (IRB)

The CPCC in its June 8 meeting decided to follow up immediately with our IRB proposal by having the U.S. delegation to the Paris CIEC meetings this week and next week submit an expanded description in written form to the other participants on the purposes and workings

[1] Source: Ford Library, U.S. Council of Economic Advisers Records, Alan Greenspan Files, Box 39, Subject File, Economic Summit (Puerto Rico) June 1976 (4). No classification marking. Attached to a June 11 memorandum from Parsky to the EPB that reads: "The attached paper reports the consensus of the Commodity Policy Coordinating Committee's discussion at its meeting on June 8, about the appropriate U.S. response to the commodities work program that was agreed at Nairobi. The CPCC agreed on the approach that should be taken to the International Resources Bank, and on the appropriate approach to the commodity-by-commodity discussions. It also agreed that there are essentially three options for the U.S. approach to the preparatory negotiations on common funding."

[2] See *The New York Times,* June 2, 1976, p. 1. For the text of Kissinger's and Simon's June 1 joint statement, see Department of State *Bulletin,* July 26, 1976, pp. 133–134.

[3] The U.S. statement of the reservations on the Commodities resolution is attached. [Footnote is in the original. The statement is attached but not printed. For the text of Boeker's May 31 statement of reservations and explanations concerning the commodities resolution, see Department of State *Bulletin,* July 26, 1976, pp. 134–135.]

of the proposed IRB. Our intention is to ask for detailed consideration of the proposal at a later date in CIEC and in other appropriate forums.

The CPCC also noted that the IRB is primarily an investment vehicle to facilitate a more rational flow of private capital into LDCs, and that having the IRB provide supplemental financing for buffer stocks was a function added to respond to pressures for the improved financing of buffer stocks in negotiating at UNCTAD IV. With the conclusion of UNCTAD IV and consensus agreement to study common funding, the function of providing supplemental financing for buffer stocks should not be included in our presentations on the IRB.

II. Common Fund

In the U.S. statement of reservations made at the Conference, the U.S. made it clear that it was committed only to participation in the preparatory meetings for the Common Fund and that the purpose of such meetings should be to consider whether further arrangements for financing of buffer stocks, including common funding, are necessary. Nevertheless, the question of the general U.S. approach and strategy to this meeting is an open one which needs urgently to be addressed.

Options Available to the U.S.

The underlying basic position for all three options is U.S. opposition to the Common Fund.

A. *Active Opposition*

In this option, we would take a strong negative position on the Fund while reiterating our view that consideration of buffer stocks and their financing should take place on a commodity-by-commodity basis. We could state this position in writing to the UNCTAD prior to September 30 and again in the later preparatory meetings on the Fund in which we participate.

The basic advantage of this approach is that it leaves the U.S. position unambiguous, and it heads off any misunderstanding further along in the negotiating process about the fundamental position of the U.S. on the Common Fund. Its basic disadvantage is that it will clearly identify the U.S. as the chief contributor to any failure of the Common Fund, thus in all likelihood deepening the split between ourselves and the LDCs not only on this issue but on the whole range of North-South issues, of which this has particular symbolic importance.

B. *Passive Approach*

The U.S. would continue to make its position known when in the process of discussion, but we would not actively lobby against the proposal. It would not submit any proposals to UNCTAD prior to the September 30 deadline specified in the commodities resolution. It would attend, but not participate actively in the preparatory meetings. It probably would not (although this would have to be examined early next year) participate in any eventual negotiating conference on the Fund. The U.S., however, would make some efforts to gain agreements for its opposition among our developed and developing countries allies.

The major advantage is that we would not be committed to any particular outcome, nor be clearly identified with attempts to undermine the Fund. The major disadvantages are that we would forego opportunities to reshape the Fund in a form less objectionable to the U.S., and it could also be difficult for the U.S. successfully to play a low profile role. Other developed countries and the more moderate LDCs would apply intense pressure on the U.S. to play its customary leadership role.

C. *Attempt to Reshape the Fund to Our Own Purpose*

As in the first option, the U.S. would submit by September 30 its own proposal. In this case, we would express our fundamental position of opposition to the Common Fund, but offer alternative suggestions of our own. The U.S. would participate actively in later preparatory meetings on the basis of opposition to the Fund but we would support some sort of loose mechanism to link the various individual buffer stock financing mechanisms in an effort to arrive at a rational alternative to the Common Fund. Our position, of necessity, would need to go beyond that of endorsing financing of buffer stocks on a case-by-case basis.

The major advantage would be to allow us to claim at a later stage that the U.S. did indeed make a serious effort to discuss (and possibly negotiate) on the issues raised by the Common Fund and that there may in fact be some advantage in pooling resources for several buffer stocks for financial reasons only. The major disadvantage of this approach is that in all likelihood, whatever emerged as the U.S. position on "common" or "linked" financing mechanisms would in LDC eyes not come close to meeting their own minimum position on common financing and thus, would be rejected out of hand. It would even run a good chance as being regarded, along with Option I, as an attempt to undermine the Common Fund. This option would need to be reevaluated if a decision were made to change in a significant way U.S. policy on linkages among stocks or common financing.

III. Commodity Consultations

One way to demonstrate that the Common Fund proposal is unnecessary is active U.S. participation in discussing and agreeing on specific measures which are likely to improve conditions for individual commodities. The forthcoming series of UNCTAD commodity consultations gives the U.S. an opportunity to do that. To the extent that significant measures are actually taken on individual commodities—and these could involve buffer stocks or other price stabilizing measures, but could entail a wide range of other measures—this will also help undermine the case for the Common Fund. Such case-by-case discussions are also likely to chip away at LDC unity as the specific interests of individual countries are dealt with. The U.S. should take an active role in each of these discussions and arrive prepared to present action proposals.

We should also continue to press for commodity-related action in other forums, including the multilateral trade negotiations, the IMF (where we still have new proposals on compensatory finance on the table) and the CIEC.

In its reservations at UNCTAD IV, the U.S. underlined its commitment to the use of already-existing producer/consumer commodity groups in carrying out the authorization given to the UNCTAD Secretary-General to convene meetings called for under the resolution. We should relinquish control to the UNCTAD Secretariat over existing groups outside UNCTAD only under exceptional circumstances. In those cases where the work in commodity groups has not been active, the U.S. will make efforts to revive them into viable discussion forums.

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306. Briefing Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Greenwald) to Secretary of State Kissinger[1]

Washington, July 15, 1976.

Monthly Report

Some Lessons of UNCTAD IV

The purpose of this report is not a detailed assessment of the results of the UNCTAD Conference. That has already been prepared and sent to the field (#146041, June 14, attached).[2] The purpose is to exam-

[1] Source: National Archives, RG 59, Records of Secretary of State Henry Kissinger, Entry 5403, Box 15, Misc. Docs, Tels, Etc., 1975, Folder 3. Confidential. Drafted by Ruth Gold of the Bureau of Economic and Business Affairs and Wendell Woodbury of the Bureau of International Organization Affairs; cleared by Assistant Secretary of State for International Organization Affairs Samuel Lewis. An unknown hand initialed the memorandum on Greenwald's behalf.

[2] Not attached and not found.

ine where we may be said to have failed and why, and what we can learn from the experience.

We achieved our basic objective at UNCTAD IV, to maintain a constructive atmosphere in North/South relations. The Conference was chaotic but it was *not* confrontational. The LDCs wanted to do business. They eschewed politically divisive issues: Israel, South Africa, Chile. They berated the Socialist countries for inadequate support. They did not press radical NIEO positions: indexation, permanent sovereignty over resources, producer associations. They did not push UNCTAD into the areas of competence of GATT, the IMF, the IBRD, or CIEC. They focussed on practical solutions to concrete problems, as we have urged them to do.

Not all their practical solutions commend themselves to us—debt moratoria, the Common Fund—but these are not extreme positions.

In short, the atmosphere was not hostile. There was little give in LDC positions. They remained fixed behind programs hammered out at Manila.[3] But the LDCs were not radicalized in Nairobi. In the crunch, appropriate words were found to permit resolution by consensus, with appropriate reservations, interpretations, and comment. This was not because of "dark hints from oil-exporting countries that the collapse of UNCTAD IV would influence oil-pricing policy," as the *London Times* suggests. It was because all the affected groups—the UNCTAD Secretariat, the LDCs, and the industrialized countries—wanted to avoid a breakdown in the dialogue.

We failed in two respects, however, in the reception of our proposal to study the idea of an International Resources Bank and in the poor coordination, indeed disarray, among the industrialized countries.

International Resources Bank

Preparations for UNCTAD IV began quite early. A systematic effort was begun last fall to see how far we could realistically and sensibly go in meeting LDC positions and in advancing independent initiatives of our own. The proposal for an IRB was put forward late in this process. It was a complex proposal with novel features (project bonds denominated in commodities or currencies or both). Its elements kept changing in each of its successive versions. Thus, in the early versions it was a bank that would lend for resource development and for buffer stocks. In subsequent versions it ceased to be a bank but retained the name. It was not fully clear even in its final version what were the essential features of the proposal and what were peripheral elements. Thus, it was unclear whether the commodity bond was a central, rather than an optional, feature of the proposal; or what the obligations would

[3] See footnote 15, Document 149.

be of the host government on the one side and the investors on the other that must be spelled out in the trilateral agreement and presumably be guaranteed by the IRB. (We still need clarification on these matters.)

The proposal was not only late in being given its final shape and interagency concurrence, but also it was not to be discussed with other governments in advance of its presentation at Nairobi, except in the most general terms. Consequently, there was no advance exposition of the idea in LDC capitals; no effort made to explain how the IRB would be helpful to them; how it would meet some of their central concerns about MNE exploitation of their subsoil resources. UNCTAD delegations from LDC capitals had no instructions on the issue or indication that it would be put forward.

The IRB came as a surprise. It was viewed with suspicion and was the subject of various and conflicting interpretations. Many LDCs saw it as a torpedo aimed at the Common Fund. The US Delegation had to explain repeatedly that the IRB was not intended as a diversion to, or substitute for, the integrated program. When the delegation tried to explain IRB's purpose and merits, the LDCs did not listen. They were committed to the Integrated Program which had been developed over an extended period, and they resented new proposals in the commodity area that might possibly throw doubts on their program.

UNCTAD is not in any case the place for analysis and assessment of new proposals, unless they are relatively simple and unambiguously in the LDC interest. Thus, a US initiative to support UNCTAD technology training centers, let us say, would be well received. Indeed, our integrated technology program to enlarge LDC technological capabilities was a great success. It was a one-way street filled with goodies for the LDCs. But a new US proposal to promote investment by multinationals in LDC oil, gas, and mineral resources was bound to hit a sensitive nerve, even if it had not been coupled with US opposition to the Common Fund.

No conference document was issued to explain the IRB and its benefits for the developing countries. All that was available was the extensive text of the Secretary's speech and a more extensive press conference explanation by the working head of the US Delegation. One reason surely was the difficulty the delegation had in spelling out the proposal beyond the official text because it is obscure on many points. All the regional group spokesmen were briefed on the IRB but they were not receptive. UNCTAD is an ideological forum, the wrong forum in which to make investment by the multinational corporation the central initiative. To make the proposal attractive it would have been useful to say quite explicitly that the investors would supply capital, technology, and management on a contractual basis with no "ownership" of the subsoil resources, if that is indeed what is intended.

For most LDC delegations, lacking instructions from their capitals and desiring not to offend the US, the easiest course was to be absent or abstain when the issue was put to a vote. This is what ninety countries did. Indeed, it was unclear why we needed UNCTAD endorsement of further consideration of IRB, since no UNCTAD role was foreseen, unless there was some link between the IRB and Common Fund—exactly what the LDCs feared.

The lesson is clear. We incur great risk if we seek endorsement in a massive, unwieldy forum like UNCTAD IV of a complex new proposal that has not been explained in advance. The opportunities for explaining on the spot and being heard are few. Our choices in such situations are (1) to discuss complex or inherently controversial proposals in advance in order to win understanding and support in the capitals; (2) to unveil proposals without advance notice in order to achieve the dramatic impact of new initiatives but then to lobby unremittingly to secure support. This involves obvious costs; or (3) to gain the benefits of surprise but not to seek immediate endorsement of the proposals if they are not part of a general consensus. There will be ample opportunity to put the proposals forward again.

With the benefit of hindsight, it is clear that we were left with very poor choices once the IRB got separated from the main consensus resolution. At that point, we should have dropped a separate resolution on IRB as too vulnerable to defeat when we did not need the victory at UNCTAD.

The second and obvious lesson is the need for earlier planning, on an interagency basis where possible, so that we are in a better position for advance lobbying in capitals as well as for full discussion in the OECD.

Coordination of DC Positions

Notwithstanding our efforts in advance of UNCTAD to develop a common approach on LDC issues, Group A [*B*] (OECD countries) fell apart.

The problem of reaching an agreed developed country position, difficult enough because of the wide divergence of view within the Group, with the Nordics at one end of the spectrum and the Germans at the other, was made immeasurably more difficult by the desire of the EC to reach a common Community position first. Thus, the developed countries not in the Community sat around from Sunday to Thursday of the last UNCTAD week waiting for the EC–9 to agree on a position on commodities. The agreement that emerged from the EC's labors was a minimum position which we and the other developed countries found inadequate and the EC could not alter. Their only concession was to add one sentence on the IRB to their position. The problem of a time-consuming EC caucus within the larger DC caucus is a familiar one. We have had to contend with it in the past in international monetary negotiations. And the rigidity of the EC position once it is hammered out makes further DC negotiation virtually impossible.

In the event, we submitted two Group B texts: the EC version and the version agreed by the US and other developed countries. In the interval the LDC position escalated and the ministers of Group B went their separate ways.

The delegation was under instruction to coordinate with the Germans, which we did. The Germans were even less forthcoming than we in the endeavor. Then they were caught up in the EC effort to develop a common line and left us behind.

The problem of coordination was further compounded by the mischief of the Dutch. Pronk distributed the four power statement on commodities of the US, UK, Japan and Germany to the non-governmental organizations who leaked it. That raised the temperature several degrees. Then Pronk called a formal press conference on the four power statement and condemned it.

There is a general disposition not to concert DC views unless there are compelling reasons of self-interest to do so. An agreement that is pitched to the lowest common denominator, distasteful to those who wish to be more forthcoming, will necessarily fall apart under pressure from the developing countries. There is, moreover, the belief that diversity of views by the developed countries is in fact desirable in the North/South context. With the LDCs fixed in their position, having learned from long experience that their strength is in their numbers if they can stay together, a fixed DC position, especially if it is fixed at a minimal level, will polarize the dialogue and radicalize the developing countries. In this view it is the LDC job to exert pressure and the DC job to respond constructively with each developed country responding at a pace that its own circumstances may require.

There are surely a number of issues on which a DC consensus is not necessary. The developing countries have urged, for example, that official development aid should be at a minimum .7% of each developed country's GNP. Some DCs give more aid, some less. The US gives less and does not accept the target. The failure to concert on this issue does not injure the international economic system although it may embarrass the US. Similarly, we do not need a developed country consensus on the use of debt rescheduling as a form of aid. Some developed countries are prepared to reschedule official debt as a form of aid; some are not. The US is constrained by Congress not to do so.

Given the difficulty of concerting positions among the developed countries and the merit of retaining some fluidity in the North/South dialogue, we should seek agreement on some rules of the road. One such rule might be that however diverse the positions expressed by the developed countries may be, they should not seek to undercut each other—as the Dutch did—in the North/South dialogue but let their positions stand on their merits. Secondly, we should agree that where LDC proposals would be injurious to the international economic system and therefore to our common interest, *we must* concert to frustrate the proposals. Indexation is an example. Producer cartels is another. It is not clear whether the Common Fund is yet another. Some developed countries support the Common Fund because they believe it may be useful, others because they believe it will do no harm, and yet others cynically because they do not expect it to come into being, given US and German opposition. We can secure a common developed country position on this issue only if we can demonstrate that the Common Fund as proposed by the UNCTAD Secretariat would indeed be injurious to our common interests or seriously wasteful of our resources. We would, of course, need a fall back position on which most DCs could agree, essentially a variant of the Fourcade proposal.

In the Puerto Rico Declaration, participants agreed that they should collaborate on "sound solutions to (LDC) problems which enhance the efficient operation of the international economy."[4] This is the ideal formulation. We may have to settle for second best and *agree to concert in opposition to positions that impair the operation of the international economy.* The Puerto Rico Declaration also calls on us to make our efforts "mutually supportive, not competitive." The second best formulation might be agreement *not to undercut each other* in the North/South dialogue by overt disparagement of less "forthcoming" positions or in other ways.

Level and Nature of US Representation

A candid assessment of our UNCTAD experience should address the question of our representation at UNCTAD. In the previous three ministerial meetings of UNCTAD, our opening statement was made by an Under Secretary of State who then departed, and the final resolution of the disputed issues was made by the delegation on the scene, not by ministers from capitals. This reflected our desire not to give undue visibility or weight to the meetings.

UNCTAD is not our preferred forum for discussion and negotiation of North/South issues. It is an LDC pressure cooker. And it is essentially a political conference with an agenda of economic subjects. Its size, bloc procedures, and extensive agenda—taken together with the rigidity of LDC positions, pre-negotiated at Manila—make genuine negotiation impossible except at the edges of the issues, and put a pre-

[4] See footnote 18, Document 149.

mium on political lobbying skills. Our preferred forums for negotiations are functionally specific institutions like the IMF, GATT, IBRD in which LDCs are full participants and are informed on the issues, where their voices are heard and their needs can be accommodated, and the Secretariat prepares sober and balanced analyses. Or perhaps CIEC which has the merits of small size, closed sessions, and focus on specific issues, but the final balance sheet on CIEC is not yet in. The IMF has developed a number of new facilities to deal with special LDC balance of payments needs. The MTN is committed to give special attention to the trade needs of the developing countries. The World Bank and the regional banks are expanding their capitalization to meet the needs of LDCs for development loans.

Representation at UNCTAD at the highest level calls world-wide attention to the forum and gives it prominence and prestige. It also heightens expectations. The heightened expectations influence the behavior of the LDC participants. They assume we are more prepared to accommodate their proposals than we intend, and they are more than ever inclined to stonewall as a result. Furthermore, the opening statement of our representative must be bold and broad in scope, with many new initiatives. We do not have an unlimited supply of these.

At the Seventh Special Session it was necessary to turn the North/South dialogue around, to change the tone of discourse and to shift the debate from rhetoric to practical action. We set the agenda with a broad range of forthcoming proposals which we are pursuing in appropriate bodies. The Special Session was an ad hoc event. UNCTAD is a continuing body. Its plenary is not a forum for reasoned debate. It is weighted against us. Its Secretariat will continue to develop new proposals to redress LDC "just grievances." At UNCTAD as elsewhere it is necessary for us to make the most effective case we can for our positions and philosophy. But we should not give UNCTAD added weight and influence. A more modest representation at its ministerial meetings—with a larger proportion of officers on the delegation who have multilateral experience in political bodies like the UN General Assembly—would accord better with our assessment of its usefulness. In order to safely keep our representation at the sub-ministerial level, we have to convince some other major industrial countries to do the same.

UNCTAD will not go away, of course, or in the unlikely event that it should, Special Sessions of the General Assembly in New York would replace it. The essential lesson of our experience at UNCTAD IV is the importance of preparing our positions and initiatives with sufficient clarity and sufficiently far in advance to allow full prior consultation as necessary, so that we can make the most effective case at future sessions . . . without needlessly enhancing the prestige of this ideological body.

307. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Parsky) to the President's Assistant for Economic Affairs (Seidman)[1]

Washington, undated.

SUBJECT

Treasury Position on the UNCTAD Proposed Common Fund

Treasury favors Option 3 (a)—Passive Opposition to the Common Fund.

This option allows us to reject the Common Fund without being confrontational as long as we combine it with an active and constructive role in the individual commodity consultations. Option 3 (a) also gives us the flexibility to move at a later date.

We have concluded that without U.S. participation the economic impact of a Common Fund on the U.S. would be minimal for the commodities which could be financed by a limited fund ($500 million–$1 billion). Nearly all of the eighteen commodities on the UNCTAD list either (1) do not lend themselves to stocking arrangements (bauxite, meat, bananas, tea, timber, vegetable oils); (2) have existing buffer stocks and do not require additional financial resources (tin, cocoa); (3) have ready substitutes which would serve to limit price increases (jute, sisal, rubber); or (4) would require financial resources beyond the means of a limited fund thus prohibiting market intervention schemes on a scale detrimental to the U.S. (copper, coffee, cotton, phosphates, sugar, iron ore).

We believe that by maintaining the position as described in Option 3 (a) through the November preparatory conference, we can retain the support of our key developed country allies, the UK and Germany. The absence of three major industrialized countries would severely limit the adverse economic impact of a Common Fund.

An important part of this position, however, is that we be willing to discuss constructively the problems of each of the individual commodities in upcoming international meetings. We must take a leadership role and make positive proposals to give meaning to our commitment to undertake a wide variety of means for improving trade and markets in commodities. This will require extensive U.S. Government

[1] Source: Ford Library, L. William Seidman Papers, Box 50, Economic Policy Board Subject File, Commodities—United Nations Conference on Trade and Development (UNCTAD). No classification marking. Seidman initialed the memorandum.

preparation in the coming months under the leadership of the EPB/NSC Commodities Policy Coordinating Committee.

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308. Memorandum From the Under Secretary of State for Economic Affairs (Rogers) to the President's Assistant for Economic Affairs (Seidman)[1]

Washington, September 11, 1976.

USG Policy Toward Common Fund

The United States is clearly on record as opposed to the Common Fund proposal. We have stated that we consider it economically unsound and inadequate to the real problems of economic development in general and commodities trade in particular. Given our well-known position on the issue, the Department of State sees no benefit in mounting an active campaign against the Common Fund. Moreover, a policy of active opposition would entail needless foreign policy costs.

Therefore, we favor for the time being a policy of passive opposition to the Common Fund. As the North/South dialogue proceeds and if the preparatory meeting on the Common Fund occurs in November as is now tentatively scheduled, we may find it desirable to detail again our objections to the UNCTAD Common Fund scheme and to make alternative proposals for buffer stock financing. If we decide that such action is desirable, we will of course return to the EPB for further consultation with the agencies concerned.

[1] Source: Ford Library, L. William Seidman Papers, Economic Policy Board Subject File, Box 50, Commodities—United Nations Conference on Trade and Development (UNCTAD). No classification marking.

309. Memorandum From the Deputy Secretary of State (Robinson) to Secretary of State Kissinger[1]

Washington, November 15, 1976.

SUBJECT

Foreign Policy Directions and Issues: The Expanding Economic Dimension

This memorandum:

—lays out a rationale for an expanding role for the State Department in the conduct of international economic policy,

—reviews your major initiatives in this field, and

—outlines current international economic issues which must be dealt with promptly.

International Economic Policy

The design and direction of U.S. foreign policy in the years ahead must be founded on a recognition of the growing economic interdependence of nations. The evolution of the world political order has become inseparable from the evolution of the international economic system. Foreign policy thus has become inseparable from economic policy.

No longer can we leave to chance the orchestration of independent economic agencies of government or of private business in their activities critically affecting our international economic relations. The effects of misguided domestic economic policies no longer can be confined within national borders. Similarly, misguided foreign political policies quickly send shock waves through the interdependent economic system, threatening access to oil and other essential commodities, or restricting the growth of trade and production, sometimes undermining confidence in currencies and triggering destructive counter-measures, even hostile confrontations.

Landmark Actions

As Secretary of State you have spurred greater recognition of these realities. We have strengthened the economic dimensions of our own foreign policy and energized international bodies dealing with these issues. At the same time, the State Department has become more sen-

[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 336, Department of State, Economic Affairs, Oct.–Dec. 1976. Confidential. Attached to a December 23 memorandum from Robinson to Kissinger that reads: "In response to your request, I have set out below the economic and energy initiatives you have undertaken since becoming Secretary of State." A detailed list of these initiatives is attached but not printed.

sitive to the economic issues and competent in the innovation and coordination of U.S. international economic policy.

While permeating all of our foreign relations, this integration of economic and political aspects of our foreign relations has been highlighted in these major, and continuing, efforts.

—*Harmonization of economic policies among the major industrial nations.* In two economic summits, intensified consultation through OECD organs, and other ways we have started the difficult process of reconciling and coordinating national economic growth planning and measures dealing with inflation, recession, export subsidies, monetary growth—the "domestic" policies that impact on our partners of the industrial world and the opportunities of the developing nations. This effort has laid the foundation for multilateral efforts to shore up the economies of several key industrial nations.

—*Cooperation in dealing with energy problems.* We have provided crucial leadership in building cooperation among industrial countries to meet the threat of an Arab oil embargo and to reduce vulnerability to cartel-dictated price increases. We have developed closer bilateral relations with key OPEC nations. Last week we launched a joint effort in the IEA to set international and national targets for reducing consumption of oil, a process that will require difficult U.S. decisions next week.

—*Building economic and technical links with Eastern Europe and the USSR.* We have sought, in consultation with our western partners, to develop mutually beneficial commercial and technical ties with the East. Although extraneous factors interrupt this aspect of détente from time to time, this trend towards increasing economic ties is irreversible.

—*Global cooperation in prevention of famine.* From your initiative in calling the World Food Conference of 1974 has flowed a series of international actions to expand food aid, enlarge agricultural development assistance, and undertake to create a system of food reserves to reduce vulnerability to major crop failures. Conclusion of a five-year grain agreement with the USSR was an important step in our efforts to stabilize international grains trade and require the Soviets to share the burden of maintaining reserves in good crop years.[2]

—*Rationalizing the North-South dialogue.* Seeing a hundred new nations turning, in their frustration with unrelieved poverty and global economic inequalities, toward radical bloc politics, you undertook at the U.N. Seventh Special Session, at UNCTAD IV and in the design (with France) of the CIEC, to establish a non-confrontational dialogue with the South. Many of the challenges we face in the months and years ahead have been defined in this dialogue.

[2] See footnote 3, Document 104.

—*Defining reciprocal responsibilities of government and multinational corporations.* State Department initiatives under your direction have brought about the OECD Investment Guidelines, which will influence constructively the drafting of a U.N. code of investor-government relations. We also have launched the drafting of a U.N. code to curb extortion and bribery in international business. Your proposal for an International Resources Bank represents an added initiative which could encourage more responsible MNC policies in resource development.

—*Technological cooperation.* Recognizing the great potential of U.S. technology as a tool of foreign policy and a factor in development, you have laid out a comprehensive program of expanded technological cooperation with the developing nations at UNCTAD IV and initiated (November 17) a year-long series of planning sessions among U.S. public and private leaders in preparation for the 1978–79 U.N. conferences.[3]

—*Establishment of comprehensive international law and agreements governing the use of the seas and the seabeds.* The LOS Treaty negotiations are a major piece of unfinished business which dramatizes the confluence of political and economic aspects of international relations.

—*Joint economic commissions.* To broaden and deepen our relationships with selected key countries, you established bilateral commissions for economic and technical cooperation. These are paralleled in some cases by joint businessmen's councils.

Pending Issues

This listing of recent landmark actions suggests many of the international economic challenges that will face the U.S. Government in the months ahead:

1. *Financial crises in Britain, Italy, and Mexico, and economic instability in Portugal.* The severe illness of these industrial and middle-income economies requires the combined ministrations of the IMF and other international economic bodies and the U.S. and other governments, coupled with painful self-help measures. Close State–Treasury coordination in these efforts must be maintained, and action must proceed now, without waiting for a new administration in Washington. The UK requires two imminent decisions—on whether to defer repayment due December 9 on the outstanding U.S. credit and on the conditions to be extracted for the final IMF drawdown of $3.9 billion. Further ahead is likely to be a new decision: what do we do for an encore?

[3] On November 17, the Department of State hosted a "National Meeting on Science, Technology, and Development" for leaders in the U.S. corporate, labor, academic, and non-governmental organization communities. (*The New York Times,* November 18, 1976, p. 61) For the text of Kissinger's remarks to the meeting, see Department of State *Bulletin,* December 20, 1976, pp. 725–729.

2. *OPEC price and Saudi oil production decisions.* You have launched a comprehensive campaign to discourage a destructive price increase at the December 21 OPEC meeting, that is, in the widely predicted range of 10–15 percent. We are building on the longer-term educational effort mounted in the CIEC Energy Commission and bilateral contacts with OPEC leaders to reinforce Saudi resistance to a large price increase. Immediately ahead, the key to OPEC decisions will be Saudi willingness to increase production so as to maintain a threat to flood the market against price-maximizers. This will depend, in turn, on (a) Saudi belief in the will of consumer country governments to impose constraint on wasteful use of oil, (b) assurances against inflationary erosion of the value of Saudi financial surpluses, and (c) our actions in such political areas as Middle East peace-making and cooperation in Arab industrial and military development.

3. *North-South relations.* Here we face a set of politico-economic demands by the OPEC-reinforced bloc of LDCs. Common to their diverse demands is the goal of creating a more automatic system of resource-transfers from the rich to the poor nations. The LDCs seek to avoid deepening dependence on the uncertain and inadequate economic support of the industrial nations and of the multilateral financial institutions controlled by the major donors. Instead, they are pressing for a new international economic order that recognizes many of the LDCs' claims as rights and puts the beneficiaries in charge of more of the allocations. We face early decisions on these issues:

(a) *Commodity price support, stabilization, and production.* The UNCTAD majority's demand for a system of international management of commodity markets will come to a climax at the planned March 1977 UNCTAD negotiating session, preceded by two preparatory sessions and a series of preliminary meetings on individual basic commodities. The United States and Germany, with a few nervous allies, face an almost solid alignment of over 100 nations pressing for an integrated system of buffer stocks and market controls.

(b) *Debt-relief.* We have had some success in the CIEC in weakening the LDC–OPEC cabal's demand for wholesale debt-relief for LDCs. We have offered new, more liberal guidelines for international creditor-club action to ease crushing debt burdens; we hope to reach agreement shortly with the other developed countries on an offer of additional aid to support the balance of payments of the poorest countries. However, debt-rescheduling is certain to be a prominent feature of our relations with LDCs in the years ahead. We must find ways to get greater participation by wealthier oil-producing countries in bearing this financial burden.

(c) *Expanded economic and technical assistance.* You recently presented to President Ford your closing summation of the case for reversing the downward trend in U.S. economic assistance to the developing nations. This is central to a successful North-South strategy. We cannot hold the line against the radical forces agitating for a global economic dirigism managed by LDC bureaucrats if we fail to demonstrate greater responsiveness to the acute inequalities of opportunity that are stoking fires of frustration in the poor countries. We cannot deal cooperatively with the great global problems of hunger, rampant population growth, inadequate human and physical infrastructure, and severe balance of payments deficits without a substantially bigger, continuing investment in LDC development. We cannot carry out programs of continuing strategic importance to our regional peace aims—such as in Egypt, Rhodesia and Zaire—without a more substantial and flexible assistance program. Most of our allies are making a bigger effort, in relation to their economic capacity, than we; the U.S. share of GNP devoted to economic aid has dropped to 0.24 percent, compared with 0.39 percent by other OECD countries. Congressional recalcitrance has put us nearly two years behind schedule in paying our subscriptions to the major international development banks.

(d) *IRB for energy and mineral investment.* Our domestic economic interests as well as the interests of the LDCs would be served by the creation of an international mechanism that would encourage both private and public investment in the more extensive development of the energy and hard mineral resources in LDCs. This investment is discouraged now by political risks compounded by high capital costs. You have proposed in several forums the establishment of an International Resources Bank—in effect a special program of the World Bank—to provide incentives for both foreign investor and host government to proceed with these projects.

(e) *CIEC denouement.* All of these issues in North-South relations are joined in the CIEC. Its concluding ministerial meeting is scheduled for mid-December. Postponement until next spring now appears likely, deferring the acid test of industrialized nation intent but with the consequent prospect of heightened LDC expectation of concessions by the United States and other advanced countries.

4. *Trade regulation.* A multitude of trade issues are pending, many of great bearing on our relations with key countries, with the European Community or with the LDCs as a group. Among them are: the final rounds in 1977 of the Multilateral Tariff Negotiations in Geneva, at which special concessions to tropical products and other exports of LDCs must be agreed; the imminent U.S. decision on a voluntary or mandatory program of meat import controls for 1977; and U.S. review early next year of the appeal by U.S. shoe manufacturers for import restraints.

5. *Law of the Sea.* We are at a critical point in the protracted effort to achieve a comprehensive international treaty. Progress at the next

LOS conference next May–July probably depends on our credibly establishing the position that we seek but do not require an international regime for exploiting the seabed mineral deposits. We must proceed during the present intersessional period to develop an overall strategy and start implementing it through diplomatic consultations supported by appropriate use of the threat of unilateral U.S. seabed legislation. Prompt attention to organizational deficiencies also is essential.

6. *Organization of U.S. Government for international economic policy management.* Critical to wise decisions on these and other issues is the design and direction of the Administration's system of foreign economic policy management, responsive to the President and in responsible liaison with the Congress. Each President and his key cabinet officers will have different views of what is wrong with their predecessor's system. Your experience and observations on the past eight years from both the White House and State Department vantage points should be of great value to the new Administration. The key point, as you have often noted, is that the foreign policy management must comprehend and orchestrate all U.S. economic policy decisions and programs having a major impact on the world economic-political system.

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310. Briefing Memorandum From the Director of the Policy Planning Staff (Lord) to Secretary of State Kissinger[1]

Washington, December 15, 1976.

US International Food Policy: Where Are We and What Next?

Feuerbach[2] may not have been right. However, whether man is what he eats, food is clearly a fundamental need. And, swings from feast to famine—and back—take an increasing international toll.

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[1] Source: Library of Congress, Manuscript Division, Kissinger Papers, Box CL 336, Department of State, Economic Affairs, Oct.–Dec. 1976. Confidential; Stadis. Drafted on December 13 by Policy Planning Staff member Sandra Vogelgesang. Lord sent this memorandum to Kissinger under a covering memorandum of December 15 that summarizes it. Kissinger wrote on the covering memorandum: "Put into personal folder also."

[2] German philosopher Ludwig Feuerbach (1804–1872) is often credited with the phrase "you are what you eat."

Greater global focus on food has thus been central to your call for more cooperation on the agenda made urgent by accelerating interdependence. In an effort to assess at least part of that roster of related global challenges, this memo sets forth:

—Summary view of the world food situation
—Status report on your platform at the World Food Conference (Rome–1974)
—Forward agenda on food

Summary View of World Food Situation

The situation is serious—but not as hopeless as some feared two years ago. There *has* been an improvement in the global food picture since November 1974. Supplies are up—both in the major exporting countries (US, Canada, and Australia) and in the Third World. There's even a bumper crop in Bangladesh. Improved Soviet grain production has more than offset the Western European drought. Prices have eased substantially. Pressure is down for concessional food aid. There is, in short, less concern about food security.

Relief at this apparent reprieve from crisis may be short-lived, however. The *fundamental* problems posed at the World Food Conference (WFC) remain unresolved: the threat of chronic shortages, instability of supply (and, consequently, in prices and trade flows), security of food imports (especially for poor countries), low productivity and attendant poverty among most LDC rural sectors, and chronic malnutrition (afflicting more than half a billion people). Too many of this year's crop reports are due to good weather and too few to improvements in food production and distribution. Long-term problems lurk behind short-term returns. On the supply side, the world faces a serious difficulty in increasing such basic agricultural resources as land, water, and energy. On the demand side, rising population and affluence (note the new OPEC claimants) are apt to mean more people wanting more and better food.

The likely implication of this demand-supply equation is sobering. USDA studies project a grain deficit for the developing countries of between 16 and 72 million tons by 1985. More recent predictions by the International Food Policy Research Institute (IFPRI) suggest a 96–108 million ton shortfall in ten years—slightly worse than that foreseen by the FAO in 1974. Those projections—questioned by some—still do not take into account a sudden adverse change in weather or the extra food needed to improve diet. No matter whose prediction you believe, all agree that the poor will suffer the most from food deficits since half the shortfall will hit countries with an annual per capita GNP under $200.

Prospects for solving most of the present or impending problems under the current regime, according to a major study done this year for the State Department, are "slim at best." The reasons: a lack of productive resources and technology available to countries most needing to expand their food supply; disincentives to expanded production in poor countries due to poorly designed government policy and to inadequate financial and organizational infrastructure; inadequate control globally over grain production, stockpiling, trade, and prices; and deficient national policies in nearly every country with respect to nutrition, health, and population resources. The conclusion: continuing need for transnational collaboration on food, with special stress on conscious policy decisions by the major grain exporting countries. Read: US.

Status Report on Your Food Platform

You identified five areas for global action in your address before the Rome Food Conference.[3] Most of the twenty-two resolutions adopted by the WFC addressed those five areas and urged establishment of new institutions to expedite follow-up. Results have been uneven: positive in terms of total production and food aid, limited on food and agricultural development, mixed on food quality and changes in international institutions, and disappointing on food security. The following discussion gives the gist of follow-up on your "agenda for the future" and the effectiveness of new institutions dealing with food.

1. *Increasing the Production of Food Exporters*

Most food exporters, with the help of good weather, have responded to favorable prices and increased export demand with expanded production. They have thus pushed production levels above those of 1974 from 337 to 358 million tons. Exporters, in accord with commitments made in Rome, met in London (February 1975)[4] and, since then in other fora.

2. *Accelerating Food Production in Developing Nations*

On the plus side, most LDC's can now (in contrast to 1974) produce or purchase required amounts of fertilizers and pesticides. Technical assistance programs continue to increase emphasis on food and agricultural programs. AID, for example, has an expanded budget, part of which gives more attention to the small farmer. The Board for International Agricultural Development will become the focal point of an increased US university role in agricultural foreign assistance.

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[3] See Document 272.

[4] Telegram 2044 from London, February 10, 1975, reports on the February 8 meeting of the Exporters Planning Group in London. (National Archives, RG 59, Central Foreign Policy Files)

Financial contributions to agricultural development, bilateral and multilateral, are increasing. Commitments rose by 50 percent in both 1974 and 1975 to an estimated $6 billion. Information available for 1976 suggests a further, though smaller, increase. The belated establishment of the International Fund for Agricultural Development (IFAD)—with its $1 billion earmarked for this effort—could be a major step forward. Contributions for international agricultural research are expected to reach about $80 million in 1977. The total share of World Bank lending going to agriculture has doubled (from 15 to 30 percent) over the past few years. Regional development banks have also shown a dramatic increase in financing agricultural projects.

On the minus side, national programs for research and training are developing slowly and unevenly. Lack of LDC political will is often a major bottleneck to better food production and distribution. Inflation nibbles away the real value of increased funds slated for agricultural development. Monies targeted for agriculture sometimes miss the intended mark of increased food production. Moreover, within the Third World itself, less goes to the poorest, on a per capita basis, than to the emerging middle class of LDC's—a fact economists attribute to the latter's greater absorptive capacity.

3. *Improving Food Distribution and Financing*

Translated, that means food aid in the short-term and greater LDC agricultural production in the long-term. With a US contribution of 6 million tons, the world is close to meeting the goal of 10 million tons set at Rome. Even so, unless LDC food production can grow substantially, food aid and trade must more than double to fill the projected 1985 food gap. It is unlikely that food transfers of that magnitude will be physically possible or politically acceptable within the United States. The hoped-for burden-sharing for MSA's by the oil exporters has not materialized. Most OPEC food aid has been limited to small bilateral loans and grants for Muslim nations. Further, few LDC's have accepted or acted on the fact that improved *internal* distribution of food within each developing country is as important as infusions of external assistance.

4. *Enhancing Food Quality*

There have been several steps forward: nutrition surveys underway or completed; projects launched to deal with iron-deficiency anemia and vitamin A blindness; and programs geared for small farmers which, in turn, boost nutrition in rural areas. On the other hand, there has been little follow-up on US proposals for a global nutrition surveillance system (established by WHO, FAO, and UNICEF) or the arrangement, under that tripartite sponsorship, for an internationally coordinated program in applied nutritional research. Nor have the LDC's themselves exerted the major effort needed to improve the diet of their people.

5. *Insuring Against Food Emergencies*

Proposals for global food stocks are dead in the water and not likely to move until 1977—if then. The US proposal to set up a system of nationally-held reserves totaling 30 million tons of wheat and rice is bogged down in technical discussions at the International Wheat Council. The chief difficulty is that most nations do not share US concern about food security. The EC, mainly interested in trade matters and protecting the CAP, has proposed a system for trade stabilization and control involving firm price provisions. The LDC's are more interested in resource transfers than food security and have proposed a system of two-tier pricing that would oblige the DC's to subsidize their food imports. The USSR seeks a grain agreement with fixed obligations on prices and supplies that would help state planners project the costs of Soviet food imports. Because Japan can afford high food prices, Tokyo opposes a reserve scheme that might mean paying increased storage costs or financing more food aid to the Third World.

Such different interests play out in disagreement over the following elements of a reserve operation:

—Trigger mechanism to initiate accumulation or drawdown of reserves (price? production?)

—Main purpose of reserve system (stabilize prices? stabilize supplies? assure low-cost grain to LDC's?)

—Other items of less importance: special concessions or access to reserves for certain countries or situations; formula for deciding each country's reserve responsibilities; and extent of guarantee for market or supply access (i.e., whether trade concessions would be part of the MTN).

6. *Providing Institutional Follow-up on Food*

Follow-up on the new institutions set up to implement the above five-point food platform has been as mixed as follow-through on the program itself. The very proliferation of institutions has sometimes complicated coordination in an increasingly complex area. (An August 1976 GAO Report to the Congress focussed on that problem and the question of politicization—the introduction of such issues as racism and support for liberation movements in specialized food agencies.) A spot check on the new organizations shows:

—*World Food Council:* Established to provide a forum for ministerial-level reviews of global food policy, it has fallen short of its sponsors' expectations, run athwart FAO rivalry, and suffered from the North-South confrontation (since FAO finds more Third World favor). However, better DC coordination and cooperation from more moderate LDC's cut down polemics and curbed irresponsible proposals at the Council's second meeting (June 1976), giving some hope for the future.

—*Consultative Group on Food Production and Investment (CGFPI):* Although off to a shaky start, this organization—led by Ambassador Edward Martin—now seems set on a somewhat firmer course. At a third meeting (September 1976), the US agreed to give CGFPI one more year to prove itself with food plans for LDC's.

—*Global Information and Early-Warning System:* Established under FAO aegis, its coverage is far from complete—given the conspicuous absence of the CPR and limited reports from the USSR.

—*IFAD:* Congressional approval this year—despite OPEC's falling short of the promised 50 percent of contributions—will assure one of the most notable achievements for the Rome Conference. Even so, its $1 billion may be a drop in the proverbial bucket of agricultural development.

—*Others:* Organizations ante-dating the WFC have stepped up activities. The World Bank has reaffirmed its priority commitment to the agricultural sector in general, and to small farmers in particular. There has been a budgetary boost for the Consultative Group on International Agricultural Research (CGIAR), whose centers can point to solid accomplishment in research. While the US opposed the International Fertilizer Supply Scheme (IFSS), some LDC's value this source of resource transfers. Other groups may become more effective if the Council and/or FAO (under its new leadership) find ways to respond more imaginatively to world food problems.

Forward Agenda

Two years may be too soon to take meaningful measure of your Rome food proposals. Most of the WFC resolutions require a longer lead-time for tangible result—particularly since many presuppose fundamental social reform.

Given that longer-term nature of the food problem, it's not entirely clear how or if we can—to paraphrase the lost traveler—get there from here. Undaunted, as usual, by the long-term, my staff has outlined at least some of the kinds of questions we ought to be asking and approaches we might be pursuing in this area.

—*Extent of the Problem:* The Malthusians may have cried "crisis" once too often. USDA and UN experts do question the neo-apocalyptic pronouncements of Lester Brown and others of the Worldwatch Institute ilk. The problem may not be so much total production, as *distribution,* and the ability to pinpoint particular times and places of critical shortage. If so, we may want to follow up on the assertion made by the Overseas Development Council that "the real crisis" is one of income distribution and that the real solution lies in changes of social values and political power.

No matter how one shakes out on that explosive and admittedly amorphous matter, most available evidence *does* suggest that the global deck is stacked against those who advocate "business as usual." However, since there is still considerable discrepancy in the data, more solid homework needs to be done on this "first question." If we emerge more on the side of concern than of complacency (as seems likely), we should then set about finding ways to manage the global food situation better. A minimalist design for the 1980's might address the most foreseeable and pressing problem—poor people facing food deficits. A maximalist design could encompass the more sweeping goal of providing adequate nutrition for all.

—*Increased LDC Production:* No amount of outside aid or exhortation can substitute for action by the LDC's themselves. More rapid expansion of Third World food production seems essential—given the scant margin between their available food and food needs, their limited reserves of foreign exchange to buy food, and their vulnerability to short-falls in North American food production. The challenge for us in the food area—as in other "new issues" such as population and economic development—will be to get the LDC's to grasp the enormity of their own problem and their own responsibility to marshal political will.

Very few LDC's give evidence of having understood that food independence is primarily an internal affair and that agricultural development can provide the foundation for modernizing an entire economy. Few DC's have recognized that such development, on which both the world's future food supply and easing of North-South tension depend, calls for sizeable transfers of technology and capital from rich to poor. While our recent record on resource transfer in this area has been impressive, much more needs to be done. The long-run interest of "northern" states is to have "southern" states economically viable and free from hunger. There might thus be less inflationary demand and less resentment, especially among states with important mineral resources. On this basis, serious and tough agreements, neither patronizing nor paternalistic, could be developed.

—*Food Security:* To that end, work should concentrate on means to assure greater world food security and stability. Components of such a regime could include a mix of the following:

• *Long-term agreements for commodity management,* upgraded to the rough equivalent of limited long-term future markets. Useful for adjusting supply and demand and helping farmers who need a long leadtime to effect changes in production. Could include subsidies to poor countries.

• *Emergency reserve system.* A possible replacement or supplement to the international wheat and food aid conventions. Options include a Brookings proposal for an interim approach aimed at establishing reserves against famine in certain key LDC's, with some stipulation for Soviet and Eastern European participation, to broader plans for a mix of national and international authority, to elaborate schemes for international crop insurance (with provision for intervention à la the IMF that could address both the problem of foreign exchange crisis in the LDC's and force domestic change to qualify for loans).

• *Reduction of trade barriers.* Work needed in bilateral, GATT, and UNCTAD frameworks to reverse policy disincentives to agricultural production in the LDC's and remove controls on imports into the US and Europe.

—*Breaking the US–EC Deadlock:* Progress toward a food security system may hinge on a successful outcome to the Multilateral Trade Negotiations (MTN). That may, in turn, depend on resolution of the US–EC impasse over agricultural trade.

It seems clear that both sides must abandon traditional positions if there is to be an economically significant agricultural agreement in the MTN. Early on in 1977 there should be candid exchanges between the new US Administration and the new EC Commission to design an MTN trade-off that each can sell at home. The key will be an understanding on grains. A possible key to *that* understanding could be a consultative mechanism on grain reserves premised on US acceptance of a wide price band within which prices for all grains would be stabilized, along with quantitative indicators to trigger stocking and release of reserves. There could be related proposals on export restraints and arrangements for market access (the montant de soutien approach, a concept of production-consumption ratios, etc.—probably understood only in some nether reaches of EB and Berlaymont).

However the USG proceeds in this complicated area of food policy there will be tough political prices to pay. For example, a negotiated commitment to maintain minimum prices for grain exports will be hard to sell to major US farm groups and parts of the Congress.

—*Improvement of Diet:* Entails general long-term halt to population growth and promotion of specific approaches to complement above initiatives on food security such as: even more support for small-scale agriculture (some talk of a Special Rural Development Fund), acceleration of international nutrition programs already underway (perhaps with new emphasis on direct income supplements for the very poor and community feeding programs), etc.

—*Application of Science and Technology:* There, horizons are both limiting and limitless. On the one hand, many DC's may be nearing at least a temporary peak in payoff from scientific advances in food production. The yield increases from new techniques are becoming smaller. Costs to farmers (and, of course consumers) will go up considerably if more marginal lands are brought into production.

On the other hand, the potential for yield increases in tropical and sub-tropical areas may be enormous. Large areas of the Tropics are neither farmed nor grazed. Knowledgeable agricultural economists estimate that southern Sudan alone might produce as much food as the entire world now produces—if its potential were tapped.

There are two ways to attain the level of increased grain output needed to close the food gap projected for 1985: expansion of farming to land not now cultivated and intensification of production on land already being farmed. Science and technology could be the key—witness the eight-fold increase in Israeli agricultural production in 25 years. It could also come into play in the controversial and still relatively unknown area of climatology. Exploration here could reap rich reward in food projections and productivity. There, too, we may find that more of the world's food supply will have to be produced in more tropical climates. Hence, a high priority area for future work should include more attention to world crop forecasting and economic analysis and expansion of international research networks.

—*Institutional Leadership:* Your doubts, expressed in 1974, about "a central body to fuse our efforts and provide leadership" and your endorsement of "a unified, concerted, and comprehensive approach" remain well-taken. If the World Food Council—now mandated to assume leadership on food within the UN system—is to succeed, the US itself will be critical. We will need to demonstrate a consistent view from the USG to both the FAO and the Council and a unified view among the developing nations. Further, we will have to defuse radical LDC pressures on the Council and encourage more responsible Third World nations to use it to gain acceptance for realistic global food policies. Finally, without belaboring the details and tradeoffs, suffice it to say that the political hurdles against a regime providing food security and better nutrition are high. The US will thus be hard pressed to make progress on either objective or make sense of the current inchoate set of global institutions needed to address them.

—*Coordination of US Policy:* Before we can address any of the above, we must sort out priorities in the United States itself. The problem, in short, begins at home. One of the perennial challenges before the State Department is to help assure a balance between domestic and diplomatic interests in the formulation of US food policy.

—*Resource Transfer:* Finally, the question pervading this piece has been whether the US (and other nations) are ready to put up or shut up on "the food problem." The cost of harnessing the agricultural capacity of the Indus–Bangladesh–Brahmaputra plain alone could exceed \$50 billion by the year 2000. On the other hand, those river basins, if developed, could alone meet world food needs for the next 14 years, even allowing for a 4.5 percent annual increase in demand.

The point, then, is not so much the simple one of investment return but rather whether we can afford *not* to follow-up more vigorously on your Rome food platform. As you well know, political leaders everywhere most often focus on immediate concerns, whereas progress here demands long-range vision. Available evidence suggests that there will be plenty of food for all *if* both developed and developing nations commit themselves to the expensive and long-term development of the world's untapped farm resources.

The final returns on your Rome initiative thus depend, not on the gods or the weather, but on men and the marshalling of their political will and foresight. On that, even my staff is loath to make predictions.

Index

References are to document numbers

References are to document numbers