

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

~~SECRET/NODIS/XGDS~~

MEMORANDUM OF CONVERSATION

PARTICIPANTS:

President Ford
 Urho Kekkonen, President of Finland
 Kalevi Sorsa, Deputy Prime Minister and
 Minister of Foreign Affairs
 Amb. Leo Tuominen, Finnish Ambassador
 Klaus Tornudd, Deputy Director for Political
 Affairs, Ministry of Foreign Affairs
 Dr. Henry A. Kissinger, Secretary of State
 Brent Scowcroft, Assistant to the President
 for National Security Affairs
 Amb. Mark Evans Austad, US Ambassador
 to Finland

DATE & TIME:

Tuesday, August 3, 1976
 10:57 a.m. - 12:03 p.m.

PLACE:

The Oval Office

The President: We are greatly honored to have you here on our Bicentennial. It is especially nice for Mrs. Ford and me to be able to reciprocate the hospital ity you gave us just a year ago.

Kekkonen: I have had many invitations to come. I'm glad I waited until now.

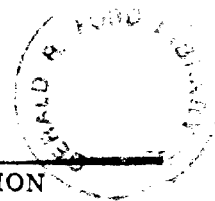
The President: I am very pleased you got to Michigan also. Do some of them still speak Finnish?

Kekkonen: I have a relative there who still doesn't speak English -- after 50 years!

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I have two prepared statements to make: one on international relations and one on our bilateral relations. I would like to read them if I may.

The President: Please go ahead.

Kekkonen: [Reads from text at Tab A] "In our opinion the development of international relations in recent years has been characterized by an overall reduction of international tension and an improvement in relations between East and West. It seems that policies aiming at relaxation of tension have been chosen by political leaders in almost all countries as the only realistic alternative.

"We are convinced that a continuation of this process is in the long-term interest of Finland. We hope to see a strengthening of the international network of co-operation, contacts and exchanges at all levels between nations. We believe in the usefulness of a durable organized and institutionalized process to concretize such policies. In this respect, SALT, CSCE and the talks in Vienna on force reduction in Central Europe are good examples, however slowly the results emerge from them.

"The Finnish Government is optimistic about the prospects for the immediate future. But we think -- and this is something that we want to stress -- that a positive outcome of the current SALT talks and some tangible results in Vienna would be of great importance. We hope to hear more about their prospects from you. We also hope that the CSCE follow-up meetings in Belgrade next year will further help to improve the present warm climate.

"As regards the implementation of the provisions of the Final Act of the CSCE, the results so far appear to be somewhat uneven, but in any case not far from what could be expected. Many measures require time, money, and patience. Some measures that have been carried out would hardly have been possible without the CSCE.

"The Finnish Government is greatly interested in the follow-up to the Conference, not for its own sake, but in order to promote the continued process of improving East-West relations in Europe."

Now to our bilateral relations.

The President: Why don't I comment on that one first? Our view coincides with what you have said. Our efforts. . .

of course, began before I came into office, but I have continued them and broadened them. We are pressing forward with the Soviet Union on SALT. There has been a slowdown since Vladivostok. Then the troublesome issues of Backfire and cruise missiles. We will continue our efforts despite the political situation here. We have to move so as to get an agreement the American people will support. I feel that General Secretary Brezhnev is proceeding sincerely also. I think that there is enough flexibility that we can eventually get an agreement. I can't set a date, but we are hopeful.

On CSCE, your description of progress being uneven is accurate. Some people here are complaining, especially about the issues in Basket III. There has been progress on the military aspects. Some people here didn't want it to start with. We would be happier if the progress were not uneven, but we hope the Belgrade conference will register more progress.

On MBFR, it has to move along slowly. We would like to move more rapidly there also.

You saw General Secretary Brezhnev recently. How is he?

Kekkonen: He was ill earlier, but I saw him a couple of weeks ago and his health seems good now. Earlier some Soviet leaders said he was so ill he might have to leave his post, but he is better now.

The President: Give him my best.

Kekkonen: The Soviets use the same words that you do on SALT, that the differences are not very great and can be bridged.

The President: That is our sense.

Kekkonen: [Reads the statement at Tab B on bilateral relations:]
"Traditionally the political relations between Finland and the United States are good. There are no problems. We appreciate the understanding that the United States has expressed towards our approach to foreign policy, and we have noted with satisfaction that the United States has expressed her recognition of our role.

"Instead, I feel it necessary to pay attention to our economic relations.

"To begin with, I would give some background information on the Finnish balance-of-payments situation.

"The return in major OECD countries to more normal levels of economic activity is gradually having an effect on the demand for Finnish export products and will, if sustained, facilitate an eventual recovery of the economy from the recent recession, which was extremely adversely reflected in the balance of payments situation. Given current prospects in the OECD area there are indications of substantial improvement in the Finnish trade account for 1976, and a reduction of the current account deficit to perhaps half of that in 1975. The major objective of external economic policies is to achieve a permanently stronger current position and thus a permanent reduction in the need for external borrowing. The strength and stability of the current international recovery will to an important extent determine the success of these policies.

"In spite of the improved general outlook our trade balance situation still is precarious and far from satisfactory. This applies to the situation in the trade between our two countries where Finland has had a deep deficit since 1973. In 1975 it amounted to some 230 million dollars, and was about 12 per cent of our total balance-of-payments deficit for 1975.

"Against this background it is clear that remedies must be sought. I take up one major possibility -- icebreakers. Finland has over the years made continuous efforts to interest United States buyers in Finnish icebreakers. Now that we understand that the economic potential of the Great Lakes area has come under a new and close scrutiny, we naturally hope that there would be better prospects for bringing these efforts to concrete results. In this context I should like to remind that Finland on her part has completed and has pending purchases of passenger aircraft from the United States. Both of these cases are typical examples of a realistic development of international division of labour.

"Another question that has caused some concern to us is the specialty steel-products in which a Finnish state-owned company Outokumpu is interested to enter the United States market. We know that there is a global quota for new exporters but we hope that it will be applied in a manner that the interests of Outokumpu, which should be ready to export to the United States market by April 1977, could be taken care of. Outokumpu is already a commercial partner to United States firms and here I refer for instance to its deliveries of chrome to the United States. "

We also hope you would look favorably on the expansion of Finnair routes. We have an application for landing rights on the West Coast.

The President: I recognize the imbalance in trade between us. I am aware of your proposals to remedy this through the icebreakers and specialty steel. Let me say we are recovering rapidly from our recession and as we do, the market for foreign goods will expand rapidly.

On icebreakers, Transportation Secretary Coleman has done a study. You are meeting with him tomorrow. I haven't seen the study, but we are hoping to keep the Lakes open all year. We have two there now, and I think we will need more. The real question is whether we need big ones like you build, or whether smaller ones will do.

On specialty steel, we did negotiate separately with three countries and are on worldwide quotas for the rest of the world. I hope the situation will improve so that we can end the quotas.

Kissinger: Finnish chrome would help greatly in our problems with Rhodesia and the Soviet Union.

The President: Is that new?

Kekkonen: We produce 10% of the world's chrome.

The President: Have you tried to sell in the US?

Kekkonen: Only recently.

The President: I hope you would push chrome sales vigorously.

On air routes, I understand that it is under review now.

[Some discussion of air routes, Finnair and Northwest.]

The President: I am sure Secretary Coleman can give you more in depth on the icebreakers.

Kissinger: I will talk to Coleman about the foreign policy aspects of it.

The President: Is your economy improving significantly?

Kekkonen: Not yet. We are a bit late.

The President: We had a meeting in Puerto Rico about six weeks ago. I was impressed with the rate of economic improvement in Germany and France. Of course Italy and Britain have their problems.

[More discussion of icebreakers in connection with Alaskan oil, the Northwest passage, and pipelines.]

Sorsa: Are you going to have good grain crops this year?

The President: Corn looks like an all-time high. Wheat is down a bit from the drought, but it is the second largest in history. Overall, our agricultural situation is in good shape in export products. Were you hit by the drought?

Kekkonen: No. It didn't hit us, just in Europe.

Tornudd: You asked if we were out of the recession. We aren't out of it yet, because we went into it later and we traditionally follow the West Europeans in recovery by 6-9 months.

The President: What are your principal exports?

Sorsa: Wood-based products, and some machinery.

Austad: They are an agricultural export country.

The President: Our principal wood consumer is homebuilding and that has not recovered too well. We need 1.8 or two million a year to have a strong industry.

Kekkonen: We have a lot of prefabricated housing.

The President: Our prefabricated housing has done well because it is cheaper. Home costs have increased so it's now priced out of the market. The average price of a new home is now \$40,000.

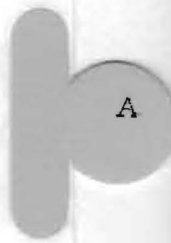
Kekkonen: The same thing has happened in Finland over the last three years.

The President: Our autos are doing very well this year. The industry thought small cars would take over, but they have gone for the larger ones.

Austad: We hope they will go for a particular Ford. [Laughter]

Kekkonen: We wish you well.

The President: [Some discussion of the campaign.]



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(A)

International Situation

In our opinion the development of international relations in recent years has been characterized by an overall reduction of international tension and an improvement in relations between East and West. It seems that policies aiming at relaxation of tension have been chosen by political leaders in almost all countries as the only realistic alternative.

We are convinced that a continuation of this process is in the long-term interest of Finland. We hope to see a strengthening of the international network of co-operation, contacts and exchanges at all levels between nations. We believe in the usefulness of a durable organized and institutionalized process to concretize such policies. In this respect, SALT, CSCE and the talks in Vienna on force reduction in Central Europe are good examples, however slowly the results emerge from them.

The Finnish Government is optimistic about the prospects for the immediate future. But we think - and this is something that we want to stress - that a positive outcome of the current SALT talks and some tangible results in Vienna would be of great importance. We hope to hear more about their prospects from you. We also hope that the CSCE follow-up meetings in Belgrade next year will further help to improve the present warm climate.

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The Finnish Government is greatly interested in the follow-up to the Conference, not for its own sake, but in order to promote the continued process of improving East-West relations in Europe.

B

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Bilateral relations between Finland and the United States

Traditionally the political relations between Finland and the United States are good. There are no problems. We appreciate the understanding that the United States has expressed towards our approach to foreign policy, and we have noted with satisfaction that the United States has expressed her recognition of our role.

Instead, I feel it necessary to pay attention to our economic relations.

To begin with, I would give some background information on the Finnish balance-of-payments situation.

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In spite of the improved general outlook our trade balance situation still is precarious and far from satisfactory. This applies to the situation in the trade between our two countries where Finland has had a deep deficit since 1973. In 1975 it amounted to some 230 million dollars, and was about 12 per cent of our total balance-of-payments deficit for 1975.

Against this background it is clear that remedies must be sought. I take up one major possibility - icebreakers. Finland has over the years made continuous efforts to interest United States buyers in Finnish icebreakers. Now that we understand that the economic potential of the Great Lakes area has come under a new and close scrutiny, we naturally hope that there would be better prospects for bringing these efforts to concrete results. In this context I should like to remind that Finland on her part has completed and has pending purchases of passenger aircraft from the United States. Both of these cases are typical examples of a realistic development of international division of labour.

Another question that has caused some concern to us is the specialty steel-products in which a Finnish state-owned company Outokumpu is interested to enter the United States market. We know that there is a global quota for new exporters but we hope that it will be applied in a manner that the interests of Outokumpu, which should be ready to export to the United States market by April 1977, could be taken care of. Outokumpu is already a commercial partner to United States firms and here I refer for instance to its deliveries of chrome to the United States.

An transportation route - Finnish application to West Coast

P/Kebkerna

3 Aug 76

P We are greatly honored to have you here on our behalf. It says nice for Mrs E + F to be able to reciprocate hosp. you gave us just a year ago.

K I have had many visitors to come. Kinga glad I wanted till now.

P I am pleased you got to Michigan also. Do some of these still speak Finnish

K I have a relative there who still doesn't speak English after 50 yrs.

I have 2 prepared statements to make: one on intl relations + one on bilateral

V Please ⁱⁿ attend

K (Reads) ^(summary) We think intl scene has been marked by a relaxation of tension. We hope that process will continue. We explain airports like CSCF + NSFR. Hope for outcome from Salt, Belgrade very very hope will contribute to press. Results are ^{there for} uneven but that to be expected.

Now the bilateral.

P Why don't I comment on that 1st. Our main concerns w/ what you have said. Our efforts preceded me but I have continued + broadened them. We are pressing forward on Salt. There has been slowdown since Vlad. There troublesome issues of Baupia + CF. We will continue our efforts despite a pol. sit. here. We have to move so as to get an agreement + our people will support. I feel they are proceeding seriously also. I think that there is enough flex that we can do it.

(See attached text)

get an agreement. Commit it a date but we hoped.
On CS & E, your description of prog being
unknown is accurate. Some here are complaining
esp about Budget III. There has been prog on
mail aspects. Some here didn't want it to start
w/ us would be happier if prog wasn't under
but we hope beyond way with reg. some prog.
On MBER, it has been moving slowly, we
would like to move more rapidly than also.
You saw Bug recently. How is he

K He was ill earlier but I saw him couple
weeks ago + his health seems good now.
Earlier some Sov leaders said he so ill he
might have to leave his post but he better now.

V Give him my best.

K The Sov use a some words you on Salt.
that a ship not very great + can be bridged.

P That is an sense

(See attached
Text)
K Bilaterally there are no probs. We appreciate
understanding a US has shown toward our
FA role + appreciate support you have given
to that role. Econ., Finnish + are grad. improving
w/ OECD + if continues should overcome severe
impact of current recession. Our objective
is to achieve a permanently stronger + stable
position. Despite improvement, a still is
far from satis. Between countries, F has
had def since 1970. In 75 it was
25% of our total def. One way to make
up this def is subsidies. Don't think
a great holes spring lawyer has covered under
sounding we hope a prospects for subsidies

will proceed. We're bringing all over a lot from you
& this would be good division of labor.

On spec. steel grades, we hope a grade will
be defined in such a way as to help us out.

In that regard, we would hope to improve M of
chrome. We also hope you would look
favorably on expansion of Finnish exports.

P Large imbalance in trade but no + your
proposals for remedy thru incentives & spec. steel.
Let me say we are receiving rapidly from our
mission & as it does, a market for foreign goods
will expand rapidly.

On incentives, Coleman has done a study, you
into within tomorrow. I haven't seen a
study, but we are trying to keep a market open
all year. We have 2 there now & I think
we will need more. The real question is whether
we need big ones like you build & whether
smaller ones will do.

On spec steel, we did report separately
w/ 3 countries & see on a world wide grade
for a rest of world. I hope a set will improve
so that we can send a grade.

HK Finnish chrome would help greatly ~~but~~ in
our jobs w/ Rhodesia & S.U.

P Is that new?

K We produce 10% of world's chrome.

P ~~was~~ Have you tried to sell in US

K Only recently

P I hope you would just ~~it~~ chrome talks
inquiries.

On air rights, I understand that it is

* Purchase of F&C boats

under review now.

(Seems discussion of air routes, F&C + NW)

P I guess Coleman can give you more in depth on a schedule

HK I will talk to Coleman about F&C aspects of it.

P Are you even improving things?

K Not yet, we are a bit late

P We had entry in PR about 6 weeks ago. Guess missed w/ impact in Air + F&C. Of course G&B have their pros.

(More discussion of structures in connection w/ Alaskan oil, NW passage, + pipelines.

Sanso # All you going to have good grain crops?

P Crops looks like are all time high. Wheat is down a bit from drought but it's 2nd largest in history. Overall, our agr. ~~is~~ it is in good shape in x products.

We you hit by a drought?

K No. It didn't hit us, just in Euro.

T You asked if we were out of Russia. We aren't because we went in later + we tried follow a W, E in recovery by 6-9 mos.

P What are your principal x products

Sanso Wood based prod., some machinery

Arnold They are on agr. x country.

P Our principal wood consumer is Scandinavia + that has not recovered too well. We need 1. & 2 unit) to have a strong industry.

K We have a lot of paper.

P One paper has done well because it changes. When costs have increased so it is priced out of a market. Average price is now \$40000

K Something has happened in Finland - we lost
I yes.

P Some auto ads doing very well this year. The industry
thought small cars would take over, but they have gone
for larger ones.

Asked us to hope they will go for a particular Ford (Honda)

K We wish you well

P (Some discussion of campaign)