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INTERNATIONAL ECONOMIC SUMMIT

Puerto Rico

June 27 – 28, 1976

Briefing Papers for
THE PRESIDENT OF THE UNITED STATES

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THE PRESIDENT HAS SEEN.

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INTERNATIONAL ECONOMIC SUMMIT

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PART I

TAB A

ECONOMIC DEVELOPMENTS AND OUTLOOK

FUNDAMENTAL ISSUES

The main economic policy issue today is how to convert the current recovery into a sustainable economic expansion. Achievement of high employment levels depends upon further reduction of inflation rates and the creation of a favorable investment climate so as to obtain the necessary growth in our capital stock to absorb unemployment. Creation of this investment climate and further progress on the inflation side presupposes a reduction in fiscal deficits. Avoidance of a resurgence of inflationary pressures requires prudent fiscal and monetary policies. Furthermore, in an increasingly interdependent world it is necessary to take the strength of demand worldwide explicitly into account in the formulation of national policies.

U.S. OBJECTIVES AT THE SUMMIT

Our objectives are to obtain agreement on:

-- recognition that inflation itself creates unemployment and, therefore, that policies must be fashioned not only to avoid resurgence of inflationary expectations but also to achieve further reductions in inflation rates;

-- reduction of fiscal deficits;

-- improvement in mutual understanding of the strength of demand in individual countries and its effect on demand elsewhere;

-- acceptance of the principle that though policy <u>goals</u> may be mutual, both their actual <u>achievement</u> as well as the determination of ways and means of achievement are the responsibility of <u>national</u> governments. The need for <u>consultation</u> and cooperation should be generally accepted, but coordination of policies would be neither helpful nor practicable.

REMARKS ON ECONOMIC DEVELOPMENTS AND OUTLOOK
FOR USE BY THE PRESIDENT AT THE INTERNATIONAL SUMMIT

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 United States economy was on the path to recovery at that time, but the upturn elsewhere 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

Inflation

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 imortant 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 U.S. 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 U.S. 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, noninflationary 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 U.S. 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.

TAB B

INTERNATIONAL FINANCIAL AND MONETARY ISSUES

FUNDAMENTAL ISSUES

The major International Financial and Monetary Issues to be addressed at the Summit will include:

1. How to encourage industrial countries in a weak external financial position to implement the domestic stabilization programs which offer the only lasting means of preserving an open and cooperative trade and payments system. In the absence of domestic stabilization, such countries will eventually be forced to resort to extensive restrictions on trade. Should a major country take such action, it might prove difficult to dissuade other nations from taking counter measures which would be incompatible with the maintenance of the open trade and payments system and the spirit of international cooperation which are the essential foundations of further economic progress;

2. How to translate into law and into operating practice the conceptual framework of the new international monetary system agreed upon at Rambouillet and subsequently endorsed by the Interim Committee on the International Monetary Fund in Jamaica.

U.S. OBJECTIVES AT THE SUMMIT

First, we want to develop widespread understanding of the essentiality of further reduction in rates of inflation if the economic expansion required to sustain high employment levels is to be achieved and the public confidence essential to the survival of our political systems maintained.

Second, we want to stress both privately and publicly the importance of relying on domestic fiscal and monetary policies as the means of strengthening countries' international financial positions rather than on attempts to obtain international support for any particular exchange rate.

Third, we want others to recognize that unless adequate domestic stabilization programs are put into effect, the balance of payments deficits of weak countries will simply continue to grow.

Fourth, we want to demonstrate international support for strong and courageous actions on the part of such countries designed to restructure their domestic economies and thus eliminate their international payments deficits. We will urge that any external financial assistance provided by international institutions or friendly governments be made conditional on the implementation of effective domestic stabilization programs.

Fifth, we want to maintain the frequent, informal, comprehensive and candid consultations on economic and financial policies which have been developed among the major finance ministeries and central banks.

Sixth, we seek early ratification in the U.S. Congress and the legislatures of other nations of the amendments to the Articles of Agreement of the IMF which are needed to legalize the existing international monetary system.

Seventh, we should respond to pressure from other heads of state for U.S. ratification of the Financial Support Fund -- which would enable the Fund to be established -- by assuring them that the Administration will continue to make every effort to obtain Congressional approval.

REMARKS ON INTERNATIONAL FINANCIAL AND MONETARY
ISSUES FOR USE BY THE PRESIDENT
AT THE INTERNATIONAL SUMMIT

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 turn-around 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 U.S., 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 U.K. 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; and

-- to consider, for cases of countries in special need, a mechanism to supplement official credit tied to a rigours corrective program.

TAB C

INTERNATIONAL INVESTMENT

FUNDAMENTAL ISSUES

The major investment issues to be addressed at the Summit will include:

(1) How to increase support for a liberal climate for international investment in the face of pressures for increased restrictions;

(2) How to respond appropriately to the recent revelations of involvement by some companies in instances of bribery, alleged clandestine intelligence activities and other improper conduct;

(3) How to improve the public perception of the positive contributions of multinational enterprises.

U.S. OBJECTIVES AT THE SUMMIT

We want to use the Summit to reinforce and give high level impetus to our investment policy in the following key areas:

First, we need to obtain endorsement of the desirability of liberal treatment for the broad range of international capital flows. There is a need for a private OECD review of government actions which restrict or distort international capital flows, with a view toward reducing such restrictions or distortions.

Second, we want support for the concept -- enunciated by the United States in March in the UN Commission on Transnational Corporations -- of an international agreement to address the problem of bribery.

REMARKS ON INVESTMENT ISSUES FOR USE BY
THE PRESIDENT AT THE INTERNATIONAL SUMMIT

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 benefited 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.

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 UN 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.

TAB D

TRADE

FUNDAMENTAL ISSUES

The major issues to be addressed at the Summit will include:

1. how to accelerate progress of the multilateral trade negotiations (MTN);

2. how to better coordinate trade policies among the major industrialized countries;

3. how to improve the GATT;

4. how to implement our commitment of special and differential treatment for developing countries in the multilateral trade negotiations and to assure continued constructive participation of these countries in the MTN;

5. how international cooperation with respect to trade in services could be improved.

U.S. OBJECTIVES AT THE SUMMIT

We want to use the Summit to reinforce and give high level impetus to our overall trade strategy in the following areas.

First, we need to secure a commitment to accelerate the work program of the multilateral trade negotiations, particularly with respect to the negotiation of a tariff formula. To this end, we should seek agreement to hold a ministerial level meeting of the Trade Negotiations Committee (TNC) next February or March.

Second, we need to secure greater understanding and support for a coherent effort to improve the GATT.

Third, we should lay the basis for the implementation of concrete proposals regarding special and differential treatment for developing countries.

Fourth, we should seek agreement to initiate a coordinated study of services industries in international trade to determine how existing arrangements for international cooperation in this area can be improved.

Fifth, we should seek agreement on the long-term goal of a maximum reduction in trade barriers in an increasingly open global trading system.

REMARKS ON TRADE FOR USE BY THE PRESIDENT AT THE INTERNATIONAL SUMMIT

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. But 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~~ the agreed objective of concluding the negotiations in 1977, ministerial level imput 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.

TAB E

ENERGY

FUNDAMENTAL ISSUES

The major energy issues that merit discussion at the Summit include:

(1) How to achieve a more ambitious and vigorous effort by the industrial democracies to reduce collective vulnerability by reversing our growing dependence on oil imports;

(2) How to strengthen coordination of industrialized countries' strategy toward producers in the CIEC Energy Commission.

U.S. OBJECTIVES AT THE SUMMIT

First, we want to convince the other major industrialized countries of the continued U.S. commitment to a strong energy policy.

Second, we want to obtain public recognition by chiefs of state of the seriousness of the energy problem and a renewed commitment to collective action to reduce dependence on imported oil. In particular we want:

-- agreement to initiate in the IEA (with France, which is not a member of the IEA, associated through the EC) a process to develop national objectives for reduced dependence and more vigorous national energy policies.

-- agreement to give high-level impetus to prompt implementation of the IEA Long-Term Program with major joint projects in conservation, production of new supplies and an expanded R&D effort.

Third, we want to assure continued adherence by the other industrialized countries to a strategy toward the oil producers compatible with U.S. interest in constraining the cartel's pricing and production policies.

REMARKS ON ENERGY FOR
USE BY THE PRESIDENT AT THE INTERNATIONAL SUMMIT

We continue to face a serious challenge in the energy area.

Our achievements in consumer cooperation, the dialogue with producers in the CIEC, and OPEC's recent moderation on oil prices are positive developments. But as we move further into economic recovery, our demand for imported oil will inevitably grow. Thus, the soft demand situation, which has helped to contain OPEC price increases, will recede and remove these constraints on the cartel. Therefore, we must increase our efforts to conserve energy and to bring new supplies on stream.

<u>U.S. Energy Program</u>

As the world's largest oil consumer, and with massive untapped energy resources, the United States has a particularly large responsibility to reduce dependence.

The Energy Policy and Conservation Act, which I signed last December is a major part of our effort.

- -- It mandates substitution of coal for imported oil by our electric utilities.
- -- It establishes automobile efficiency standards which will reduce import dependence.
- -- It authorizes the establishment of emergency oil stockpiles.

Unfortunately, this Act also perpetuates a program of petroleum price controls which have the effect of subsidizing imports of foreign oil and hampering expansion of domestic supplies. Within the confines of this program we are attempting to bring U.S. petroleum prices up to world levels as rapidly as possible.

- -- We are removing regulations on supply and prices of products accounting for a large share of U.S. petroleum usage.
- -- We are removing the cumbersome regulatory apparatus which was adopted during the embargo.

We have made a major commitment of resources to energy research and development. We have also opened our Naval Petroleum Reserves which will provide significant new supplies.

However, more is needed. I have submitted a number of major measures to the Congress to strengthen conservation and stimulate the development of new supplies. It will not be easy to obtain major new legislation before our elections. But I am encouraged by the prospects for legislation in the near future on unfreezing natural gas prices, new incentives for synthetic fuels development, additional incentives for conservation, and providing for additional uranium enrichment capacity.

Consumer Country Cooperation

At Rambouillet, we reaffirmed our commitment to cooperative action to reduce our dependence on imported oil. However, as Chancellor Schmidt then pointed out, we have not yet convinced our peoples of the continuing seriousness of the energy problem nor our disposition to act collectively.

We should take the opportunity of this meeting:

-- to give new impetus to cooperative concrete measures and programs to reduce our dependence;

-- to agree to begin a process in the IEA and other appropriate fora of clearly defining collective and national objectives for reducing our dependence on imported oil by 1985.

-- to commit ourselves to the policy steps needed to reach these objectives.

Cooperation in the Dialogue with Producers

We also agreed at Rambouillet on the need to pursue a coordinated strategy toward the oil producers. The energy dialogue in CIEC cannot directly reduce our energy vulnerability; only effective action to reduce our dependence on imported oil can achieve that goal. But it can encourage the producers to exercise their market power in a manner consistent with global growth and stability.

Consumer country coordination in the Energy Commission has been encouraging and its continuation is essential.

In the last half of the year, we believe the industrialized countries should concentrate in the Commission on:

-- establishing a base for ongoing dialogue with the producers, aimed at encouraging their moderation and underscoring their dependence on us; and

-- initiating cooperative measures to provide relief for the energy problems of the non-oil developing countries.

We must, however, take care that this ongoing dialogue does not evolve into a process of formal consultations on price. Such consultations would create risks of confrontation and appear to sanction future increases while giving us no real influence over OPEC pricing decisions.

The Energy Commission might expedite the establishment of an International Energy Institute as we have proposed. The proposed International Resources Bank could increase adequate flows of new investment in oil and gas exploration and development by reducing the political risks of investment in the Third World. The World Bank's efforts in this area are also of importance.

At Rambouillet, a number of us stressed the importance of individual and joint efforts to reduce our collective vulnerability. Some positive steps have been taken. We must now intensify and strengthen our national energy programs, begin a process leading to clearer articulation of our reduced dependency objectives, and maintain our close and constructive coordination in the energy dialogue.

TAB F

RELATIONS BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

FUNDAMENTAL ISSUES

The challenges which the Summit discussion should address are:

(1) the need for the industrial countries to take the leading role in North-South relations that their interests and power warrant, rather than mainly reacting to LDC demands and philosophy;

(2) the requirement and procedures for industrial country coordination if this potential is to be realized;

(3) the timing and content of a successful outcome of the Paris Dialogue (Conference on International Economic Cooperation-CIEC);

(4) support for a coordinated constructive approach to issues of critical importance in our relations with the developing countries, particularly energy, commodities, and investments in natural resources.

U.S. OBJECTIVES AT THE SUMMIT

The Summit comes at a critical point in North-South relations. A number of factors indicate that the situation is fragile. There were major divisions among developed countries at UNCTAD. The EC countries are demoralized by the collapse of the Community's effort to take a leadership role through a common, forward EC position at UNCTAD. Some countries (the Dutch, Scandinavians) make EC and industrial country coordination impossible by their approach based on giving the LDCs whatever they say they want at the moment rather than supporting sounder long-term strategies. A resurgence of Arab-Israeli and other political issues threatens to mar a number of upcoming conferences.

In this situation our Summit objectives are the following.

First, we need to strenghten the major industrial countries confidence in the area of North-South relations. The industrial countries are dealing from a position of strength. The developing countries need their markets, capital and technology. These assets should be used in a coordinated way to pursue a western strategy, rather than viewing North-South relations as a defense against an onslaught of hostile philosophy and unilateral demands.

Second, we want to achieve closer coordination among industrial countries on North-South relations, to make their leverage effective. This entails a difficult question of how the EC, if it is to speak with one voice, coordinates with the U.S. and Japan when its positions are still in the formative stage.

Third, we want to reassert a willingness and capacity for the U.S. to lead in developing realistic North-South approaches.

Fourth, we want to present an approach to a successful conclusion of the Conference on International Economic Cooperation as a concrete example of our leadership.

The Europeans and Japanese should be receptive to this approach. However, not even this group is unified. Some of the countries have shown a tendency to curry LDC favor. Trudeau, for example, overruled his advisors in the final days of UNCTAD and endorsed the UNCTAD Common Fund, a pet LDC project in UNCTAD which we have resisted.

Fifth, we want to reaffirm support for United States proposals such as our comprehensive approach to commodities, the International Resources Bank and the International Energy Institute.

REMARKS ON RELATIONS BETWEEN DEVELOPED AND DEVELOPING COUNTRIES
FOR USE BY THE PRESIDENT AT THE INTERNATIONAL SUMMIT

Our economic relations with the developing world have reached a key decision-making stage. Clearly, we must continue to improve our political and economic relationships with the developing countries, to quicken the pace of their development and to avoid the risk of a return to the rhetoric and actions of confrontation. This requires a kind of preparation and collaboration which we have not yet achieved. It requires the same commitment, the same political will which we achieved at Rambouillet in pursuit of cooperation in sustaining economic recovery.

We have no need to be defensive in our relations with developing countries. We have a strong position from which to propose and pursue long-term strategies in our interest as well as theirs. We are not under siege. To be effective, however, we have to avoid disarray and competitive efforts to gain momentary favor. Such competition may appear to be good short-term politics but it does not advance substantive achievement.

Our position has been forthcoming, but we and other OECD countries must now join together to agree on a common program of action. At this stage coordination becomes critical.

Our posture with respect to internationally traded comm^dities 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. (We believe that objective commodity-by-commodity deliberations over coming years will prove such a fund unnecessary.)

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.

DEPARTMENT OF STATE

Washington, D.C. 20520

June 16, 1976

MEMORANDUM FOR

Mr. Roger Porter
Economic Policy Board
The White House

In response to Bill Seidman's request for the State Department position on the Common Fund, our position remains that expressed by the U.S. Delegation at the conclusion of the Nairobi Conference, to wit,

> "A decision on a financial relationship among buffer stocks will need to be considered in the light of developments on individual funds. However, since there may be advantages in linking the financial resources of individual buffer stocks we will participate without any commitment in preparatory meetings to examine whether further arrangements for financing of buffer stocks including common funding are desirable. After these preparatory discussions we will decide on participation in any negotiating conference."

This position was, as you know, agreed to by all of the agencies and prior to the authorization given to our delegation at Nairobi.

Joseph A. Greenwald

Joseph A. Greenwald
Assistant Secretary
for Economic and Business Affairs

TAB G

EAST-WEST ECONOMIC RELATIONS

FUNDAMENTAL ISSUES

The major East-West economic issues that merit discussion at the Summit include:

(1) the extent to which increasing participation by the Soviet Union in world trade raises questions as to how the Soviets, as well as the other Eastern European countries, should be brought into a closer relationship with major Western economic programs or institutions;

(2) the extent to which the rising Soviet and Eastern European hard currency debt raises potential problems or opportunities for Western governments; and

(3) the question of whether the increasing involvement of the Communist countries in international trade and payments is likely to give rise to structural problems in relationships between market and non-market economy countries requiring some form of orderly examination by the industrialized Western nations.

U.S. OBJECTIVES AT THE SUMMIT

We want to use the Summit to have the participating countries recognize the gradually expanding Soviet and Eastern European role in world economic and financial activities as constituting an issue that warrants regular monitoring, evaluation, and possibly consideration of joint measures.

The economic dimension of the East-West relationship is increasingly important. While at present the Soviet Union and the nations of Eastern Europe do not constitute a major segment of world economic activities, their role is growing. They do constitute a factor that must be taken into account in connection with global efforts to respond to the major challenges of energy and food supplies, overburdened international financial institutions, and environmental planning. The Summit countries have an interest in ensuring that the Communist countries do not become an obstacle to multilateral solutions and that Western relationships with the Eastern countries broaden the area of constructive mutual interest.

For these reasons, we believe the industrial democracies should work together to develop a commonality of outlook and purpose. We have included a proposal to this effect in the U.S. presentation to the OECD Ministerial Meeting on June 21. We want to use the Summit discussion on this point to follow up our OECD initiative.

An indicator of the developing East-West economic involvement is the growth in the Soviet and East European debt to the West, which may rise to more than $30 billion by the end of 1976. This does not represent a critical problem yet, but it merits prudent monitoring by the creditor countries. At some level a growing debt will become an important consideration in East-West relations as a point of economic leverage.

REMARKS ON EAST-WEST ECONOMIC RELATIONS FOR USE BY THE PRESIDENT AT THE SUMMIT

Economic and political relationships between the East and West have become increasingly important. One illustration of this is the dramatic growth in East-West trade. Total two-way trade between the OECD countries and the Communist countries of Eastern Europe, including the Soviet Union, has increased nearly fourfold in the last four years.

This growth has many positive aspects. But it has also resulted in the increasing potential for Eastern countries to disrupt Western trade patterns and relationships. For example, erratic Soviet purchases of large quantities of grain prompted the United States to negotiate a long-term grain agreement with the Soviet Union. At the same time, this increased economic activity has resulted in greater Communist-country dependence on Western sources for trade, capital and technology.

In addition to direct East-West economic exchanges, the Communist countries play a role in the broader economic system. Frequently their conduct has not been constructive. For example, the Communist bloc has at times impeded the dialogue with the developing countries.

The U.S. made certain proposals at the OECD Ministerial meeting suggesting that the OECD adopt a systematic work program for developing objectives and approaches. We proposed certain specific issues that should be included in an initial examination. These include: reciprocity in trade, growing external debt of Eastern countries, role of Communist countries in multilateral bodies, development assistance contribution by Communist countries. Our purpose is to better understand the new dimensions of our economic relations with the Communist nations and ensure that they become an increasingly positive element in the world economy.

Growing East-West relations presents special problems. But it also offers opportunities. If we understand the issues and deal with them cooperatively, this development can contribute to our own prosperity as well as to the stability of the international system.

FOLLOW-ON REMARKS ON
EAST-WEST ECONOMIC RELATIONS

Should you wish to discuss the issues in greater detail, then you might make the following points:

-- Reciprocity in Trade. In communist trading systems, tariffs are irrelevant to purchasing decisions made by central planners. Tariff concessions offered by these countries are therefore meaningless. As a result, many Western countries have sought import commitments from the Eastern countries. We must determine whether this is the best approach. We also need to examine whether our protective devices against unfair trade practices by non-market countries is adequate and whether Eastern access to Western markets can be improved without sacrificing this protection.

-- Growing Communist External Debt. Soviet and East European indebtedness more than doubled in 1975, and now totals more than $30 billion. We must study the implications of this growing indebtedness. Close consultations among the Western creditor nations is essential. Financial pressures may at some point force the non-market economies to cut back on the volume of Western imports. In such a situation, we want to assure that our countries and firms do not succumb to non-economic competition.

-- Eastern Nations in Multilateral Economic Bodies. We do not think that the Soviets will try to join the GATT, the IMF, or the World Bank, nor do we think their membership would be in our interests. Financial pressures might encourage the Poles or other Eastern Europeans to consider membership in the IMF and World Bank in the next few years, however, and we should examine this question without waiting for overtures from the East.

-- Communist Development Assistance. Communist aid to developing countries has been negligible, and in 1976 they will receive more in repayments from the Third World than they will extend in new aid. Moreover, when they do provide assistance, they often attempt to create permanent reliance of the recipient on the donor -- a neo-colonial relationship. These policies have been criticized by the developing countries themselves. We should encourage the Soviet Union and the Eastern Europeans to take a more positive, less politically-motivated, approach in their aid efforts.

TAB H

INTERNATIONAL ECONOMIC SUMMIT
PUERTO RICO

MONDAY - JUNE 28, 1976
DAY # 3

FOR THE PRESIDENT

Conservation
Auto efficiency
Industry "
Government + efficiency
Nuclear energy - danger of

Petroleum
Coal
Nuclear safety reliable safeguards terrorism
Solar
Geothermal
Wind
Synthetic

R. & D. -
Sharing -
Financial

INTERNATIONAL INSTITUTIONS

FUNDAMENTAL ISSUES

The major international institutions issues that merit discussion at the Summit include:

(1) how to counteract the trend toward creating unnecessary international institutions concerned with economic issues;

(2) how to eliminate the duplication of effort among and within existing international economic institutions.

U.S. OBJECTIVES AT THE SUMMIT

We need to secure agreement among the participants that:

First, that there is not only a problem of proliferation of institutions to oversee international economic relations, but also a problem of duplication among and within international institutions.

Second, that the major countries should cooperate in efforts to consolidate and streamline existing organizations as well as to guard against creation of new organizations.

Third, the senior representatives from those countries represented at the Summit should undertake two related efforts: (1) to consolidate marginal bodies in the OECD and (2) to recommend consolidation of duplicative efforts in such organizations as the IBRD-IMF, UN, and CIEC.

REMARKS ON INTERNATIONAL INSTITUTIONS FOR USE BY THE PRESIDENT AT THE INTERNATIONAL SUMMIT

At Rambouillet Prime Minister Wilson called attention to the proliferation of international bodies concerned with economic issues and the burden this places on governments. He distributed an illustrative list of international institutions, committees, and working groups concerned with the same or related subjects and suggested this matter deserved further study. I agree.

The institutions we created at the end of World War II continue to be the basic international monetary, trade and development organizations. They have been supplemented by the OECD as the forum for more intimate consultation and collaboration among the industrial democracies. Within the past decade these institutions have been further supplemented by new bodies initiated by, or in response to the problems of, the developing countries. These new bodies include organizations like UNCTAD which are concerned with the full spectrum of international economic relations and smaller institutions like the regional development banks.

Additional organizations are not in themselves proof of redundancy. Even when several bodies are concerned with the same subject matter, they may differ in approach and perspective and thereby serve a useful purpose.

Nonetheless, I agree with former Prime Minister Wilson's position that it is a challenge to the international community to assure that new institutions are necessary before they are created and to reduce any duplication of effort in existing institutions. As the number of organizations increases, the burden on officials and on our budgets also increases.

Economic relations among countries are and should be conducted by private participants in the markets with minimal interference by intergovernmental institutions. As circumstances change, the related international institutional framework should reflect these changes; but movement should be in the direction of removing impediments to private sector activity. Increasing world interdependence does not require a larger or more complex intergovernmental institutional structure.

A major problem we face is the desire of the developing countries for new forums which are duplicative of existing bodies but which offer them additional platforms for pressing their case and new secretariats to define the issues as they see them.

As the world economy becomes increasingly integrated and complex, it may seem to some that greater "political will" and international monitoring are called for to ensure harmony. Strong pressures from developing countries, and the temptation to delay confrontation by referring international economic issues to new institutions, is responsible for much of the proliferation of new international agencies.

I believe we need to join in a concerted effort to counteract the trend toward creating unnecessary institutions through application of the following guidelines:

- Where new organizations are proposed to meet new needs, we should first consider whether the function can be performed in an existing effective structure, preferably one whose decisions are made by major contributor weighted voting.

- Where a new funding institution is deemed necessary to draw contributions from new donors, such as IFAD, we should look to existing competent bodies to execute projects approved by the new institution.

- We should consider bringing organizations together to perform new functions where their talents and experience can reinforce each other.

- We should consider the farming out of tasks by one organization to another in its special area of competence.

- We should consolidate existing organizations where possible and should eliminate those which do not have an essential purpose.

In addition to these guidelines, I offer the following specific suggestions for immediate action:

- o We should take full advantage of the Ad Hoc Committee on Restructuring the Economic and Social Sectors of the UN System. For example, we could:

  - -- Make sure that UNCTAD will rely on existing commodity organizations instead of taking on and duplicating their work.

  - -- Make every effort to avoid future special sessions of the General Assembly on subjects, such as development, which are handled regularly by other UN bodies.

- o The Development Committee of the IMF and World Bank should review the activities of the development banks and suggest changes to reduce duplication and eliminate unnecessary institutional activity.

- o In addition, we should undertake a new effort to strengthen within the OECD those organs that are critical and to eliminate bodies which now serve only marginal purposes. We should ask senior representatives to give high priority not only to this effort within the OECD but also to recommend ways to eliminate duplication within such other organizations as the UN, the IBRD, the IMF, and the CIEC. We should ask for a report on this within six months.

More coherent management and coordination is also imperative. At this meeting we can agree that our countries should consult one with the other and other industrial country partners before proposing a new institution or forum.

TAB I

SOVIET HARD-CURRENCY DEBTS

FUNDAMENTAL ISSUES

The major issues to be addressed at the Summit are:

(1) recognition that the rising Soviet hard-currency deficit represents possible problems as well as opportunities for the West;

(2) laying the groundwork for future consultation and concerted action.

U.S. OBJECTIVES AT THE SUMMIT

We want to use the Summit to identify the worsening Soviet hard-currency debt as a possible problem in East-West relations and to establish a unity of concern among the Summit allies. We want the Western countries to agree on our basic estimate of the facts of the situation, and on the premise that in light of the possibilities for continued increase in the debt, the Soviet financial position should be carefully monitored. We therefore want to have it agreed that the allies will plan to have further consultation at the official level on this issue. In that consultation, in addition to exchanging data on the development of Soviet indebtedness, we should also attempt to reach agreement on what would constitute signals that the Soviets are getting into serious financial difficulties.

It would be desirable to obtain an early understanding that Western nations would coordinate their actions if Soviet ability to service their hard-currency debt became questionable. We would like the discussion at the Summit to open up for further consideration the fact that a serious debt problem for the Soviets has implications, for good or bad, in East-West relations generally. A serious debt bind for the Soviets could lead them to take corrective measures in the area of trade that could have disruptive effects on Western trade interests. Alternatively, the Soviets might reach the point of appealing to the West for debt rescheduling or for other special financial assistance. If events should reach this point, there would have to be a calculation of an appropriate Western response, whether helpful or non-helpful, and of how it might affect our overall objectives in the East-West relationship. The Summit should therefore recognize that if the Soviet debt problem moves out of an acceptable range of imbalance, it could have a distorting effect on various aspects of the total East-West relationship.

In the discussion at the Summit, we will want to guard against the creation of a crisis atmosphere. While we think there is no disadvantage in the Soviets learning, directly or indirectly, that the Summit partners are prudently watching the trend of the Soviet debt problem we have to be aware that if they conclude that the West is seriously concerned over the situation, the Soviets may begin to examine the pressure options that would be open to them as a major world debtor. It is also true that whatever may be the reaction at the Summit, the very fact of raising the subject there - especially if made public - would increase anxiety among Western bankers and encourage a stiffening of credit terms. That is not inappropriate under the circumstances, but we would not want to encourage an over-reaction in financial circles at this stage.

For these reasons, we should see to it that any reflection, in the final communique or otherwise, is very low-key and non-committal.

REMARKS ON SOVIET HARD-CURRENCY DEBTS
FOR USE BY THE PRESIDENT AT THE ECONOMIC SUMMIT

Together with the other countries here, we have become aware of a rising Soviet hard-currency debt.

Soviet indebtedness to private Western banks at the end of 1975 was close to $5 billion, having increased from less than $300 million a year earlier. Total Soviet hard-currency indebtedness - private and official - was twice that figure. The Soviet hard-currency trade deficit in 1975 was $6.3 billion roughly, and in the first quarter of 1976 amounted to $2 billion. The Soviet Union and the Eastern European countries taken together owed about $15 billion to private Western banks, and their total net debt to the West was about twice that figure.

The size of the Soviet debt is impressive but is certainly not critical as yet. We think, however, that the Soviet debt situation warrants careful watching. Looking ahead, we see a rather certain heavy Soviet trade deficit in 1976, with some variables in the picture that could result in a serious financial problem for the Soviet Union by 1977.

A bad harvest in 1976 would add to the grain bill in 1977 and greatly increase Soviet import payments. Sluggish demand in the West could also add to the imbalance in Soviet hard-currency trade.

A bad year in 1976 - say a deficit of $6 billion - could force the Soviets in 1977 to take aggressive steps to redress their trade imbalance - cutting back on imports, pushing exports at cut rates, selling gold on a large scale, and generally using the leverage available to a state-trading country. Any of these actions would have inevitable effects on Western economic programs.

If the Soviet payments situation became serious enough, the Western creditor countries might face a Soviet request for debt rescheduling or special financial assistance. The implications of acceding to such a request or, alternatively, of refusing or conditioning assistance could have an impact beyond the trade dimension and would have to be carefully considered.

For these reasons, we propose that the Summit countries recognize the Soviet hard-currency deficit as a problem having implications for Western economic and political interests and that they agree to keep the matter under review. This could be done through consultation on the official level by the participating countries, with a view to maintaining an agreed set of estimates and a consensus on what would trigger danger signals that the Soviets may be getting into serious financial difficulties.

We believe it should be implicit in our further consultation on this problem that the Western creditor nations should react in a unified way, should the consideration of unusual steps become necessary.

NOTE: Additional information on the Soviet debt to the West that may be given to the other countries is attached.

The attached tables provide information on the Soviet debt to the West and on the Soviet hard-currency deficit which may be given to the other countries.

Estimated Soviet Debt to the West
and Debt Service Ratio

Year	Debt Outstanding at Yearend (Million US$)	Debt-Service Ratio 1/ (%)
1970	1,722	18
1971	2,029	18
1972	2,608	20
1973	3,641	17
1974	4,461	15
1975	7,489	20
1976 2/	10,179	N.A.

1. Repayments of principal and interest taken as a percentage of Soviet hard currency exports. Inclusion of invisible receipts would decrease the debt-service ratio only slightly.
2. Preliminary.

USSR: Financing Hard Currency Deficits

	Million US \$ 1/	
	1975	1976 (Estimated)
Trade deficit 2/	-6,300	-4,000 to -6,000
Medium-and long-term credits net of principal and interest payments 3/	2,200	1,400
Other invisibles and hard currency trade not elsewhere specified 4/	500	600
BALANCE FINANCED of which:	-3,600	-2,000 to -4,000
Eurocurrency syndications	800	1,000 to 500
Gold Sales	1,000 5/	1,000 to 800
Change in Eurocurrency position,net 6/	3,200	1,000 to 0
rrors and Ommissions 7/	-1,400	-1,000 to 1,000

1. Data rounded to nearest \$100 million
2. Derived from Soviet statistics
3. Includes government-backed credits for imports of machinery and equipment and large-diameter pipe.
4. Includes estimated revenues from arms sales, hard currency expenditures under clearing agreements, and net receipts from tourism and transportation.
5. Including rumored sale of 50 tons directly to Middle Eastern buyers, which may have earned some \$250 million
6. Position includes some medium-term borrowing.
7. Includes changes in short-term capital, and for 1976 will probably include additional bank-to-bank borrowing on the Eurocurrency market.

PART II

TAB 1

BACKGROUND PAPER

6/4/76

Economic Activity and Policies in Major Industrial Countries

The economic recovery of the industrial world from the 1974/75 recession is considerably stronger than anticipated last November. The U.S. recovery in fact has entered the expansion stage, as earlier peak levels of output have been regained and the growth in demand has become increasingly broad-based. And the United States economy is not alone in exhibiting growing strength: Germany and France also have entered the expansion phase well ahead of earlier expectations and Canada and Japan are not far behind. Output in the United Kingdom also has been rising since the beginning of the year, but in Italy several stabilization measures recently instituted to counter inflation and stem the depreciation of the currency, are damping the revival of domestic demand.

The recovery currently is being spurred by a turnaround in inventory investment from decumulation to accumulation and by stronger private consumption demand. But a pick-up in order activity for investment goods and signs of a revival of construction activity point to a firming recovery almost everywhere. Consequently, forecasts for growth of aggregate demand are being revised upward in a number of countries. For the OECD area as a whole, real GNP in 1976 is now expected to exceed 1975 levels by about 5 - 6 percent.

The revival of consumer spending, which has been heavily concentrated in purchases of durable goods, has been accompanied by a reduction in private savings rates from last year's historically high levels. The return of consumer confidence, indicated by these developments as well as by recent household surveys, is being reenforced by labor market developments. With rising rates of activity, unemployment rates have stabilized almost everywhere and in some countries have begun to trend slightly downwards. Perhaps more important,the ratio of job vacancies to unemployment, a more sensitive indicator than the unemployment rate by itself, has begun to improve fractionally and short-time work is being reduced significantly. Nevertheless, unemployment remains at historically high levels and only slow improvement is expected in coming months.

The continued softness in the labor market has been a major factor in the moderation in wage settlements recorded in a number of countries. In Germany and Japan settlements this year were both below last year's levels and at or below levels considered to be inflationary by the authorities. In other countries, e.g., France, Canada and some smaller European countries, however, wages are still rising fast and in some countries, direct measures to control the rise of prices and wages have been instituted. Wage settlements in the United Kingdgom and Italy have come down considerably from last spring's very high levels and at least in the United Kingdom are likely to lag domestic inflation rates this year. Nevertheless, wage pressures remain high in both countries compared with developments in the big three economies.

Although cost pressures coming from the wage side continue to lessen -- partly because of the more moderate settlements and partly because of increases in productivity associated with the early stages of a recovery -- progress towards further moderation of price increases seems to have come to a standstill. This reflects in part the recent sharp rise in commodity prices -- the London Economist's dollar price index for industrial commodities is 20 percent and that for food 25 percent above last year's level -- and in part attempts by business to restore profit margins. In addition, in France, the United Kingdom and Italy, the price effect of the recent currency depreciations still has to work through the economy. As a consequence of recent wage and cost developments, inflation rates in 1976 may vary even more widely among countries than they did in 1975.

Although progress on the inflation side appears to have been halted at an early stage in the recovery, inflationary expectations so far seem not to have been affected. Long-term interest rates have been trending downward in most countries and, although there has been some firming very recently, still remain considerably below their 1975 highs. And equity markets, except in Italy and France, have turned up virtually world-wide. The monetary authorities in most countries have pursued policies designed to accomodate the recovery. Growth of money supply, in fact, appears to have accelerated in recent months in a number of countries. As a result, private sector liquidity has remained high and short-term interest rates at least in the big three countries have firmed only little, if at all. With the increased internal cash flow associated with recovery and the high level of bank liquidity, business so far is encountering no difficulties in financing the swing in inventory behavior and the incipient upturn in investment demand. It would appear that this situation has not been materially altered even in those countries where discount rates have been increased in the wake of the recent disturbances in foreign exchange markets. Italy represents an exception in this respect, as the authorities have moved to tighten monetary conditions considerably. Nevertheless, the effects of the depreciation of the lira on trade flows, coming at a time when external demand is reviving, may help at least partially to offset any damping of internal demand.

In line with rising rates of industrial activity and shifts from inventory decumulation to accumulation, imports have begun to rise also. In addition, in Italy and to a lesser extent in some other weak currency countries, imports have risen for speculative reasons. Only in Japan have imports remained relatively stable over the first few months of 1976.

The increase in import demand of industrial countries has been accompanied also by higher export activity. In the case of Germany and Japan, increases in exports are outstripping demand for imports and are resulting in very high and rising export surpluses. The acceleration in export demand has stemmed predominantly from an increase in trade among industrial countries. The large rises in exports to OPEC of the past two years have begun to flatten out. In addition, import demand of non-oil producing developing countries, which had been very high through most of the recession, began to fall off in the second half of 1974. And this trend has continued into 1976. Earnings of non-oil developing countries, however, appear to be picking up considerably. The shift in inventory demand in most industrial countries has been concentrated in the raw and semi-fabricated materials stage. This implies a more than proportional rise in demand for goods produced by developing countries, which has been reflected in the strengthening of commodity prices mentioned earlier. As a result of these developments, external financing pressures on non-oil developing countries may turn out to be less severe than expected earlier, both because of higher volume sales and because of higher unit prices.

Policy Problems

The main policy tasks today are consolidation of the current recovery, restoration of high-employment levels in the various economies, and laying a firm basis for continuing stable growth thereafter. These are not easy tasks considering the major problem which led to the deep recession of 1974-1975: viz. the climate of inflation that prevailed from the mid-1960's through the early 1970's which was severely exacerbated by the oil price increases of 1973/74.

The global inflationary climate of the 1960's which carried the seeds of eventual recession stemmed in large part from an overly optimistic view of industrial country supply capabilities. Governments strongly committed themselves to ameliorate social inequities at home and abroad and to achieve an ever rising standard of living. However socially commendable, these commitments proved to be too ambitious in economic terms -- both in what they actually attempted to achieve and in the expectations they raised among the public. Thus, the major task for the next several years is both economic and political -- not only to regain acceptable levels of output but also to set realistic goals that are accepted by the public at large.

Growth rates that will restore the industrial economies to high employment levels with sufficient price stability to be sustainable are clearly achievable, but they presuppose a reordering of priorities and a shift in resource allocation towards private investment. This requires a financial climate that generates sufficient savings flows and channels them into productive investment. Such a climate cannot be established however without a significant and lasting reduction in the financial requirements of the various central governments.

In order to achieve a reduction in the social hardship and the economic waste associated with underemployment and to regain the basis for sustained increases in standards of living for the industrial democracies and for the world at large, the demand management decisions that will be made over the next 18 months or so are crucial.

Recent experience shows the important role played by inflationary expectations in economic developments. 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 can be triggered relatively more quickly than in the past and once renewed, will prove increasingly hard to erase. Under these conditions, it would be more prudent for short-term policies to err on the cautionary rather than on the expansionary side. In addition, institutional circumstances in most countries are such as to make it easier for authorities to stimulate demand that is rather more sluggish than desired than to control demand that is expanding excessively.

If the industrial countries fail to judge their supply potential realistically and if they fail to gain acceptance from the key constituencies in their economies for growth objectives which are realistic, they will have lost the opportunity to return to a period of sustained prosperity for the world economy as a whole. The pre-conditions for noninflationary growth exist; there have been no fundamental changes in the industrial economies that indicate that productive potential has lessened in any significant way. However, it may well be that the problems which limit the ability of underlying potential to come fully into play may have been compounding over the past several years. And these problems, discussed below, are likely to surface as nations move further into expansion.

On a national plane, pressures on governments to bring about a faster reduction in unemployment are likely to grow. However, as forces of private demand gather strength, it will become increasingly necessary that public expenditures become less expansionary. Budget deficits almost everywhere have reached historical highs. Although revenues will rise with the recovery, fiscal measures taken in 1974/75 are tending to reduce high-employment balances: government expenditures, especially for transfer payments, reflect the effects of price increases increasingly promptly, while at the same time income taxes have been cut and in some countries indexed to offset or reduce fiscal drag. Accordingly, with inflation rates that still remain unacceptably high, budget deficits may shrink less rapidly than they have during past recovery periods.

On an international plane, underlying payments disparities may become increasingly apparent as recoveries proceed. The recession subdued import demand and masked basic external problems. As demand revives, these problems will surface again, especially in those countries where import demand is particularly responsive to rising levels of activity without a parallel development in exports. In addition, inflation rates among countries are likely to differ during their recoveries and this will tend also to exacerbate payments strains. Furthermore, some countries which have borrowed heavily in recent months will be faced with enormous medium-term debt repayment problems, while others may begin to reach their debt limits And countries which have recently seen a depreciation of their currencies will face a sharp increase in import prices before the export stimulating effects of the depreciations take hold. Thus, strains on international financial markets may emerge, posing a need to examine possibilities for new or extended financing to help those countries which are attempting to stabilize their internal economies to bridge the period necessary for stabilization measures to become effectives.

Because of these national and international considerations it becomes more important than ever to judge the impact of economic interdependence correctly. The current economic upswing is becoming increasingly simultaneous. The prompt and substantial strengthening of world trade that is accompanying the 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 derive from a worldwide recovery that underestimates its own strength. 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 the past experience cannot and must not be disregarded. In formulating national policies the strength of demand worldwide must explicitly be taken into account. But, perhaps more important, a scaling down of horizons to more modest but attainable levels is crucial to a sustained recovery of the world economy.

Economic Situation and Policies in France

The French authorities face two major underlying economic problems: high structural unemployment and high inflation rates. External deficits, though objectively not a basic problem, are viewed as such by the authorities mainly for political rather than economic reasons.

The French economy was less affected by the world recession than virtually any of its trading partners, except Canada. Although the recession was briefer and more shallow than elsewhere, social pressures to reverse the downward trend were mounting over the summer of 1975. In recognition of the still strong underlying inflationary tendencies, the French authorities looked to outside stimuli, particularly from Germany and the United States, to turn the French recession around. Nevertheless, in the fall of 1975, the French Government instituted an expansionary program of its own and monetary policy, in particular, became very stimulative.

The French policy actions, coming just at the time when the upturn in other countries was becoming more and more apparent, were quickly effective. Industrial production began to rise once more towards the end of last year and in recent months has been rising at an annual rate of about 17 percent. Real GDP is estimated to be rising at an annual rate of 13 percent during the first half of this year and the year-to-year increase from 1975 to 1976 is estimated to be 5-6 percent.

The revival in output is led by consumption demand which has been buoyed by increases in wages in excess of the inflation rate by about 2 percent per annum. Investment demand, particularly for plant and equipment, remained weak through the beginning of this year. The French authorities introduced several measures last year to support investment activity, but the large margins of spare capacity coupled with the weak financial positions of many firms delayed the effectiveness of these actions. Recently there have been indications, however, of a moderate upturn in investment demand also.

But the improvement on the real side has come at the expense of a considerable acceleration in inflation rates. Wholesale prices, which had been falling during the first half of 1975, are currently rising at an annual rate of 14 percent. Consumer prices which had been moderating during most of 1975 and were rising at an annual rate of about 9 percent during the second half of 1975 are currently rising somewhat faster again.

The reversal of the trend towards moderation of price increases partly relates to external factors: the increases in world commodity prices and the 6 percent devaluation of the franc (vis-a-vis the dollar) since the beginning of this year. The depreciation of the franc was clearly foreseeable. In July 1975, President Giscard decided to rejoin the European "snake" arrangement (against the advice of his economic counsellors) at a rate that was clearly too high in relation to the German mark. As the trend of actual inflation rates, and more important of inflationary expectations, began to diverge widely between Germany and France during the second half of 1975, the development of exchange rate pressures on the franc became merely a matter of time.

Internal policies bear the major responsibility for the revival of inflationary pressures in France. The budget deficit in 1975, at Ff 44 billion, amounted to 1-3/4 percent of GDP and followed a steady period of surpluses averaging Ff 7-1/2 billion annually. A large part of the borrowing requirement last year was met by borrowing from the banking sector. Monetary policy has been decidedly expansionary since the second half of last year with the growth of M_2 accelerating from an annual rate of about 6-1/2 percent earlier in 1975 to 20 percent during the past seven months. In addition, the government may have taken the lead in setting a pattern of relatively inflationary wage increases. Recently completed negotiations for the government sector provided for increases exceeding the inflation rate by about 2 percent and this may well become a minimum for those private sector settlements that are still to be negotiated.

Expectations for this year are that the budget deficit can be halved to about Ff 20 billion. The authorities are aiming to finance the borrowing requirement in a less inflationary manner this year. To facilitate this shift the Government has introduced several new types of Treasury securities which are designed to appeal to the non-banking sector. In addition, ceilings on credit expansion (covering about 70 percent of credits to the private sector), presently set at an annual rate of 13-14 percent, have been lowered for the second half of this year. These measures are designed to help bring the growth of M_2 closer in line with the nominal growth of GDP.

Unemployment and high inflation rates have caused considerable social dissatisfaction with the current government. Inflation hits particularly hard at blue collar workers and small independent business and has been a sensitive issue leading in part to the 1968 disturbances. President Giscard, partly because of his economic background, was expected to be able to deal with these problems better than his predecessors. Actual developments have led to considerable disenchantment and the possibility that social unrest may recur in coming months.

Economic Situation and Policies in Germany

The economic recovery in Germany firmed perceptibly towards the end of last year and recently has begun to broaden into an expansion. Industrial production is rising at an annual rate of 8 to 9 percent. Both export and domestic order activity continue to be on the uptrend and investment demand is beginning to add impetus to the recovery. The unemployment rate has fallen from a recession peak of 5.3 percent to 4.5 percent, the level of job offers has begun to rise, and perhaps most significant, short-time work has been reduced appreciably.

With the strengthening of the demand situation, progress on the inflation side appears to have come to a halt. However, inflation rates in Germany are generally lower than in neighboring countries. Consumer prices are rising at annual rates of 5 to 6 percent and wholesale prices, after having remained stable during most of 1975, are rising at rates of about 9 percent. With the upswing in activity, productivity has begun to rise rapidly and unit labor costs have actually begun to fall. Consequently, profit margins have widened and business liquidity is high. In addition, recent wage settlements at 5-1/2 - 6 percent have been below levels that would be considered inflationary. Thus, the pre-conditions for a sustained upturn in investment activity exist. Consequently, forecasts for the growth of real GNP have been revised upward to 6-7 percent for 1976 over 1975.

At the same time that domestic demand has turned firmly upward, export demand also has risen considerably. Because Germany did not experience the inventory build-up that preceded the recession elsewhere, inventory adjustment does not play as strong a role in the current recovery and, therefore, also is not affecting import demand as strongly as elsewhere. Thus, import demand is rising more or less in line with final demand and increases in exports have outpaced those in imports. Consequently, the German trade surplus has been rising sharply and is currently running at an annual rate of approximately $13 billion.

The policy concerns in Germany center on achieving sustained economic growth without re-igniting inflationary pressures. The fiscal policy stance and in particular the large fiscal deficit play a major role in these concerns. The question of fiscal responsibility is not only of economic importance, but also of considerable political concern to the senior partners in the government coalition, the Social Democrats, in an election year. The structural tax cuts instituted last year imply that revenues will not rise as strongly with recovery as they have in the past. However, expenditure commitments, partly for social expenditures and partly for infra-structure improvements have been rising steeply. Thus, the Social Democrats are faced with the dilemma of political commitment to their public expenditure programs and the problem of raising revenues in a non-inflationary manner. Certain increases in revenues, such as higher excise taxes on tobacco and liquor and an increase in the value-added tax from 11 to 13 percent have been passed by the Lower House. But the increase in value-added tax is likely to be voted down by the Upper House.[1/] Thus, the emphasis will need to be on expenditure reductions. The budget for the current year already contains a squeeze on expenditures and is likely to shift towards restraint as anti-recession programs run out at mid-year. Nevertheless, there remains a structural problem on the expenditure side.

The government has already raised more than half of its borrowing requirement for this year. However, the heavy demand of the public sector on the capital market has begun to put pressure on interest rates. The business sector, which is experiencing cyclically high cash flows, is receiving inflows of foreign funds in addition. Therefore, business loan demand has expanded only moderately. But there is little doubt that with the upswing in investment demand problems may emerge in the capital markets.

Monetary policy has been accommodating. But the Bundesbank has moved recently to contain the increase in the level of bank liquidity that resulted from exchange market intervention and reductions in public authorities' cash balances with the central bank. Nevertheless, bank liquidity remains very high and could result in a large expansion of loan activity once business demand turns from the capital market to the banking sector.

1/ The excise tax increases do not require Upper House approval and therefore can be instituted over Upper House opposition, the value-added tax increase, however, requires formal approval by the Upper House.

Economic Situation and Policies in Italy

The Italian economy began to recover from the 1974 recession late in 1975 and early in 1976 largely because of expansionary domestic policies and a recovery in world demand. However, the expansionary measures instituted in August 1975 were over-ambitious and proved disastrous in their effect. Monetary conditions were eased considerably in the mistaken view that this by itself would stimulate lagging domestic private investment. Industry, however, faced with a profit squeeze as well as with high wage demands and perceiving the fact that the government would not face up to the inflationary effects of its policies, took the opportunity afforded by the easing of financial conditions to move capital abroad. At the same time, it became apparent that the government had lost control over its expenditure policy and the Treasury's borrowing requirement for 1975 jumped from an expected 8.4 trillion lire to around 14 trillion lire or 12-1/2 percent of GDP. Inflation rates began to move up and, despite a very good export performance, the external situation deteriorated because of a large rise in speculative import buying.

This situation was compounded by the political problems attending and following the fall of the Moro Government in January 1976. The exchange rate depreciated substantially, despite heavy intervention by the Italian authorities which depleted reserves rapidly. By May 5, 1976, the Italian lira had fallen to a low of 925 against the U.S. dollar, a depreciation of 26 percent since the beginning of the year. The caretaker government instituted a number of policy measures designed to stem the fall of the lira and to contain the fast rise in the domestic inflation rate resulting from internal cost pressures as well as from the large depreciation of the exchange rate. These measures were in addition to some tightening of monetary conditions and some increases in indirect taxes and withholding taxes on interest income taken earlier. The recent measures, including an import deposit scheme, involved various restrictions on external payment flows. Their effectiveness, however, was to come through the accompanying reduction in domestic liquidity. As a consequence, the exchange rate rose and stabilized at around 850 lire to the dollar which is about 20 percent below the end-of-year level.

The economic problems in Italy are structural rather than cyclical. They revolve around wage rates which have risen too fast, mainly because of social-political pressures, and a fiscal deficit that is out of control. These problems are well recognized by economic policy advisers within and outside Italy. The remedies also are well recognized: they involve classical stabilization measures on the fiscal and wage side. However, these measures are difficult to effect because of political obstacles.

Economic Situation and Policies in the United Kingdom

The British economy is beginning to recover after a rather shorter recession than has been experienced by other countries. GDP, after falling by 1.3 percent (in real terms) between 1974 and 1975, is expected to exceed 1975 levels by 2-1/2 percent in 1976.1/ The rather shorter duration of the recession than elsewhere stems from the fact that the British authorities imposed anti-inflationary measures much later in the cycle than did other countries. As a consequence, the British economy has been experiencing less fall-off in inflation rates during the recession than have other countries. The differential development on the inflation side and the spreading conviction that the United Kingdom is relatively more inflation prone than are other countries is reflected in the depreciation of the exchange rate by 13 percent from mid-1975 to end-1975 and by a further 13 percent from the beginning of 1976 to June 18, 1976 (as measured against the U.S. dollar).

The British authorities currently are attempting to cope with the problem of persistent wage-push and under-investment that underlies the inflationary tendencies in the United Kingdom. The Budget presented at the beginning of April provides some investment incentives to the private sector and assurances of no major changes in tax policy affecting the business sector. But the most prominent feature of the Budget was the proposal of a tax cut conditional upon union acceptance of an average 3 percent limit to wage increases. In subsequent negotiations with the unions an average 4-1/2 percent limit to wage increases was agreed upon. This seems to be in line with prior Treasury expectations of what could be negotiated.

The 4-1/2 percent wage increase will, when wage drift is included, translate into an approximate 8 percent increase (annual rate) in earnings per manhour. Given the cyclical upswing, which implies something like a 3-1/2 - 4 percent (annual rate) increase in productivity, unit labor costs may go up by 4 percent. Current forecasts for price increases are in the 17 to 18 percent year-over-year range. On the assumption that for each 10 percent of currency depreciation the internal price level might be raised by 3 to 4 percent, the recent exchange rate changes would account for about 5 percentage points of the prospective price increase.2/

1/ Year-to-year change affected by strike in first quarter of 1974. Fall in real GDP from second quarter 1974 to second quarter 1975 amounted to 3.3 percent.
2/ The price effects of the recent exchange rate changes are likely to be at the upper range of estimates of such effects because they come at a time of inventory swings, which involve above-average import inputs.

In addition, input costs resulting from the rise in world prices for imported materials may go up by 2 percent or so. Consequently, internally determined price increases may amount to about 10 percent. This implies a considerable recovery of profits.

The projected profit increases should be seen in the context of the very low level of profits in 1975 and the fact that returns on capital investment in Britain have shown a long-run tendency to decline. The rate of return on capital investment, excluding inventory appreciation, has fallen from 13.2 percent in 1960 to 4.0 percent in 1974 and has declined further since. The deterioration in the profit situation has been a major factor in the longer run decline of the rate of growth of the British net capital stock. As a consequence of the weakness of growth of fixed investment in general, and in recent years in particular, there has been a growing obsolescence of the capital stock. For example, in 1974,59.1 percent of the gross capital stock in manufacturingwas 11 years old or more and only 21.4 percent was 5 years old or less. In 1965 the percentages were 57.0 and 23.7 respectively.

Because of the growing age of the capital stock and the lack of investment incentive, which stems from tax policies as well as labor problems, it is difficult to see how the medium term growth projections contained in the budget, i.e., 4 percent by the end of 1976 and 5.5 percent per annum for 1977-79, can be realized without either considerable structural changes or a return to a highly inflationary environment.

One of the main factors inhibiting investment growth in the private sector, and indeed a major structural problem, is the fast growth of the public sector over the past years. Public sector expenditures in 1955 were 37 percent of GDP at market prices. By 1965 they had risen to 40 percent, and by 1975 they accounted for about 55 percent of total GDP. The public sector's borrowing requirement rose from an average of 2-1/4 percent of GDP in 1961-71 to almost 8 percent in 1974 and to about 11 percent in 1975. The tax burden is relatively high rising from 19.7 percent of GDP in 1955 to 24 percent in 1974. In addition,the tax structure is very progressive so that incentives diminish rapidly at relatively moderate levels of income. (The marginal tax rate is 83 percent at the £ 20,000 taxable income level). Therefore, it seems clear that it is the expenditure side of the public sector that has moved out of control. This is one area, although well recognized as constituting a crucial problem, where current policy is doing little or nothing to improve the situation. The government's intentions are to reduce the public sector's share of GDP by perhaps 7 percentage points from 1977 to 1980. However, British governments have proposed future public expenditure cuts several times and none of these has materialized. The need to bring the public sector under control is not only crucial but imperative.

The government in negotiating its incomes policy has for the time being tied its hands on fiscal policy. Clearly, after negotiating the conditional tax cut, tax increases cannot be undertaken quickly. More important, the trade unions have resisted cuts in public expenditures. The 4-1/2 percent wage bargain probably includes some commitments regarding the government's expenditure policy, if not explicitly than implicitly.

The government's borrowing requirement projected for the current financial year amounts to £ 12 billion. The size of this borrowing requirement, which amounts to perhaps 9-1/2 percent of GDP in 1976, has caused considerable unease in financial circles. The Chancellor has stated that public borrowing needs are not to interfere with the financing needs for the crucially necessary pick up in private investment. He has also insisted that he will not allow public borrowing to affect money supply in an inflationary manner. It is hard to see how both commitments can be fulfilled at the same time. This is particularly so in view of the growing reluctance on the part of foreign creditors not only to extend additional credit to Britain but even to leave current assets there.

To sum up: the economic problems in Britain are mainly of a longer-run, structural nature. The public sector needs to be brought under control, the rate on return on capital must be increased sufficiently to encourage new investment and labor relations must be improved. Longer term better labor/management relations and improved worker discipline would greatly benefit British industry. In 1960-70 on average 4,230 working days per year were lost through workstoppages, in the early 70's the loss has risen to 10,363 days per year.

If improvements in the problem areas outlined above can be effected, external payments difficulties also will pose no problems. Conditions for improvement in the current account exist already: the depreciation of the sterling rate has increased the profitability of exports significantly (according to a recent survey exporters have not changed their foreign currency prices, but have added devaluation margins to profits). Although overall rates of capacity utilization are currently low, there is evidence of some strains in the export sector. Thus, investment in that sector is expected to pick up ahead of the general cyclical upswing -- a development in the direction of the needed change towards commiting resources to exports. A stable domestic economic climate is a primary requirement to assure the emerging gains on the external side.

The continued fall of the sterling rate in recent weeks -- a further 6-1/2 percent against the dollar between the date of agreement in principle between the government and the Trade Union Congress on the wage ceiling and June 4th -- indicates that market participants view the wage situation as only one element of the economic problems Britain faces. Accordingly, the $5.3 billion financial support package agreed upon by the Bank of England with the Federal Reserve Board, the U.S. Treasury, the BIS (Bank for International Settlements) and the central banks of nine other industrial countries, is likely only to buy time until appropriate measures are implemented.

Economic Situation and Policies in Canada

The economic recovery in Canada, partly reflecting the strong upturn in demand in the United States, is gaining in strength. Industrial production, largely spurred by private consumption, housing and recently by a revival of export demand, is rising at an annual rate of 10 percent. However, the recession in Canada was much shallower than elsewhere. Economic policies turned expansionary well before those in other countries and Canadian price policies for energy contained the deflationary effects of the large increase in world market prices. As a consequence, GNP in real terms fell only fractionally, largely because of inventory decumulation, and regained its pre-recession peak level by the third quarter of last year. Nevertheless, industrial production remains 2-1/4 percent below its March 1974 peak and unemployment remains at very high levels.

Partly because policy measures were able to contain the effects of the world-wide recession on the Canadian economy, progress on the inflation side has been considerably less than in most other major industrial countries. The policy concern of the Canadian authorities, therefore, has increasingly been dominated by the need to reduce the rates of price increase. Monetary policy has been tightened and interest rates have been rising since early 1975. As a consequence interest rate differentials between Canada and the U.S. are now at historically high levels. Price and wage guidelines were instituted last fall and have been tightened recently. Nevertheless, wage increases allowable under the guidelines remain above recent settlements concluded in the U.S. Price increases in recent months have moderated from an annual rate of about 9 percent in the fourth quarter of 1975 for the CPI to an annual rate of slightly over 5 percent. A substantial part of this moderation, however, resulted from weak food prices and there has been only little progress towards moderation in the price rise for non-food items.

The relatively less favorable price performance of the Canadaian economy as compared to that elsewhere is reflected in the external performance. Exports have been rising strongly with the recovery in the United States, but the growth of imports has kept pace. As a result, the trade balance has been in deficit since late 1974. Little change is expected in this respect over the coming months despite the fact that, because of Canada's selfsufficiency in energy, the current cyclical upswing does not involve a large increase in fuel imports in contrast with developments in most other industrial countries.

Because of the only moderate progress on the inflation side and the continued loss in Canadian export competitiveness, the government in its Budget for fiscal 1976-77, released on May 25, expressed its commitment to bring down the growth of fiscal expenditures so as to allow resources to be diverted to private, and particularly investment uses. The Budget for the current year, however, does not appear to represent considerable progress in the avowed direction. Fiscal expenditures are estimated to grow about in line with nominal GNP, i.e. 14 percent or so. This growth in expenditures, although in line with the trend of spending increases prior to 1974/75, appears large when one takes into account the fact that the cyclical upswing should bring about some diminution in cyclically determined transfer payments. As a consequence, the cylical upswing in revenues only about balances the projected rise in expenditures leaving the borrowing requirement for the current year at Canadian dollar 4-1/2 billion, about unchanged from the preceding year. The goverment hopes to be able to bring the rise in government expenditures in fiscal 1977-78 below the rise in revenues. Part of the projected rise in revenues will come from increases in user charges so as to make prices for public goods and services more market- related.

On the monetary policy side, the authorities have adopted a target range for the growth of M_1 of 10-15 percent. Given the increases in velocity of money that may be expected over the coming months, this target would appear to be generous at least as far as the top of the range is concerned.

Economic Situation and Policies in Japan

The Japanese recession bottomed out in the spring of 1975 and output began to turn up mainly because of rising government demand. However, the recovery remained weak until the end of the year when fast rising exports led to a broadening out of the recovery. Since the beginning of this year evidence that private domestic demand in Japan has begun to strengthen has been mounting.

GNP rose at an annual rate of 14 percent during the first quarter with the increase in private consumption expenditures indicating that this component has turned up decisively. Investment demand registered its first, albeit small, increase in eight quarters. In addition, housing starts, new orders -- in particular for machinery -- and letters of credit for exports all suggest that the trends apparent since early this year are likely to continue and gain in strength in coming months. Unemployment also has begun to decline slightly and vacancies have begun to rise. The year-on-year increase in real output is forecast to be about 6 percent, low by past Japanese standards, but in line with the change in growth potential that the Japanese authorities believe has occurred over the past few years.

The recovery has been accompanied by some acceleration in price increases. The consumer price index in recent months has been rising at an annual rate of about 13-3/4 percent, rather more than the 10 percent registered late last year. However, a large part of these recent increases stems from changes in government-related prices. The wholesale price index, which had been virtually stable through the middle of 1975, is currently rising at an annual rate of about 7 percent. This rise largely reflects the restoration of profit margins by business. The ratio of profits to sales in manufacturing industry fell from mid-1974 through early 1975 and rose only fractionally thereafter. The normal ratio of profit to sales is 7 to 8 percent, it was only half that during 1975. Thus, the recent rise in wholesale prices represents a return to more normal profitability for business rather than a regeneration of cost pressures. In fact, wage settlements this year, at an average 8-1/2 percent, are well below past trends. Thus, as productivity is rising rapidly with the absorption of underemployment that accompanies the early stages of an upswing, unit labor costs should rise only little.

The improving profit and cash flow situation of the business sector will play a major role in the incipient upturn of business investment demand. So far, business loan demand has remained weak and the government has been able to finance its large deficit without putting pressure on the capital market. The volume of public bond issues in fact reached its highest rate in the post-war period. Despite the recovery, the financing requirement for the current fiscal year (April 1976-March 1977) is expected to exceed that for last year, but the fiscal stimulus is to diminish during the year.

The large increase in exports recorded since late last year has been accompanied by a much more moderate rise in imports. In part this relatively small growth in imports reflects the fact that inventories are still being drawn down and thus is partly cyclically determined. Nevertheless, the current level of the Japanese trade surplus, at an annual rate of about $15 billion, may well begin to put some pressure on international equilibrium if it is not accompanied by appropriate monetary and exchange rate policies. The large external surplus has been accompanied by a small appreciation of the exchange value of the yen in international markets. However, the Japanese authorities appear reluctant to see a substantial appreciation of the yen in view of what they consider to be the large cyclical component in the current trade surplus.

Table I- INDUSTRIAL PRODUCTION IN SELECTED INDUSTRIAL COUNTRIES
(SEASONALLY ADJUSTED)
PERCENTAGE CHANGES FROM PREVIOUS MONTH

	1975								1976					CHANGE IN LATEST MONTH FROM YEAR EARLIER
	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	
CANADA	-0.9	0.6	-0.1	0.0	-1.1	0.1	2.4	0.5	0.7	0.6	0.8	N.A.	N.A.	4.2
FRANCE	-3.6	4.6	-1.8	0.0	0.0	1.8	-0.9	4.5	2.6	-0.8	2.5	0.0	N.A.	8.9
GERMANY	-1.9	1.0	-2.9	3.0	1.9	1.9	0.9	0.0	0.9	2.8	-2.7	1.8	N.A.	6.7
ITALY	-5.4	4.2	1.8	-15.4	19.1	-0.3	2.6	-4.6	1.3	7.2	-0.1	-0.7	N.A.	6.2
JAPAN	-0.5	2.0	1.0	-1.0	1.4	0.4	-1.1	2.0	2.0	2.2	3.6	3.0	N.A.	16.0
UNITED KINGDOM	-2.0	0.0	0.7	-1.7	1.7	1.1	0.0	-1.3	1.4	0.6	-0.5	1.0	N.A.	1.0
UNITED STATES	0.2	0.9	1.0	1.8	1.8	0.4	0.8	0.7	0.9	1.1	0.7	0.5	0.7	11.9

DEFINITIONS AND SOURCES: FRANCE, GERMANY, ITALY, CANADA: ALL INDUSTRIES EXCLUDING CONSTRUCTION; NETHERLANDS, UNITED KINGDOM: ALL INDUSTRIES; JAPAN: MINING AND MANUFACTURING; UNITED STATES: MINING, MANUFACTURING AND UTILITIES. VARIOUS NATIONAL SOURCES.

SOURCE: Federal Reserve Board

Table 2- GENERAL WHOLESALE PRICES IN SELECTED INDUSTRIAL COUNTRIES
(NOT SEASONALLY ADJUSTED)
PERCENTAGE CHANGES FROM PREVIOUS MONTH

	1975								1976					% CHANGE IN LATEST MONTH FROM YEAR EARLIER
	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	
AUSTRIA	0.3	0.8	-0.4	0.4	0.1	0.2	0.3	0.3	0.0	1.8	0.5	1.2	0.8	6.0
BELGIUM	-0.3	-0.5	1.4	1.0	0.6	0.4	0.3	1.2	0.8	0.4	1.7	-0.3	N.A.	7.0
CANADA	0.5	-0.3	1.3	1.9	0.5	0.5	-0.8	0.1	0.4	0.2	0.3	0.8	N.A.	5.4
FRANCE	-1.5	-0.8	0.9	0.7	-0.2	-1.2	0.9	0.3	0.6	1.0	1.7	1.7	N.A.	4.3
GERMANY	0.2	0.5	-0.3	-0.2	0.2	0.4	0.3	0.3	1.9	1.0	0.8	0.8	0.4	6.3
ITALY	-0.5	-0.1	0.3	0.7	1.1	0.6	0.6	1.4	1.7	3.1	4.6	5.2	N.A.	20.1
JAPAN	0.0	-0.1	0.1	0.6	0.3	0.4	0.3	0.6	0.8	0.7	0.6	0.6	0.4	5.3
NETHERLANDS	0.0	0.0	0.0	4.1	0.4	1.6	1.1	1.1	N.A.	N.A.	N.A.	N.A.	N.A.	8.5
SWITZERLAND	-0.2	-0.8	-0.1	0.1	-0.7	-0.1	-0.3	0.0	-0.1	0.2	0.3	0.3	-0.1	-1.0
UNITED KINGDOM	2.6	0.9	1.4	0.9	0.7	1.1	1.0	1.3	1.6	1.2	0.6	1.3	1.6	14.6
UNITED STATES	0.6	0.3	1.2	0.6	0.6	0.7	-0.4	0.3	0.4	0.0	0.1	0.9	0.3	5.0

DEFINITIONS AND SOURCES: ALL COUNTRIES EXCEPT FRANCE AND UNITED KINGDOM: GENERAL WHOLESALE PRICE INDEX; FRANCE: INDUSTRIAL PRODUCTS; UNITED KINGDOM: MANUFACTURED PRODUCTS, HOME MARKET SALES. VARIOUS NATIONAL SOURCES.

SOURCE: Federal Reserve Board

Table 3- CONSUMER PRICES IN SELECTED INDUSTRIAL COUNTRIES
(NOT SEASONALLY ADJUSTED)
PERCENTAGE CHANGES FROM PREVIOUS MONTH

	1975								1976					CHANGE IN LATEST MONTH FROM YEAR EARLIER
	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	
AUSTRIA	0.2	1.1	0.7	0.4	0.2	0.4	0.2	0.4	1.6	1.1	0.9	0.5	-0.1	7.4
BELGIUM	0.9	0.4	1.0	0.7	0.9	1.1	1.1	0.5	0.9	0.3	0.7	0.9	0.7	9.6
CANADA	0.8	1.5	1.4	1.0	0.2	0.9	0.9	0.1	0.6	0.3	0.4	0.4	0.8	8.9
FRANCE	0.7	0.7	0.7	0.7	0.8	0.8	0.6	0.6	1.1	0.7	0.9	0.9	N.A.	9.6
GERMANY	0.6	0.7	0.0	-0.1	0.5	0.3	0.3	0.3	0.8	0.7	0.4	0.6	0.4	5.0
ITALY	0.8	0.8	0.4	0.6	0.8	1.1	1.1	0.8	1.1	2.2	2.0	2.6	N.A.	15.3
JAPAN	1.1	0.0	0.2	-0.4	2.0	1.6	-0.6	-0.2	2.2	0.7	0.5	2.5	-0.3	8.5
NETHERLANDS	0.6	0.2	0.6	1.0	1.3	0.8	0.3	0.2	0.5	1.0	1.0	2.1	0.4	9.6
NORWAY	0.5	1.1	1.9	-0.4	1.4	0.4	0.5	0.2	1.2	0.5	1.4	0.8	0.7	10.3
SWEDEN	1.5	0.6	1.5	1.1	0.0	1.1	1.1	0.3	1.4	0.8	0.8	0.5	N.A.	11.3
SWITZERLAND	0.7	0.4	-0.2	0.3	0.4	0.1	0.3	-0.1	0.5	-0.1	-0.2	0.0	-0.2	1.3
UNITED KINGDOM	4.2	1.9	1.0	0.6	0.9	1.4	1.2	1.2	1.3	1.3	0.5	1.9	1.1	18.9
UNITED STATES	0.4	0.8	1.1	0.3	0.5	0.6	0.6	0.4	0.2	0.2	0.2	0.4	0.6	6.2

DEFINITIONS AND SOURCES: ALL COUNTRIES EXCEPT FRANCE, JAPAN, AND UNITED KINGDOM: CPI, ALL ITEMS; JAPAN: CPI, ALL ITEMS (TOKYO); FRANCE AND UNITED KINGDOM: RETAIL PRICE INDEX, ALL ITEMS. VARIOUS NATIONAL SOURCES AND OECD MAIN ECONOMIC INDICATORS.

SOURCE: Federal Reserve Board

Table 4 Food Component of Consumer Price Index for
Selected Industrial Countries
(Not Seasonally Adjusted)
Line A: Percentage Changes from Preceding 3-months (Annual Rate)
Line B: Percentage Changes from Same Period Previous Year

Country		1973 Q3	1973 Q4	1974 Q1	1974 Q2	1974 Q3	1974 Q4	1975 Q1	1975 Q2	1975 Q3	1975 Q4	1976 Q1
Belgium	A.	..	..	11.9	13.0	12.2	7.9	10.0	11.6	15.4	13.6	16.1
	B.	..	..	..	..	..	11.2	10.7	10.4	11.2	12.6	14.2
France	A.	11.9	12.6	12.5	15.4	10.0	11.4	10.5	13.1	11.0	10.4	8.4 3/
	B.	10.3	10.6	12.3	13.1	12.7	12.4	11.9	11.7	11.5	11.2	11.0
Germany	A.	-2.4	2.4	9.8	8.1	-1.9	3.6	7.9	12.9	.3	0.0	11.4
	B.	7.1	5.6	5.4	4.4	4.5	4.8	4.4	5.5	6.1	5.1	6.0
Italy 1/	A.	9.1	8.2	19.7	18.7	42.9	34.8	16.1	13.7	9.3	13.4	16.8 3/
	B.	12.7	11.8	13.6	13.8	21.8	28.7	27.7	23.5	18.1	13.1	14.7
Netherlands	A.	4.8	7.1	8.3	2.9	7.8	14.0	4.9	8.5	6.8	10.7	9.2
	B.	7.5	6.5	7.2	5.8	6.5	8.2	7.3	8.7	8.5	7.7	8.8
United Kingdom 2/	A.	4.9	17.2	22.6	16.2	8.6	24.6	33.6	41.2	12.8	15.1	29.4
	B.	11.1	13.5	15.5	15.1	16.1	17.9	20.4	26.4	27.6	25.1	24.1
Japan	A.	11.9	18.2	66.3	14.6	21.7	20.9	12.0	11.4	4.0	14.3	7.9
	B.	13.6	17.1	27.9	26.0	28.7	29.4	17.2	15.1	11.9	10.4	9.3
Canada	A.	20.5	8.0	15.7	18.1	16.4	14.5	9.2	9.8	23.0	1.9	-3.5
	B.	13.8	15.4	14.9	15.5	14.5	16.2	14.5	12.4	14.0	10.7	7.3
United States	A.	25.4	10.8	19.7	6.9	8.6	13.0	6.1	3.0	13.7	3.9	0.0
	B.	17.3	19.5	19.3	15.5	11.4	12.0	9.2	8.9	9.4	6.6	5.0

1/ VAT was introduced January 1, 1973.
2/ VAT was introduced April 1, 1973.
3/ For the three-month period ending in February 1976.

Source: OECD Main Economic Indicators.

Table 5--Selected Industrial Countries: Change in Hourly Earnings From Year Earlier

(Percentage changes)

Period	France	Germany	Italy	United Kingdom	Canada	Japan	United States
Average 1969-72...	11.1	10.7	13.3	11.1	8.2	17.4	6.5
1973: I ...	12.8	10.3	15.1	13.9	8.5	19.8	6.1
II ..	13.3	10.8	24.2	14.6	9.2	20.5	6.4
III..	14.5	11.5	28.3	14.6	8.6	25.4	7.1
IV ..	15.5	11.4	28.7	12.7	9.3	29.1	7.0
1974: I ...	15.8	7.8	27.9	10.5	9.9	25.8	7.1
II...	17.8	12.0	22.1	13.7	11.0	37.1	7.5
III..	20.5	11.8	20.1	19.9	14.9	37.5	8.1
IV...	20.6	10.9	20.6	25.3	17.0	31.3	8.3
975: I ...	20.9	10.8	28.4	31.7	18.1	33.7	8.7
II ..	18.5	7.4	29.7	28.2	18.4	13.8	7.8
III..	17.4	6.6	26.2	26.4	14.3	13.4	6.9
IV ..	16.0	6.6	23.0	21.8	13.5	9.6	7.0
1976: I ...	14.4	n.a.	n.a.	20.5 1/	13.3	8.2 2/	7.1

1/ January 1976/January 1975
2/ January-February 1976/January-February 1975
n.a.- not available

Sources and definitions: OECD and National Sources.
France-hourly rates, manufacturing; Germany-hourly earnings, manufacturing; Italy-hourly rates, manufacturing; U.K.-average earnings, all industries; Canada-average hourly earnings, manufacturing; Japan-hourly earnings, manufacturing; U.S.-average hourly earnings, total. The U.K., Canada, Japan, and U.S. data are seasonally adjusted.

Table 6 Seasonally Adjusted Unemployment Rates of Selected Industrial Countries, Adjusted to U.S. Concepts

Period	U.S.	Canada	Japan	France 1/	Germany 1/	Great Britain 1/	Italy 2/
1970	4.9	5.6	1.2	2.7	.5	3.0	3.5
1971	5.9	6.2	1.3	3.0	.7	3.8	3.5
1972	5.6	6.3	1.4	3.0	.9	4.2	4.0
1973	4.9	5.6	1.3	2.9	1.0	2.9	3.8
I	5.0	5.9	1.3	2.8	.8	3.4	4.0
II	4.9	5.5	1.4	2.8	.9	3.1	4.5
III	4.8	5.4	1.2	2.8	1.0	2.7	3.5
IV	4.7	5.5	1.2	2.9	1.2	2.5	3.3
1974	5.6	5.4	1.4	3.1	2.1	2.9	3.1
I	5.0	5.3	1.3	3.0	1.6	2.8	3.1
II	5.1	5.2	1.3	2.8	1.9	2.9	2.9
III	5.6	5.3	1.4	2.9	2.3	3.0	3.1
IV	6.7	5.6	1.7	3.5	2.9	3.2	3.3
1975	8.5	6.9	1.9	4.3	3.9	4.9	3.6
I	8.1	6.7	1.7	3.9	3.2	3.7	3.2
II	8.7	7.0	1.8	4.2	4.0	4.5	4.0
III	8.6	7.1	1.9	4.5	4.4	4.7	3.7
IV	8.5	7.1	2.2	4.7	4.3	6.0	3.9
1976							
I	7.6	6.8	n.a.	4.8	4.0	6.2	3.6
Jan	7.8	6.6	2.1	4.7	4.0	6.5	
Feb	7.6	7.0	2.1	4.7	4.0	6.1	
Mar	7.5	6.9	n.a.	4.8	3.9	6.1	
Apr	7.5	7.4	n.a.	4.8	3.8	5.8	n.a.
May	7.3	7.1	n.a.	n.a.	n.a.	n.a.	

1/ Preliminary estimates based on incomplete data.

2/ Quarterly rates for Italy are for the first month of each quarter.

n.a.- not available.

SOURCE: Bureau of Labor Statistics

Table 7-UNEMPLOYMENT AND VACANCIES IN MAJOR INDUSTRIAL COUNTRIES
(monthly or monthly averages, seasonally adjusted)

				1975				1975				1976				
	1973	1974	1975	QI	QII	QIII	QIV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
Canada 1/ 2/																
Unemployment (000's)	520	525	714	683	719	731	724	732	725	734	713	681	719	713	761	731
Unemployment rate (%)	5.6	5.4	7.1	6.9	7.2	7.2	7.2	7.2	7.2	7.3	7.1	6.6	7.0	6.9	7.4	7.1
France																
Unemployment (000's)	394	493	840	731	837	877	916	882	900	926	921	929	925	952	944	961
Unemployment rate (%) 3/	2.1	2.3	3.8	3.3	3.8	4.0	4.2	4.0	4.1	4.2	4.2	4.2	4.2	4.3	4.3	
Vacancies/Unemployment	.64	.41	.14	.18	.13	.12	.11	.12	.11	.11	.12	.12	.12	.13	.14	.14
Germany																
Unemployment (000's)	276	595	1087	893	1103	1206	1141	1194	1156	1118	1102	1074	1077	1061	1044	
Unemployment rate (%)	1.3	2.6	4.8	3.9	4.8	5.3	5.0	5.2	5.0	4.9	4.8	4.7	4.7	4.6	4.5	4.5
Vacancies/Unemployment	2.06	.57	.22	.29	.22	.18	.19	.19	.19	.20	.21	.21	.21	.22	.23	
Great Britain																
Unemployment (000's)	581	573	891	706	811	959	1087	992	1044	1087	1129	1164	1185	1179	1186	1200
Unemployment rate (%)	2.6	2.5	3.9	3.1	3.6	4.2	4.8	4.3	4.6	4.8	4.9	5.1	5.2	5.2	5.2	5.3
Vacancies/Unemployment	.52	.52	.18	.27	.19	.14	.10	.13	.11	.10	.10	.09	.09	.10	.10	.10
Italy 2/ 4/																
Unemployment (000's)	669	560	658	553	727	653	698	n.a.	698	n.a.	n.a.	625	n.a.	n.a.	n.a.	
Unemployment rate (%)	3.5	2.9	3.3	2.8	3.7	3.3	3.6	n.a.	3.6	n.a.	n.a.	3.1	n.a.	n.a.	n.a.	
Japan																
Unemployment (000's)	660	730	998	880	950	1020	1140	1060	1130	1140	1140	1100	1030	990	1070	
Unemployment rate (%)	1.3	1.4	1.9	1.7	1.8	1.9	2.2	2.0	2.1	2.2	2.1	2.1	1.9	1.9	2.0	
Vacancies/Unemployment	1.80	1.20	.61	.73	.64	.55	.53	.54	.53	.52	.53	.59	.62	.68	.68	

1/ The Canadian data for January 1976 on reflect a change in the definition of employment and are not comparable with previous figures (on the 1976 definition, the December 1975 unemployment rate is 7.0%).
2/ Vacancies data not available.
3/ Calculated by the U.S. Embassy, Paris.
4/ Data available only for January, April, July, and October; therefore quarterly data in table refer to just the one corresponding month.
NOTE: Cross country comparisons of unemployment should be made with care because widely varying concepts are used.

SOURCE: Federal Reserve Board

Table 8 Household Savings as Percent of Disposable Income in Selected Industrial Countries (seasonally adjusted)

	1969	1970	1973	1974	1975	1st half 1975	2nd half 1975
United States	5.6	7.4	8.0	7.5	8.3	8.6	7.9
Canada	5.4	5.3	8.7	8.6	9.1	10.0	8.3
Japan	19.2	20.3	22.5	24.3	23.0	23.2	22.9
United Kingdom	8.2	9.1	10.9	13.6	13.9	13.4	14.3
Germany	13.4	14.0	14.3	15.1	16.0	17.0	15.0

SOURCE: National sources

Table 9- Three-Month Interest Rates
(Per cent per annum; Highs and lows during month, while monthly data are at or near end of month)

	1975 High	1975 Low	1976 High	1976 Low	1975 Sept.	1975 Dec.	1976 Mar.	1976 Apr.	1976 May	1976 June	Latest Date
Belgium	10.74 (Jan.)	5.25 (Sept.)	11.00 (Apr.)	6.13 (Jan.)	5.50	6.25	10.25	10.00	9.63	9.13	6/18
Canada	9.75 (Jan.)	6.25 (Feb.)	10.38 (Mar.)	8.75 (Feb.)	9.13	9.25	10.38	9.63	9.63	9.50	6/18
France	11.50 (Jan.)	6.25 (Dec.)	8.13 (May)	6.00 (Jan.)	7.13	6.50	7.63	7.75	8.13	8.00	6/17
Germany	8.00 (Jan.)	3.50 (Aug.)	4.20 (June)	3.40 (May)	4.00	4.20	3.70	3.50	3.70	4.20	6/18
Italy	17.13 (Jan.)	7.25 (Nov.)	20.50 (June)	7.50 (Jan.)	8.38	7.63	18.25	17.50	19.13	20.50	6/18
Japan	13.75 (Jan.)	8.25 (Dec.)	8.25 (Jan.)	7.25 (May)	10.25	8.25	7.75	7.25	7.25	7.50	6/18
Netherlands	8.50 (Jan.)	2.88 (June)	6.38 (June)	2.63 (Mar.)	4.50	5.50	3.13	3.63	5.25	6.38	6/18
Switzerland	n.a.	n.a.	2.63 (Jan.)	1.00 (June)	3.75	2.75	1.25	1.13	1.63	1.00	6/17
U.K.	12.75 (Jan.)	9.19 (Apr.)	11.88 (June)	8.31 (Feb.)	10.63	10.81	8.75	10.75	11.50	11.88	6/18
U.S.	7.88 (Jan.)	5.25 (Dec.)	5.75 (June)	4.88 (Apr.)	6.50	5.25	5.00	5.00	5.63	5.75	6/16

All rates are 3-month interbank rates for domestic currency denominated loans, except:
Belgium -- 3-month time deposits.
Canada -- 3-month finance company paper rate.
Japan -- Rate against commercial paper of 2-month or longer maturity.
U.S. -- 3-month CD rate, most often quoted.

SOURCE: Federal Reserve Board

Table 10- Long-Term Government Bond Yields
(Per cent per annum; Highs and lows are during month, while montly data are at or near end of month)

	1975		1976		1975		1976				Latest
	High	Low	High	Low	Sept.	Dec.	Mar.	Apr.	May	June	Date
Belgium	9.24 (Jan.)	8.07 (June)	9.35 (May)	8.80 (Jan.)	8.50	8.72	9.00	9.19	9.35	n.a.	5/31
Canada	9.87 (Oct.)	8.14 (Feb.)	9.49 (Jan.)	9.27 (Feb.)	9.72	9.51	9.48	9.34	9.32	9.33	6/11
France	10.96 (Jan.)	9.89 (Oct.)	10.06 (Apr.)	9.89 (Feb.)	9.94	9.91	9.98	10.03	9.98	9.99	6/4
Germany	9.74 (Jan.)	7.44 (Aug.)	7.74 (Jan.)	6.52 (Mar.)	7.48	7.74	6.52	6.64	6.95	7.17	6/10
Italy	11.55 (Oct.)	11.18 (Mar.)	13.10 (Apr.)	11.40 (Jan.)	11.51	11.37	12.37	13.10	n.a.	n.a.	4/30
Japan	9.70 (Jan.)	9.02 (Dec.)	8.77 (May)	8.61 (Feb.)	9.12	9.02	8.71	8.68	8.77	n.a.	5/31
Netherlands	8.95 (Jan.)	7.36 (Dec.)	8.01 (May)	7.00 (Feb.)	7.61	7.36	7.20	7.19	7.98	n.a.	5/28
Switzerland	7.17 (Jan.)	5.87 (Dec.)	5.86 (Jan.)	5.14 (Mar.)	6.21	6.00	5.14	5.21	5.21	5.20	6/11
U.K.	17.69 (Jan.)	13.11 (Mar.)	14.48 (Jan.)	12.84 (Feb.)	14.17	14.48	13.75	13.48	13.86	13.80	6/14
U.S.	8.63 (Sept.)	7.63 (Feb.)	8.17 (May)	7.80 (Apr.)	8.59	8.03	7.89	7.94	8.17	8.02	6/17

U.K. - 3-1/2% war loan; Germany - 6% public authority bond yield; France - public sector bond yield; Italy - composite yield on nine 6% government bonds; Belgium - long-term government bonds, composite yield; Netherlands - average of three 4-1/4% - 4-1/2% government loans; Switzerland - government composite bond yield; Japan - government bond yield; Canada - government long-term average bond yield; U.S. - government 20-year constant maturity bond yields (weekly average).

SOURCE: Federal Reserve Board

Table 11 Merchandise Trade in Selected Industrial Countries
(Billions of U.S. dollars,[1] seasonally adjusted annual rates)

Country and trade item	1973	1974	1975	1974 III	1974 IV	1975 I	1975 II	1975 III	1975 IV	1976 I	1976 Jan	1976 Feb	1976 Mar	1976 April	1976 May
United States:															
Exports	71.4	98.3	107.2	100.1	106.4	108.2	103.4	106.4	110.8	107.3	107.3	105.3	111.4	111.3	
Imports	70.4	103.6	98.1	109.4	111.9	102.2	90.3	97.9	102.1	113.7	114.2	108.0	118.7	116.7	
Balance	1.0	-5.3	9.0	-9.3	-5.5	6.0	13.1	8.4	8.7	-6.4	-6.9	-2.7	-7.2	-5.4	
Six other industrial countries:															
Exports	217.0	291.1	307.7	304.2	308.2	317.1	310.5	296.8	306.1	326.1	319.7	323.2	335.2	330.1	
Imports	207.9	294.7	297.2	309.7	307.7	300.5	290.0	291.3	306.1	312.9	312.6	316.6	310.3	323.7	
Balance	9.2	-3.8	10.8	-5.6	.5	16.8	20.6	5.6	-.1	13.2	7.0	6.7	24.9	6.4	
Canada:															
Exports	25.4	33.1	32.6	34.5	34.3	32.3	32.3	32.0	33.6	35.9	34.1	37.8	35.9	37.8	
Imports	22.7	31.5	33.4	33.6	34.3	33.9	32.7	32.9	33.9	37.0	36.1	38.2	36.7	37.0	
Balance	2.7	1.6	-.8	.9	-.1	-1.6	-.4	-.8	-.3	-1.1	-2.0	-.4	-.8	.8	
Japan:															
Exports	36.3	54.5	55.0	56.9	60.1	58.6	54.6	51.8	55.1	62.8	59.0	61.7	67.7	62.5	65.8
Imports	32.6	53.0	49.7	54.0	54.3	51.1	46.6	49.0	51.9	51.9	53.8	52.2	49.8	52.5	50.4
Balance	3.7	1.4	5.4	2.9	5.8	7.5	8.0	2.8	3.2	10.9	5.1	9.4	17.9	10.0	15.4
France:															
Exports	36.7	46.6	53.2	48.7	49.6	54.7	54.5	52.4	51.3	55.2	53.6	57.5	54.4	56.6	56.2
Imports	35.2	50.0	51.8	53.1	52.0	53.0	50.0	50.4	53.7	57.0	56.1	58.2	56.6	57.4	58.1
Balance	1.4	-3.4	1.5	-4.4	-2.3	1.8	4.5	2.0	-2.4	-1.8	-2.5	-.6	-2.2	-.8	-1.9
Germany:															
Exports	67.6	89.6	90.4	91.2	93.1	93.8	93.5	85.9	88.2	94.6	94.1	92.3	97.3	96.7	93.3
Imports	55.0	69.9	75.1	73.1	73.6	74.5	76.5	73.2	76.2	80.5	79.5	81.7	80.3	86.5	80.3
Balance	12.7	19.7	15.3	18.1	19.5	19.4	17.0	12.7	12.0	14.1	14.6	10.7	17.0	10.2	13.0
Italy:															
Exports	22.2	30.1	34.9	33.1	32.3	34.3	34.0	35.3	35.8	34.1	35.6	31.3	35.3	33.3	
Imports	27.9	40.9	38.4	44.8	41.4	36.5	36.2	38.0	42.7	39.5	39.0	37.6	41.3	41.3	
Balance	-5.7	-10.9	-3.5	-11.8	-9.1	-2.2	-2.2	-2.7	-7.0	-5.4	-3.4	-6.3	-6.5	-8.0	
United Kingdom:															
Exports	28.8	37.2	41.6	39.8	38.8	43.4	41.6	39.4	42.1	43.5	43.3	42.6	44.6	43.2	43.7
Imports	34.4	49.4	48.8	51.1	52.1	51.5	48.0	47.8	47.7	47.0	48.1	48.7	45.1	49.0	51.1
Balance	-5.6	-12.2	-7.1	-11.3	-13.3	-8.1	-6.3	-8.4	-5.6	-3.5	-4.8	-6.1	-.5	-5.8	-7.4

1 Data converted to dollars on the basis of average exchange rates as published in the *Federal Reserve Bulletin*.

Note.-Merchandise trade data for the United States, Canada, Japan, and the United Kingdom are on a balance of payments basis; others are on a customs basis. Imports for the United States are f.a.s. (free alongside ship) values; for Germany and Italy, c.i.f. (cost, insurance, and freight) values; for other countries, f.o.b. (free on board) values. Exports for the United States are f.a.s. values and for all other countries f.o.b. values.

Detail may not add to totals because of rounding

Sources: Department of Commerce (Bureau of Economic Analysis), Board of Governors of the Federal Reserve System and Council of Economic Advisers.

Table 12 Weighted Average Exchange Rate Changes from May 1970 Parities for Selected Industrial Countries 1/

(Percentage change; average of daily rates)

		U.S. Dollar	Sterling	Canadian Dollar	Japanese Yen	French Franc	German Mark	Italian Lira
1972:	December	-9.3	-10.6	0.5	11.8	1.2	7.1	-0.9
1973:	December	-15.8	-17.3	-5.9	13.7	6.3	24.4	-10.8
1974:	March	-15.7	-16.3	-2.9	13.0	0.9	26.8	-15.3
	June	-16.9	-15.3	-3.4	11.2	-2.1	30.5	-18.1
	September	-14.6	-16.3	-3.4	7.1	2.5	25.8	-17.9
	December	-17.8	-18.5	-6.6	3.2	6.0	33.8	-20.0
1975	March	-21.5	-18.3	-11.3	4.1	10.7	36.9	-19.3
	June	-20.6	-22.8	-12.9	2.9	17.8	36.9	-17.7
	September	-13.9	-25.3	-6.8	7.5	11.7	29.2	-19.5
	December	-13.4	-27.4	-5.1	5.8	12.6	29.7	-19.6
	January	-13.4	-27.2	-4.4	6.2	12.1	30.7	-22.1
	February	-13.0	-27.0	-2.6	7.8	12.6	33.7	-29.1
	March	-11.2	-29.0	-0.2	10.1	10.6	36.2	-33.5
	April	-9.8	-32.3	1.5	12.2	10.7	39.5	-37.2
	May	-9.3	-34.5	2.3	12.5	9.9	37.5	-33.6
	June 23	-9.1	-34.9	3.7	13.0	9.7	38.2	-34.4

1/ Weights are shares of each country's trade in total 1972 trade of the G-10 countries plus Switzerland.

SOURCE: Federal Reserve Board

Table 13 Exchange Rates Against the U.S. Dollar for Selected Industrial Countries

	Sterling	Canadian Dollar	Japanese Yen	French Franc	German Mark	Italian Lira
March 1, 1973 1/	250.40	.994	264.90	4.48	2.82	557.10
October 19, 1973 2/	243.70	.997	266.24	4.19	2.41	566.25
December 1973	230.89	.996	280.21	4.70	2.70	607.90
June 1974	237.35	.969	283.53	4.91	2.55	653.68
December 1974	232.89	.989	301.05	4.48	2.44	656.81
June 1975	226.63	1.026	295.02	3.99	2.34	627.12
December 1975	202.35	1.017	305.16	4.47	2.62	683.99
1976						
January	202.95	1.000	303.77	4.48	2.60	743.49
February	202.69	.985	301.93	4.48	2.56	771.01
March	191.59	.984	299.58	4.68	2.54	841.04
April	184.10	.979	298.95	4.66	2.53	897.67
May	176.05	.980	299.94	4.72	2.59	843.17
June 24	177.19	.964	297.18	4.73	2.57	844.59

1/ Generalized float begins after March 1, 1973

2/ Mid-East War, oil embargo and petroleum price increases begin.

Note: Rates are for end-month unless otherwise indicated; rates are local currency per U.S. dollar except for sterling which is U.S. cents per £ sterling.

SOURCE: Federal Reserve Board

TAB 2

ITEM WITHDRAWAL SHEET
WITHDRAWAL ID 00770

Collection/Series/Folder ID No.	:	004700516
Reason for Withdrawal	:	NS,National security restriction
Type of Material	:	BRP,Briefing Paper(s)
Description	:	background paper - world payments patterns
Creation Date	:	06/1976?
Volume (pages)	:	5
Date Withdrawn	:	05/17/1988

FINANCIAL SUPPORT FUND

A number of countries have acted in recent months to pass needed domestic legislation and ratify the Support Fund Agreement. As of early June, 14 countries representing 55 percent of total quotas had either ratified the Agreement or were in a position to ratify -- including all of the major countries except the United States and Italy.

U.S. legislation to authorize U.S. participation in the Support Fund was introduced on June 6, 1975. Hearings have been held in both the House and Senate, and the bill was reported favorably by Senate Foreign Relations in April. However, the prospect for favorable committee action in the House is highly doubtful at this stage. We are unlikely to get the legislation without a major push by the Administration. U.S. failure to ratify the Support Fund -- a U.S. initiative put forward as a central element of our response to the energy crisis -- would be extremely unfortunate and probably damaging to the structure of close consultation and cooperation we are attempting to build among the major countries in economic and monetary affiars.

International

Status of Monetary Issues

The agreements reached at Rambouillet set the stage both for 1) agreement on a comprehensive monetary package at Jamaica in January and 2) initiation of a much closer and more productive process of consultations among the major countries on economic problems and policies.

The Jamaica meeting of the IMF's Interim Committee -- following U.S./French agreement at Rambouillet on the critical provisions for exchange arrangements under the amended IMF Articles -- produced a comprehensive agreement involving extensive amendment of the IMF Articles; an increase in IMF quotas by about one-third; and various measures to expand access to IMF resources in the present period of exceptional balance of payments difficulty, including the establishment of a Trust Fund for highly concessional balance of payments assistance for the poorest countries, to be financed by sales of 25 million ounces of IMF gold. The amendments to the IMF Articles and the quota increase require legislation in most countries, including the U.S., which may take up to 1-1 1/2 years for completion. The other measures have already been implemented or are in process under existing authority.

U.S. legislation for the amendment and quota increase was submitted in early May. The package has broad Congressional support. Hearings have been held in the House, and we hope for early passage of the legislation. The agreement represents the achievement of key monetary objectives which the U.S. has pursued throughout nearly five years of negotiations.

Rambouillet also established a framework for closer consultations among Treasury and central bank officials in the major industrial countries on economic and exchange rate matters. These consultations are extremely important in improving understanding of underlying economic conditions and of policy measures taken in the various countries, in keeping with the focus of the new monetary system on cooperation in achievement of underlying economic stability. This improved consultation process is well underway.

TAB 3

BACKGROUND PAPER

Existing and Proposed International Agreements on International Investment

OECD Investment Package

After two years of negotiation, the Member countries of the Organization for Economic Cooperation and Development (OECD) have reached an *ad referendum* agreement on a package of investment measures. The package is expected to be approved at an OECD ministerial-level meeting which Secretaries Kissinger and Simon will be attending in Paris June 21-22.

The measures include the following:

(1) Guidelines for Multinational Enterprises which specify standards of business practice such firms should follow;

(2) A National Treatment agreement containing a statement of the principle that foreign-owned enterprises should be treated equally with domestic enterprises; and,

(3) An Investment Incentives/Disincentives agreement under which the OECD Members undertake to take each others' interests into account in the field of investment aids and restrictions.

These measures seek to accomplish the following:

1. The governments of the OECD at the ministerial level affirm their common orientation towards international direct investment flows. This orientation embodies the fundamental presumption that a liberal climate for international direct investment among the industrial countries is in their common interest and that therefore their common aim is to encourage the positive contribution that multinational enterprises make to the economic and social development of the countries of the region.

2. These governments reaffirm their basic responsibilities for treatment of incoming foreign investment, in particular the obligation to accord foreign-controlled

enterprises operating in their territory national, or non-discriminatory, treatment; the package also includes these governments' basic understanding that they should meet their other responsibilities to multinational enterprises, particularly to treat them equitably and in accordance with international law, to respect contracts concluded with foreign enterprises and to encourage use of international dispute settlement mechanisms.

3. The governments of the OECD agree to take each other's interests into account in the field of investment aids and restrictions and to cooperate to avoid any beggar-thy-neighbor type actions pulling or pushing particular types of investment into or out of their territory.

4. In an effort to address the underlying problem of public confidence, the governments of the OECD recommend to multinational enterprises operating in their territories voluntary guidelines which embody what their governments collectively consider to be high standards of good business practice for multinational firms.

5. The governments of the OECD agree to establish a consultative process to review experience under each of these basic declarations; in particular, the consultation process will review any derogations from the national treatment principle in an effort to eliminate them; consultations will also monitor the "don't-beggar-thy-neighbor" principle in the field of investment aids and restrictions; and, finally, consultations will review experience with the guidelines for multinational enterprises.

Bribery

The U.S. Government has taken a number of actions in both the domestic and international spheres to deal with the problem of questionable payments abroad by American corporations. Several agencies, e.g., the IRS and SEC, are taking action on the domestic scene pursuant to their respective statutory responsibilities. Moreover, the United States has taken a variety of initiatives in international forums:

-- A provision on ethical conduct was included in the OECD Guidelines for MNEs.

-- The United States has proposed in the United Nations a comprehensive agreement to curb illicit corporate payments in international trade and investment transactions with governments.

-- The United States has urged our trading partners that an international code of conduct on business practices be made a major goal of the agreement to curb illicit corporate payments in international trade and investment transactions with governments.

-- The United States has urged our trading partners that an international code of conduct on business practices be made a major goal of the Multilateral Trade Negotiations.

OECD Capital Movements Code

The OECD Capital Movements Code (formal title: Code of Liberalization of Capital Movements) has been in effect since 1961. It is designed as a vehicle for extending the liberalization of capital movements on a global basis. It covers long-term direct and portfolio investments, personal movements such as gifts or inheritances, and short and medium-term commercial credits, but does not cover a wide range of other types of transactions. Moreover, the code does not confer a general right of establishment for direct investors. There are no sanctions on compliance and countries may lodge derogations and invoke reservations with respect to restrictions they wish to establish. Each country must submit to periodic reviews of its derogations and reservations within an OECD committee.

IMF Articles of Agreement

Member countries "may exercise such controls as are necessary to regulate international capital movements" under the IMF Articles of Agreement. However, "no Member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlements of commitments," except as provided in IMF Articles governing the establishment and maintenance of exchange restrictions.

Member countries also have an obligation under the Articles to supply the Fund with information on their exchange controls on current transactions and to discuss them during annual consultations with the Fund staff.

UNITED STATES PROPOSAL TO THE UN
ON THE BRIBERY ISSUE

On the final day of its March 1-12 session, the UN Commission on Transnational Corporations, while not endorsing it, agreed to forward the U.S. proposal for an international agreement on corrupt practices to the Economic and Social Council with a request that the general issue be given "priority consideration" at the Council's 61st Session this summer.

Under the U.S. proposal, the agreement would be based on the following principles:

-- it would apply to international trade and investment transactions with Governments;

-- it would apply equally to those who offer or make improper payments and to those who request or accept them;

-- importing Governments would agree to (i) establish clear guidelines concerning the use of agents in connection with government procurement and other covered transactions and (ii) establish appropriate criminal penalties for defined corrupt practices by enterprises and officials in their territory;

-- all Governments would cooperate and exchange information to help eradicate corrupt practices;

-- uniform provisions would be agreed for disclosure by enterprises, agents, and officials of political contributions, gifts, and payments made in connection with covered transactions.

Furthermore, the United States proposed that the ECOSOC establish an expert working group composed of representatives of Member governments to prepare recommendations for such an agreement. This group would report back to the ECOSOC at its 63rd Session the following year.

Impediments to Investment Flows

1. Various types of exchange controls:

   (a) restraining free conversion of profits into foreign exchange;

   (b) reducing profitability by specifying "non-market" exchange rates on profit remittances;

   (c) limiting nationals obtaining foreign exchange to investment abroad.

2. Reinvestment requirements -- foreign investors may be required to plow back part of their earnings or make supplementary investments in workers housing, etc., in order to be permitted to invest in the host country.

3. Screening procedures -- foreign investment precluded in certain sectors or only permitted in certain sectors.

4. Lack of National Treatment -- established foreign firms treated differently than domestic firms (e.g., in Philippines there are restrictions on their owning real estate).

5. Management constraints -- restrictions regarding management control and/or proportionate representation on board of directors.

6. Labor constraints -- limitations on bringing in foreign technicians, workers or managers.

7. Divestiture requirements -- host country requirements that foreign investors sell substantial portions of their operations to host country citizens.

8. Expropriation -- over recent years there has been a noticeable upsurge in expropriative action against foreign investment, largely but not exclusively in LDCs. These nationalizations tend to disrupt the investment climate.

9. Taxation:

   (a) domestic investment incentives such as DISC or the investment credit;

   (b) high or confiscatory taxation due to high rates and/or definition of taxable income (allowable deductions, etc.) in foreign host country;

   (c) technical problems as illustrated by recent IRS ruling that oil sharing payments are not a tax and are therefore not eligible for foreign tax credit;

   (d) uncertainty because of absence of tax convention;

   (e) discrimination against foreigners such as the French Avoir Fiscal.

10. Non-tax incentives for domestic investment -- such as subsidized interest rates.

11. Restraints on imports:

   (a) difficulty in obtaining necessary parts and equipment for foreign plant operations;

   (b) "Buy America" type provisions could keep capital at home.

12. Political (and military) uncertainty --(e.g., Italy at present).

13. Inadequate protection for industrial property -- no domestic patent or copyright laws, non-member of international conventions.

14. Insistance on national (host country) courts being arbiter in all investment disputes. Refusal to join ICSID.

15. <u>Discrimination by domestic institutions.</u> (In Germany, for example, there are no official controls on foreign bond issues but there is a tight system of informal controls. The German banking community, through its Central Capital Market Committee, can and literally does, close the German market to foreign bond issues over particular periods of time.)

16. <u>Restrictions on foreign membership on national stock exchanges.</u> For example,

    (a) members of Paris and other French stock exchanges must be French citizens;

    (b) requirements of Netherlands Stock Exchange Association effectively prevent U.S. brokerage firms from membership.

17. <u>Restrictions on sales of foreign shares in domestic markets.</u> For example,

    (a) foreign mutual funds are not allowed to offer their shares in the U.K.;

    (b) only Greek securities are quoted on the Athens stock exchange and purchases can only be made through a Greek broker.

18. <u>Direct and indirect controls on banks</u>:

    (a) limitations on banks' foreign positions and on their ability to accept foreign deposits;

    (b) restrictions on foreign lending (for example, in 1974 Sweden to an increasing extent required foreign financing of at least five years maturity for outward direct investment);

    (c) differential reserve requirements for foreign deposits.

TAB 4

BACKGROUND PAPER

The Multilateral Trade Negotiations

The countries participating in the MTN reached a consensus last December on a 1976 work program with a view to concluding the negotiations in 1977 as agreed at Rambouillet. On the basis of that consensus, the U.S. held bilateral consultations with the EC, Canada and Japan. The basic approach is to focus as much of the work as possible on low key, informal consultations.

In practice, the other major countries participating in the MTN have taken a cautious attitude, and substantive progress has been slow. The reasons for this cautious attitude are many -- slow economic recovery, instability in international exchange markets, weakened governments in Europe and Japan, fixed or prospective elections in the United States, Japan, Germany, Italy, France, and possibly the U.K.; the prospective changes in the EC Commission at the end of the year; and the debate over various possible remedial trade actions by the United States.

Steady but low key leadership by the United States in each of the major negotiating areas should keep the MTN on the right course. The United States is providing such leadership by tabling proposals in the various negotiating areas -- as has been done already in the subsidies and tariff areas and is being planned in the safeguards area. These proposals are being followed up by active bilateral and multilateral consultations to explain the technical details and the rationale for these proposals.

BACKGROUND PAPER

Reform of the Trading System

The General Agreement on Tariffs and Trade (GATT) has, for over 25 years, provided the basic rules governing the international trading system. While the GATT has helped establish and maintain international commitment to an open trading system, some of the GATT rules have become outdated and, in important institutional respects, the GATT needs to be strengthened.

Much of the negotiation effort currently underway in the Multilateral Trade Negotiations in Geneva (the MTN) is designed to fashion agreement on new substantive rules governing trade practices. Successful completion of these negotiations by 1977 would promote U.S. reform objectives. In addition, there are other important areas not currently under negotiation where improvement in the GATT rules is needed. For example, the GATT rules governing access to supply and the use of trade measures for balance of payments purposes are inadequate. A commitment might be made to expand the negotiating effort to encompass additional reform issues.

Negotiation of special provisions under the rules for developing countries should encourage their fuller participation in the trading system. In exchange, we would expect the LDCs to recognize their responsibilities and accountability under the agreed rules and, as they develop, assume the same obligations as the developed countries.

Institutional reform could be achieved by strengthening GATT surveillance and dispute settlement procedures. In this regard, special attention might be given to the possibility of establishing under the GATT, or under each of the supplementary agreements negotiated in Geneva, "executive committees" to manage trade issues. Membership on the committees would be limited and selected on a basis to fairly represent the balance of economic interests of the parties to the GATT (or supplementary agreement). The number of GATT Contracting Parties has, over the years, increased from 23 to 83 largely by accession of developing countries. As a result, management of issues under the GATT has become more difficult. The creation of executive committees could provide an effective management tool.

To coordinate the position of the developed countries, there might also be commitment to use the OECD more effectively. The OECD provides a forum for review and discussion of trade problems by the developed countries. Through OECD discussion, consensus among the developed countries on trade issues can be worked out.

BACKGROUND PAPER

The Problem of Agriculture

There is a continuing problem with respect to the EC on the treatment of agriculture in the multilateral trade negotiations (MTN). This reflects profound differences in philosophy and approach to agricultural policy in the United States and the European Community. The United States has a market-oriented policy with emphasis on expansion of agricultural exports. The European Community, on the other hand, is basically an agricultural importer and has structured its internal policies to foster self-sufficiency to the extent possible and to give preference to Community agricultural producers such as France and the Netherlands in supplying Community needs. As a result the Community has taken a generally negative approach to the negotiation of agriculture in the MTN and has sought to use procedural obstacles to block progress. In this regard the Community has sought to separate and isolate negotiations on agricultural products, whereas the United States Trade Act mandates negotiation of agricultural and industrial products together.

The agricultural issue was raised during the Rambouillet meetings and the Declaration issued at the conclusion of those meetings stated that the multilateral trade negotiations...should aim at..."significantly expanding agricultural trade."

Despite the discussions at Rambouillet there has been no noticeable change in the Community's attitude toward the agricultural negotiations. The substantive differences remain and will have to be addressed at some point if the negotiations are to move to a successful conclusion. Since little progress is expected in the negotiations this year due to other political and economic factors, it is probably not necessary to specifically address the agriculture problem during the Puerto Rico meetings. However, we continue to emphasize on an informal basis with heads of State, particularly Giscard of France, the importance that we place on the goal of significant expansion of agricultural trade and on achieving a meaningful resolution of the agricultural problem in the MTN.

BACKGROUND PAPER

Services and International Trade

Responsibility Under the Trade Act

The Trade Act of 1974 included services for the first time within the President's negotiating authority. This inclusion was at the behest of services industry representatives who stated that their international problems had not received adequate attention by the U.S. Government.

Importance of the Services Sector

The services sector is of growing significance in both the domestic and international economies:

--Today, roughly two out of three American workers are employed in a service-producing industry. By 1985, according to the Department of Labor, employment in U.S. service industries will reach approximately 67 million--13 million more than are employed in service industries today.

--In 1975, services accounted for over $680 billion of U.S. GNP--i.e., roughly 46% of total U.S. GNP (and 56% of national income).

--Although there are no satisfactory aggregate data available on the volume of business generated by U.S. service companies abroad, the volume of U.S. service industry exports is significant and will become more important to the U.S. balance of payments in the future.

--Developed economies of the world are, in general, becoming increasingly services-oriented economies. Services now account for 40-60% of GNP in West Germany, France, Japan, and the United Kingdom.

Service Sector Problems in International Commerce

The EPB has established an interagency "Task Force on Services and the Multilateral Trade Negotiations." The Task Force has consulted extensively with leaders of American services sectors.

The following represents a summary of the major generic trade-related problems which have been identified as facing U.S. service sectors in international commerce, and which may merit consideration for U.S. Governmental action:

Accounting Services	-Production of firm name; restrictions on remittance; lack of international accounting standards
Advertising Services	-Repatriation of profits, ownership restrictions
Auto and Truck Rental and Leasing	-Protection of trademarks; licensing restrictions
Banking Services	-Capitalization and reserve requirements
Building Construction Service	-Repatriation of profits, ownership restrictions, government subsidization of national consortia
Communication Services	-Consortium bidding with government sponsorship
Computer Services	-Licensing and quantitative restrictions; ownership restrictions; discriminatory transmission line leasing arrangements
Educational Services	-Appropriation of educational materials; government procurement practices
Equipment Leasing Services	-Ownership restrictions
Franchising	-Protection of trademarks; ownership restrictions; restrictions on royalties

Health Services	-Repatriation of profits; ownership restrictions for government consortia
Hotel and Motel Services	-Lack of uniform standards and regulations for operations; foreign currency restrictions on travel; repatriation of funds
Insurance Services	-Licensing restrictions; repatriation of funds; foreign exchange controls; discriminatory deposit requirements and tax provisions; procurement restrictions; ownership restrictions or total ban on branches
Motion Picture Services	-National subsidization of domestic firms; exorbitant taxes on U.S. firms
Transportation Services	-Excessive custom and inspection charges; special fuel taxes; flight quotas; currency exchange controls

Approach to International Negotiations

The EPB Task Force has concluded that existing international negotiating forums are, at present, inadequate for the treatment of services sectors' trade problems. There is some pressure to include services in the GATT negotiations--but the GATT mechanism is cumbersome and already overburdened. Because services play such a major role in the economies of the developed countries, it is appropriate that services trade problems be subject for special discussion among the major developed countries.

BACKGROUND PAPER

Record of Investigations Into Alleged Injury Caused by Import Competition or Unfair Import Practices

The Trade Act of 1974 provides for relief from injury caused by import competition or from unfair trade practices. During the nearly 30 months of its operation, we have received 118 requests for investigation into alleged unfair trade practices and 15 requests for relief from alleged injury caused by import competition.

Of the 133 investigations which have been initiated as a result of these requests, 25 investigations were not completed, often because the alleged unfair practice was terminated before the investigation was completed. Of the 67 investigations which were completed, slightly over one-half were instances where there was evidence of some unfair trade practices or import competition. In only 5 instances was evidence persuasive enough to justify penalties to be imposed on imports. This means that less than one of every 27 investigations has resulted in penalties being imposed on imports. Only one out of every three investigations has resulted in confirmation that there has been unfair trade practices or possible injury from import competition.

TRADE ACTIONS SUMMARY
By Type of Action
June 1, 1976

Number of Cases	All Types	Counter-vailing Duty Cases	Anti-Dumping Cases	Escape Clause Cases	Unfair Trade Practice Cases	Unfair Compe-tition Cases
Initiated	133	47	42	15	9	20
Terminated	25	15	8	1	1	
Determined	67	23	21	13	0	11
Negative Finding:	31	11	4	7		9
Affirmative Finding:	36	12	17	6		2
Injury Found:	4		3	1		
Actions taken:						
Adjustment Assistance	3			3		
Waiver	6	6				
Other	5	4 a/		1 b/		

a/ Countervailing duties imposed.
b/ Orderly marketing agreements negotiated.

Note: 50 percent Determined
19 percent Terminated
69 percent (Less than 1/3 pending)

STATUS REPORT OF ESCAPE CLAUSE CASES, FOR CALENDAR 1975

PRODUCT	STATUS	PRESIDENTIAL ACTION OR DUE DATE
Birch faced Plywood	USITC found no injury	No action applicable
Bolts, nuts and screws	USITC found no injury	No action applicable
Wrapper Tobacco	USITC found no injury	No action Applicable

STATUS REPORT OF ESCAPE CLAUSE CASES FOR CALENDAR 1976

Product	Status	Presidential Action or Due Date
Asparagus	ITC split decision TPSC recommended finding of no injury	Accepted recommendation.
Specialty Steel	TPSC recommended negotiating OMA's	Accepted recommendation.
Slide Fasteners	ITC split decision TPSC recommended finding of no injury	Accepted recommendation.
Non-rubber Footwear	TPRG recommended adjustment assistance	Accepted recommendation.
Stainless Steel Flatware	TPRG recommended adjustment assistance	Accepted recommendation.
Certain Gloves	USITC found no injury	No action applicable.
Mushrooms	USITC recommended adjustment assistance	Accepted recommendation.
Ceramic Tableware (extension of previously imposed escape clause provision)	TPSC recommended: 1. Extension of current escape clause for three years on certain tableware items, phasing these rates out over that period; 2. For certain other tableware, prior escape clause rates be terminated. 3. That STR be asked to review the tariff classifications on ceramic tableware and kitchen articles and renegotiate them at MTN, as appropriate.	Accepted recommendation.

Product	Status	Presidential Action or Due Date
Ferricyanide and Ferrocyanide Pigments	TPSC recommended that no remedy be provided	Accepted recommendation.
Shrimp	USITC recommended adjustment assistance	7/10
Stainless Steel Wire	USITC found no injury	No action applicable
Honey	USITC report due 6/29	8/28

BACKGROUND PAPER

Status of Unresolved Section 301 Petitions

1. Egg Albumen (Doc. No. 301-3)

On August 7, 1975, Seymour Foods, Inc., filed a petition with STR, alleging unfair trade practices by the European Community against United States commerce in egg albumen (various levies on imports). The petition was published in the Federal Register of August 18. No request for a hearing was filed in this case. The final date for submission of views by interested parties was fixed for October 3. Immediately thereafter, the Section 301 Committee proceeded with its review of this case and with preparations for intensive discussions between STR and the European Community on the issues raised in the complaint. These consultations have not yet produced a solution.

2. Canned Fruits and Vegetables (Doc. No. 301-4)

On September 22, 1975, the National Canners Association filed a Section 301 petition with STR, alleging unfair trade practices with regard to import restrictions established by the European Community on canned fruits, juices, and vegetables. The system includes an import licensing system enforced by surety deposits and minimum import prices on tomato concentrates. The petition was published in the Federal Register for September 29, and public hearings were held on November 17, as requested by the petitioner. The Section 301 Committee then proceeded with its review of the case, leading to consultations held on March 29 with the European Community under Article 23(1) of the General Agreement on Tariffs and Trade (GATT). These consultations were not successful and the issue has been referred to the GATT under provision of Article 23(2).

3. Barley Malt (Doc. No. 301-5)

On November 13, 1975, the Great Western Malting Co. filed a petition with STR alleging unfair trade practices by the European Community, causing the loss of the Japanese market for U.S. malt due to the Community's subsidization of malt exports to Japan and other third countries. The petition was published in the Federal Register for November 21, and no request for a public hearing was made. Following review of the case by the Section 301 Committee, discussions were opened with the EC, looking toward a solution.

4. Wheat Flour (Doc. No. 301-6)

On December 1, 1975, STR received a petition from the Millers' National Federation alleging that exports of wheat flour to third country markets are adversely affected by export subsidies paid on EC wheat flour. The petition was published in the Federal Register for December 8, and hearings were held on January 28, 1976. The case has been reviewed by the Section 301 Committee and conversations are continuing with the EC.

5. EC Soybean Restrictions (Doc. No. 301-8)

On March 30, 1976, the National Soybean Processors Association and the American Soybean Association filed a petition with STR, alleging unfair trade practices by the European Community in the form of restrictions on the American soybean trade. The restrictions arise from a scheme the Community has implemented, requiring the incorporating (or mixing) of non-fat dry milk in livestock feed. This will displace an equivalent quantity of other protein substances including soybean, soybean cake and meal and other protein. Consultations with the European Community were held on April 2 under Article 23(1) of the General Agreement on Tariffs and Trade (GATT). Public hearings requested by the petitioner will be held at STR on June 22.

6. Value-Added Levy on Sugar (Doc. No. 301-7)

On March 30, 1976, the National Canners Association filed a petition with STR alleging that the variable levy assessed on added sugars in canned fruits and juices imported into the Community constitutes an unjustifiable and unreasonable import restriction and impairs the value of U.S. GATT bindings. The facts of the case are presently under review and preliminary conversations held with the EC.

7. Confiscatory Duties on Home Appliances (Doc. No. 301-9)

On March 15, 1976, a petition was received from Mr. C.C. Rehfeldt, Executive Vice President of Lai Fu Trading Co., LTD., alleging unfair trade practices by the Republic of China, in the form of confiscating tariff levels on imports of major household appliances. The petition was published in the Federal Register for April 13, 1976, and hearings were held on May 18. At those hearings, the Embassy of the Republic of China requested that the record show that the Government was moving to reduce the subject duties. As yet the action has not been completed and conversations with the Chinese are proceeding concurrently with the continuing review by the Section 301 Committee.

BACKGROUND PAPER

Specialty Steel Case

On June 14, quotas were imposed on imports of specialty steel (stainless steel and alloy tool steel) products. These quantitative restrictions affect primarily Japan (which had a 51 percent share of U.S. imports in 1975), as well as affecting the EC, Sweden, and Canada.

This is the only action that has been taken by you in an import relief case under the Trade Act of 1974. Fourteen investigations have been made by the U.S. International Trade Commission under the new law. The largest of these was the footwear case, involving $1.2 billion of U.S. imports. In that case, you determined to provide adjustment assistance and did not increase duties or impose quotas on shoe imports.

In comparison with the number of actions brought against unfair or injurious imports, the specialty steel decision is of very limited impact. Imports in 1975 amounted to $200 million. While the domestic industry has begun to recover, the improvement is confined primarily to stainless steel sheet and strip. Domestic shipments of plate have actually declined from 1975 levels. Shipments in other categories have increased somewhat from 1975 levels, although they are far below the 1974 levels. It was estimated that unemployment rose as high as 25 percent in 1975 in this industry, and there is no evidence that substantial numbers of laid-off steel workers have been re-hired.

In your March 16 decision to grant import relief to the specialty steel industry, you indicated that the relief would be reduced or terminated when the industry was regaining healthy levels of production and employment. An elaborate monitoring system has been put into place for this purpose. Therefore, while there may be criticism by other countries of your steel decision, the effect of the decision is very limited and in its context indicates no protectionist trend in U.S. trade policy.

Should the specialty steel case be discussed, you may wish to mention the agreement negotiated between the EC and Japanese steel industries last fall to reduce Japanese exports to the EC by 28 percent during 1976. This agreement, to afford import relief for EC producers, made it very difficult for the U.S. Government not to provide relief for specialty steel.

Should the European participants press the issue, you could also bring up the EC's restrictive actions in the agricultural area which have adversely affected U.S. agricultural exports. For example, EC mixing regulations for non-fat dry milk, are expected to reduce U.S. soybean exports to the EC by about $200 million. Changes in the EC poultry program have increasingly restricted U.S. exports of poultry, while subsidies on EC exports of wheat have adversely affected U.S. wheat exports to third markets.

TAB 5

BACKGROUND PAPER

Energy

Backround

At the first economic summit, we obtained a general reaffirmation of the commitment to consumer country energy cooperation and of the need for a coordinated strategy toward the oil producers. Since that time, we have completed the long-term cooperative package in the IEA, including a commitment to the minimum safeguard for imported oil (MSP), facilitation of joint energy production projects and expanded cooperation in energy research and development. We have also launched a formal dialogue with oil producers and non-oil LDCs in the Energy Commission of the Conference on International Economic Cooperation (CIEC). We have thus made major progress in these two pivotal areas of our international energy strategy.

However, current projections show that on the basis of energy policies now in effect, industrialized country demand for OPEC oil is likely to rise from 27 million barrels a day (MMBD) in 1975 to some 35-37 MMBD in 1985, greatly increasing our already acute individual and collective vulnerability both to embargoes and to price increases.

Our primary objective, therefore, at the Summit should be to give priority attention to ways in which we can move jointly to strengthen national energy programs and to build on the base of energy cooperation established in the IEA.

There are several areas of concern in the international energy outlook on which we should focus:

--Our major partners still question the effectiveness of the US commitment to reduced dependence. Our position is more credible with the Energy Policy and Conservation Act than it would have been without it. But the Europeans and Japanese question whether we will in fact abandon price controls when the EPCA Provisions expire and get congressional approval of the other elements of the President's program (gas, deregulation, more conservation measures, synfuels, etc.).

-- The European Community is seeking to establish a joint energy policy that is compatible with the IEA commitments of the eight EC members of the Agency and which draws France more actively into the general consumer cooperation strategy. So far, France has stalled these efforts by insisting on bargaining its commitment to an EC MSP for greater access to UK North Sea oil.

-- With economic recovery gaining momentum, energy consumption and demand for OPEC oil have begun to rise rapidly. While OPEC was not able to agree on a price increase in Bali, the cartel's market power and ability to impose further price increases grows with rising demand. There is strong likelihood of a substantial price increase at the end of the year. These factors, combined with a dimming public perception of the urgency of the energy crisis, election years in the US and Germany, and internal political uncertainty in Japan, Italy and France, could, if not checked, lead to a serious loss of political momentum behind industrialized country cooperation on energy. Such a loss of momentum in energy could also lead to a weakening of commitment among the industrialized countries for cooperation in other areas.

Moreover, unless we can maintain consumer unity and commitment to reduce dependence, the Europeans, individually and collectively, are likely again to resort to an attempt to obtain special treatment from the producers on security of supply and price through some form of political accomodation (e.g., oil price indexation, an adjustment of Mid-East policies, etc.). Such a strategy would be futile, but a drift by the Europeans in that direction would have major adverse consequences for overall U.S. foreign policy interests.

At the Summit, we should move strongly to counter these developments and reinforce our leadership position on energy.

U.S. Energy Program

We should lay out in some detail our commitment to serious national energy action. This description should stress our concrete achievements to date; particularly:

-- Establishment, expansion of ERDA programs

-- EPCA

- Progressive decontrol of crude oil prices

- Strategic petroleum reserves of at least 150 million barrels within 3 years and up to 1 billion barrels in 7 years.

- Standby energy emergency authorities

- Coal conversion authorities

- Mandatory appliance efficiency labelling

- Mandatory automobile efficiency standards

- Industrial energy efficiency conservation targets

- New coal mine loan guarantees

- Conservation grants to states

- Mandatory conservation standards

-- Opening Naval Petroleum Reserves

We should also emphasize the following programs and policies already proposed by the Administration and currently in the legislative process:

-- Deregulation of new natural gas

-- Synthetic fuel guarantees

-- Reform of nuclear licensing procedures

-- Creation of Energy Independence Authority

-- Commericalization of uranium enrichment

-- $1 billion for regional assistance to areas affected by resource development

-- Tax incentives for new nuclear, coal power plants

-- Minimum thermal efficiency standards for new building and "weatherization" assistance/tax credits.

A candid assessment of the likelihood of congressional action on these should be offered, stressing the strong probability of positive action on virtually all of these proposals, albeit in modified form.

Consumer Cooperation

We should stress the need to implement the cooperation commitments of the IEA's long-term program. Current projections indicate that, on the basis of energy policies now in place in industrialized countries, our 1985 demand for OPEC oil could be in the 35-37 MMBD range, compared to 27 MMBD in 1975. Our supply and price vulnerability could, therefore, be greater not less in 1985 than now. Moreover, unless we all adopt strong measures of conservation and development of new supplies to improve substantially on these projections, our reduced dependence goal -- the cornerstone of our domestic and international strategies -- will lack credibility. We must generate new political momentum for serious reduced dependence policies which can, if pursued effectively, substantially lower our demand.

Specifically, we want to agree at the Summit to begin a process within the IEA to establish and commit to both (1) national objectives for reduced import dependence and (2) the specific policies which will be followed to achieve those objectives. Under this proposal, the IEA countries would agree to begin immediately to work jointly to set national reduced dependence objectives within the next six to nine months. These objectives would be measured realistically in terms of our actual potential for conservation and development of new supplies. But they would represent a firm demand for OPEC oil substantially under the 35-37 MMBD now forecast for 1985 and which will markedly reduce both our vulnerability to embargoes and OPEC's unilateral domination of oil prices. We would confirm these objectives with a ministerial meeting at which we would take a political commitment both to the objectives themselves and to the specific measures needed to meet them.

There is no likelihood that France will join the IEA in the foreseeable future; Giscard is unwilling to defy the Gaullist right on this issue. However, France shows some signs of willingness to participate indirectly in the IEA long-term program through the EC. We should encourage this trend as useful to consumer solidarity, although we want to avoid giving France all the benefits of IEA membership without the French taking on the political obligations of the emergency program. France could, however, participate indirectly in the IEA objectives setting exercise through the EC. This would also help give new impetus to establishment of an EC energy policy.

Coordination in the Dialogue with Producers

Our strategy is based on the belief that the dialogue with the producers cannot eliminate our energy vulnerability -- only effective action to reduce dependence can do that. However, to the extent that we can use the dialogue to re-inforce non-market constraints on OPEC and strengthen the position of Saudi Arabia and other moderates within OPEC, it can serve to attenuate our vulnerability. We must assure that we continue to pursue a common strategy in the dialogue which reflects our commitment to cooperation among ourselves.

We should use the Summit to obtain general commitment to the major elements of our strategy in the CIEC Energy Commission through the rest of 1976. We want to use the dialogue with producers to 1) intensify our trade, financial, and other links with them and thus reduce the risk of irresponsible action on price or supply, and 2) set in motion cooperative programs to provide relief for the energy problems of the non-oil LDCs and encourage joint R&D efforts by the producers and industrialized nations.

We do not believe that a formal agreement on oil supply or price would provide any real protection of our energy interests. The Arabs are not willing to eschew future use of an embargo and are willing to discuss security of supply "in the commercial sense only." A formal agreement on price would probably have to include a provision for indexation of oil prices.

Such an agreement might provide temporary protection against arbitrary OPEC increases, but it would reduce friction within the cartel and as long as OPEC's market power remains unchallenged, there would be no assurance the producers would not eventually break the agreement. The IEA has agreed that CIEC should not be used to try to obtain formal commitments from the producers on price and supply.

Thus far, we have been able, through coordination in the IEA, to pursue a joint strategy in the Energy Commission which supports our basic objectives. However, as CIEC moves at mid-year from the present analytical phase into an effort to produce concrete results, consumer country coordination will become even more essential.

A key issue in the second half of the year in the Energy Commission is likely to be the possible continuation of the energy dialogue with producers in some form after CIEC and specifically the extent to which we try to moderate future OPEC price actions through some regular consultation on oil prices. We agree that it would be useful to continue to discuss oil prices and other energy issues with producers, particularly since there is no existing international forum for energy. But discussion of price as opposed to formal consultation on price could take place in the context of general discussion on supply and demand. As long as OPEC retains its market power, consultations would not cause them to moderate significantly their price policies. Such consultations could tend to give international legitimacy to OPEC price decisions. Moreover, the producers would insist that any formal consultation on price take place against a set of criteria, including the cost of imports -- a backdoor to indexation. Because of their risk and since formal consultations on price could lead to frequent confrontations on price with producers, we must be cautious about the structure of any on-going mechanism.

Presentation of the post-CIEC energy discussion idea in the Energy Commission must be carefully managed. We must hold in line the Europeans who feel more vulnerable on price than we and who would view political consultation on price as providing some reinforcement for OPEC moderation on oil prices. We must also guard against the producers using our desire for post-CIEC energy discussion -- which they in fact share -- as leverage to obtain 1) concessions in other areas of CIEC; and/or 2) formal or informal indexation of oil prices. If, as we believe, an on-going energy dialogue is in the interest of all countries, we should not have to pay something for it.

At the Summit, we should lay out our approach to the second half of the Energy Commission:

-- centering the CIEC work program for the second half of 1976 on the energy problems of non-oil LDCS, producer/consumer joint R&D, and continuation of multilateral energy discussions with producers after CIEC;

-- reaffirming the IEA agreement not to seek formal agreement on price or supply; and

-- preventing the idea of on-going energy discussions from being transformed into formal consultation on oil prices.

(Numbers on this paper should not be made public)

SENATE AMENDMENTS
TO THE FEA EXTENSION ACT
REGARDING STRIPPER AND ENHANCED RECOVERY OIL PRODUCTIONS

Summary

The Senate Amendments proposed by Senator Bartlett (stripper) and Senator Montoya (enhanced recovery) would exclude from domestic price controls all stripper and some enhanced recovery oil production (in addition to that which has already occurred by February 1, 1976). However, it is unlikely that the House Conferees would accept any amendments to the EPCA domestic crude oil pricing provisions.

Assuming optimistic assumptions of enhanced (secondary and tertiary) incremental production, the amendment could result in a rise in domestic oil prices by as much as 23% over the next two years. This increase declines as existing fields decline.

Year	Stripper	Secondary	Tertiary	Total
1976	2%	19.2%	1.9%	23.1%
1977	2%	18.7%	2.4%	23.1%
1978	2%	13.2%	3.0%	18.2%
1979	2%	11.0%	3.7%	16.7%

Discussion of the Senate Provisions

1. Stripper well production (less than 10 barrels/day, as currently defined by FEA regulations).

    - This would allow stripper oil to sell at the market level price (approximately $13/barrel) instead of the current June upper tier price ($11.56).

    - This would have the effect of allowing approximately a 2% increase in all domestic crude oil prices, including a $.52/barrel immediate increase in that domestic production remaining under controls.

    - FEA has recently completed hearings and will probably propose to Congress a rulemaking increasing the domestic composite price to take account of:

        -- increasing the current 10 barrels/day threshhold for stripper wells to take into account more expensive production from deep wells.

-- allowing all stripper production to be sold at market prices.

- The Senate Amendment is preferable to any proposed FEA action, as it would give added flexibility in administering the price of the remaining controlled oil.

2. <u>Enhanced Oil Recovery</u>. The definition includes all incremental secondary and tertiary oil production (initiated or expanded after February 1, 1976).

   - All such production could be sold at market level prices (approximately $13/barrel).

   - Producers would have to apply to the appropriate state regulatory agency or the U.S. Geological Survey (if Federal lands) for a certification of any proposed project.

   - Either the State or the U.S. Geological Survey shall certify to FEA the amount of incremental production which could be excluded from the composite and sold at market level prices.

   - The impact of this provision is difficult to determine, because of the vagueness of the definition of "incremental" production (either new projects or expansion or modification of existing projects) and certification could be difficult.

BACKGROUND PAPER

INTERNATIONAL ENERGY AGENCY

Background

The International Energy Agency (IEA) established in November 1974 as an autonomous body of the OECD is the major institutional framework for our international energy initiatives. The nineteen industrialized consumer country members* have committed themselves to a series of cooperative objectives which are designed to reduce both the group's vulnerability to future embargoes and the level of dependence on imported oil. These commitments include:

-- An emergency oil sharing mechanism which involves the stockpiling of oil, prepositioned demand restraint measures and the allocation of available oil in an emergency

-- An oil market information system to increase our ability to monitor the market through the mandatory submission of data by oil companies and governments

-- A comprehensive program of long term energy cooperation to reduce our import dependency through joint efforts in conservation, accelerated production of alternative energy sources and research and development.

In addition the IEA has provided the principal forum for the development and coordination of industrialized country strategy for our participation in the Energy Commission of the Conference on International Economic Cooperation.

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* IEA membership includes: Austria, Belgium, Canada, Denmark, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway (associate member) Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

IEA Accomplishments to Date

Progress to date has been significant. In little more than 18 months, the emergency program of the agency has been made operational. A test of the emergency data system is now underway and the allocation system is scheduled to be tested early in the fall. In the same period, a major portion of the oil market information system has been established, including quarterly reporting on crude oil and product prices as well as crude oil costs. In addition, a mechanism for consultation with oil companies has been developed. Finally, the Long Term Program of cooperation was adopted by the IEA after lengthy negotiation earlier this year.

The long term IEA program for energy cooperation includes commitments by member countries to develop alternative energy sources through joint projects, the establishment of a minimum safeguard price (MSP) for imported oil, cooperation in specific energy sectors, and review of individual country programs. In the area of conservation, the program establishes group conservation targets and conducts annual reviews of national programs. Finally, it contains an ambitious energy R&D program which focuses on a number of high priority areas.

Future IEA Objectives

We intend to work through the IEA to achieve our energy objectives in the Conference on International Economic Cooperation (CIEC). The IEA forum will be important in the latter phases of CIEC as we attempt to develop a balanced package of proposals. These proposals could include the establishment of an International Energy Institute and an International Resources Bank which would provide assistance to the non-oil producing LDC's and greater participation of the oil producers in the world economy.

The Long Term Program provides a solid framework for cooperation but it must now be implemented. Implementation will require the commitment of major national resources and sustained commitment to a cooperative approach to energy problems.

Within the Long Term Program, a key objective is the development of large scale new joint energy production projects to reduce our oil import dependence. Successful demonstration of consumer country cooperation will help change producers perceptions of the future oil market. IEA countries have agreed to try to develop by January 1977 an initial set of concrete projects. A problem that has become evident in the search for appropriate projects is that many of the more attractive possibilities are in the private sector. We may have difficulty identifying appropriate projects unless we are prepared to provide guarantees that investing countries can have assured access to the energy produced along the line of the proposal you put forward at Rambouillet.

We have begun to develop in the IEA a collective research and development strategy to ensure that we focus our R&D efforts in the most productive areas. Over the longer term this will provide an additional and important contribution to reduced import dependence and assure the availability of new energy sources after oil supplies run out. IEA countries have agreed on a number of specific areas for R&D cooperation but our objective is to move beyond traditional technical cooperation and into more hardware oriented projects.

At the Summit, you will propose that the IEA begin a process to establish a set of collective and individual national targets for reduced import dependence by 1985. Achievement of these targets would be assured by political commitments to the specific and concrete actions necessary. We would endorse these goals and the policies needed to implement them at a ministerial meeting in six to nine months.

TAB 6

BACKGROUND PAPER

Relations between Developed and Developing Countries

A. State of Play in North/South Dialogue

Following the success of OPEC nations in utilizing oil as an economic and political weapon to promote their foreign policy interests, several developing nations in 1974 initiated efforts to employ the United Nations General Assembly and its subsidiary bodies as major instruments to achieve their economic objectives. Their aims have been to press for redistribution of economic wealth and to seek special trade benefits and increased financial flows.

A strategy of confrontation was employed by the G-77 group with some success at the 6th Special Session of the United Nations General Assembly in April 1974. At that time, developing nations voted as a bloc to endorse documents calling for a "New International Economic Order" and supported an ancillary document, the "Charter of Economic Rights and Duties."

At the 7th Special Session of the United Nations in September 1975, the United States took the initiative in proposing a comprehensive package of proposals designed to respond to economic problems of developing countries. These included programs to (a) increase concessional aid flows to LDCs, (b) strengthen the technological and scientific base in developing countries, (c) expand world food production inter alia through our endorsement of the International Fund for Agricultural Development, and (d) endorse the generalized system of trade preferences for products entering the U.S. markets. In discussions and negotiations of the 7th Special Session, we sought to lay a foundation for further communication between developed and developing -- the North/South dialogue -- and establish an outline for mutually profitable discussion of economic development issues.

Follow-up work in the North/South dialogue has been continuing at meetings this year of the four commissions of the Conference on International Economic Cooperation (CIEC) relating to energy, raw materials, economic development and finance. The LDCs as well as the major oil exporting nations are well represented in these deliberations, holding ten of the fifteen seats in each commission. Our aim has been to maintain a leading role in efforts to have nations review common economic problems and to demonstrate to LDCs that their interests can be sustained in non-UN forums.

At the May meeting of the United Nations Conference on Trade and Development (UNCTAD), the United States again put forward a series of proposals to deal with the problems of the developing world. Important progress was made on a number of matters. Overall, we attained most of our objectives at UNCTAD although the Conference did not endorse our Resource Bank proposal.

The North/South dialogue will now shift base from UNCTAD to other forums, principally the CIEC commissions which will meet once a month (except in August) during the remainder of 1976. Our objectives in these meetings will be to select specific economic issues of interest to participants and to seek by January 1977 a consensus agreement on those which we endorse.

B. Major Issues in the North/South Dialogue

1. Commodities

Commodities will continue to be a key issue in our relations with the developing world. LDCs rely on the export of primary products including agricultural products, for well over half of their export earnings. In 1973 the LDCs had total exports of $109 billion composed of $45 billion for petroleum products, $42 billion in other primary commodities, $23 billion in manufactures and $1 billion in miscellaneous products. More than 50 LDCs rely on three or fewer commodities for more than half their export earnings. The prices of most LDC primary commodity exports fluctuate widely, which has made economic planning difficult for many LDCs. Also, the LDCs claim that the prices of their primary commodity exports have declined relative to DC manufactured exports and that the purchasing power of export earnings has thus declined, making economic development relatively more expensive each passing year.

The LDCs have proposed (1) to stabilize commodity markets, and thus their export earnings, through a network of commodity agreements and a common fund to finance buffer stocks, and (2) to maintain the real purchasing power of their exports through the indexation of the prices of their commodity exports to the prices of DC manufactured exports. The U.S. approach has been to provide overall stabilization of export earnings through the IMF to reduce the detrimental effect of a shortfall in export earnings which could result. Our commodity policy objectives are: (1) ensuring sufficient financing for resource development, (2) improving the trade and investment conditions in individual commodities and reducing excessive price fluctuations -- relying on use of individual buffer stocks where these are found to be feasible and economically sound, (3) stabilizing commodity markets and prices as well as the overall export earnings of developing countries, and (4) improving market access for the processed products of developing countries while assuring security of supply for consumers. The resolution on commodities, passed at UNCTAD IV, addresses these points with one major exception -- the need to ensure sufficient financing for resource development.

Our differences with developing countries are in <u>how</u> the above objectives should be reached. Countrary to the developing country view, it is neither our policy nor our intention to supplant market mechanisms or enter into price-fixing or production-limiting commodity agreements. While we agreed at Nairobi 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. Specifically, we continue to object to the Common Fund for buffer stocks as proposed by the Group of 77. Similarly, although we have agreed to engage in a program of consultations on individual commodities, we are not committed to any particular outcome of these consultations.

In the coming months, we will pursue the North/South dialogue on commodity issues. Many of these issues will be discussed at the Commission on Raw Materials of the Conference on International Economic Cooperation, which has met in February, March, April, and June 9-15 in Paris. Meetings are scheduled in July and two or three more times before the end of the year. In all areas of the dialogue, we will continue to emphasize constructive and pragmatic solutions -- eschewing the sweeping interventionist proposals favored by the developing countries. We will also seek closer coordination with the major industrialized countries on commodity issues.

2. International Resources Bank (IRB)

A major element of our approach to commodity issues is the need for investment in the development of mineral resources in developing countries. We believe such investment is necessary to ensure that export earnings of developing countries continue to expand and to assure importing countries of adequate supplies of critical raw materials. Developed and developing countries thus have a common interest in this issue.

We, therefore, proposed at UNCTAD IV an International Resources Bank to ensure against non-commercial risk and thus facilitate the flow of essential private sector capital, management, and technology into the development of mineral resources in developing countries. A resolution sponsored by the U.S. and other developed countries calling for study of the IRB proposal was narrowly defeated on the last day of the Conference for reasons apparently unrelated to its merits; e.g., bloc opposition by the Socialist countries, and abstention by many developing countries. Some developing countries, however, apparently fear that increased investment in raw materials production will depress resource prices.

We intend to give priority attention to the resource development issue in up-coming meetings on commodities, with particular emphasis on the International Resources Bank. We appreciated the support that developed countries expressed for the IRB at Nairobi, and we will be consulting closely with them in the coming months on the resource development issue and the IRB.

3. Debt and Developing Country Balance of Payments Deficits

Large current account deficits recently recorded by the non-oil LDCs have increased financing requirements and nearly doubled their foreign debt. This has intensified LDC efforts to secure new sources of financing, particularly in the IMF, and obtain widespread debt relief. In the context of UNCTAD IV, the LDCs called for generalized debt relief (e.g. cancellation, moratoria, etc.) on official debt, a rescheduling of commercial debt, and a creditor-debtor conference for implementing both of the above.

We believe the international financial system is adequate to cope with the aggregate LDC current account deficit in 1976. The new resources provided for at the last Interim Committee meeting of the IMF are an important factor in this judgment. Moreover, the movement out of recession in the industrial countries is already impacting favorably on LDC trade. Since there is no general "debt problem" as such, we believe strongly that the North/South dialogue on debt should focus on improving the case-by-case procedures by which the acute difficulties of individual countries are handled.

We were successful at UNCTAD in resisting LDC demands for generalized debt relief and were able to focus attention on improvements in the "case-by-case" approach. The LDCs also dropped demands for both a rescheduling of commercial debt and creditor-debtor conference. At the same time, we reaffirmed our willingness to respond positively to countries -- particularly the poorest -- experiencing severe debt problems.

Nevertheless, there was considerable disarray among major developed countries at UNCTAD IV on this question. Most were prepared to endorse debt relief as a form of development assistance, although the U.S. finally succeeded in dissuading them from this position. Our differences in this regard reflect in part differences in the manner in which debt relief is treated in the budgets of creditor countries. In some countries, there is a link or trade-off between debt relief and new aid flows since debt relief is charged to the same budget category as new aid flows. Since the aggregate level of financial resources are not affected by debt relief, this situation lends itself towards accepting debt relief as an appropriate vehicle for providing aid. In other countries, such as the U.S., the link is not as direct. In setting an overall budget, the authorities take into account inflows on outstanding credits as budget receipts. Debt rescheduling reduces those receipts from planned levels and would be viewed by Congress as "backdoor aid." The U.S., as a result, maintains a sharp distinction between aid and debt relief and limits the use of debt relief to acute debt crises.

It is partly for this reason that the U.S., which is the largest bilateral aid donor, believes that debt rescheduling should be used only in the most serious situations and not to resolve what are essentially balance of payments problems nor to supplement development assistance flows. In our case, such use of debt relief would undermine the flexibility we now enjoy to deal with emergency debt cases and might well lead to reduced overall aid flows.

Action on the debt issue will now proceed on two fronts: (1) creditor countries will continue reviewing individual country requests for debt relief (Zaire is the only current applicant) and (2) the Financial Affairs Commission of the CIEC will study the usefulness of features to provide guidance in future debt operations.

4. Trade

Trade is recognized by developing countries as their most important source of foreign exchange earnings. Developing countries seek greater certainty in their earnings from their commodity exports to developed countries and unencumbered preferential access to the markets of developed countries for their goods. They wish commodity arrangements that will maintain remunerative prices for their commodity exports. They also seek export prices comparable to the prices they must pay for their imports from developed countries. For their increasing exports of manufactured goods in particular, the developing countries seek improved market access on a preferential basis to developed country markets.

To assist developing countries in meeting their legitimate development objectives, the U.S. and other developed countries have established generalized systems of tariff preferences (GSP) covering a broad range of manufactured goods and selected agricultural, fisheries and primary products. These preferences provide developing countries more open access to developed country markets and enable them to compete in new product areas with the traditional developed country exporters. The multilateral trade negotiations (MTN) in Geneva offer the best possibilities for further liberalization of market access and for improvements in the world trading system to assist developing countries in dealing with their trade problems. Work is underway on developing specific differential treatment for developing countries in those areas of the MTN (such as tropical products) where such treatment is feasible and practicable.

In the immediate future the question of how developing countries will negotiate has to be resolved. The U. S. holds that they should make specific commitments as to their contributions in the process of negotiation for the concessions they seek at a level commensurate with their stage of development. The developing countries argue that the question of their contributions should not be considered until the Tokyo Declaration objectives and commitments in their favor are adequately fulfilled. Underlying this controversy are the basic questions of what responsibilities developing as well as developed countries must shoulder to maintain an efficient global trading system and if that system is to be based on market principles.

We anticipate that the MTN will result in special and differential treatment for developing countries in some areas, but that this treatment will fall short of their extreme demands. We believe that such special and differential treatment should be exceptional, temporary and linked to individual development status. In the longer run a more effective means for assuring permanent trade benefits for developing countries is through deep MFN cuts.

5. <u>Transfer of Technology</u>

At UNCTAD IV, we took the lead in stimulating a significant amount of international activity in the area of technology transfer, in particular, a variety of measures to strengthen the technological capacity of developing countries. The most significant expression of this was commitment to establish national and regional transfer of technology centers and to build a network of training, research and development, and information programs. We fully support these endeavors as representing real and positive measures aimed at meeting the needs of developing countries. Moreover, we seek active support for our proposals to establish an International Industrialization Institute and an International Energy Institute.

Developing countries are also demanding a significant re-structuring in the industrial property field with the objective of gaining access to proprietary technology under more favorable terms and conditions. Their proposals are directed at revision of the Paris Convention for the Protection of Industrial Property. While we support consideration of revision proposals which serve the interests of developing countries, we seek cooperation from our Allies in maintaining a firm stance against changes in the "system" which would seriously weaken inventive capacity and the protection of industrial property.

At UNCTAD, we attempted to develop the issue of a code of conduct for technological transfer. The developed countries are willing to negotiate voluntary guidelines for all international transfer of technology, with special consideration for developing countries. The LDCs, however, desire a legally binding code (i.e., a treaty) with fundamental emphasis on massive governmental controls over the terms of technology transfer. At UNCTAD IV, a working group was set up to draft a code by mid-1977. The ultimate legal character of the code was left undecided, but the pertinent resolution is tilted toward a treaty, especially as a special U.N. Conference will be convened to complete negotiations on the code by the end of 1977.

6. Least Developed Countries, Island Developing Countries and Land-locked Countries

In analyzing the differing development problems and financial needs of island-developing and land-locked countries, the UNCTAD Conference agreed that the special problems of transportation and communication of these groups of countries should be the subject of specific action in their development programs. However, the distinction was established that their geographical problems did not necessarily entitle them to the more concessional development financing available to the least developed countries.

Developed countries should be able to implement the commitments they made at UNCTAD IV for the least developed, island and land-locked countries without too much difficulty. Our own development assistance policies reflect particular concern for helping the group of least developed countries. We are committed to increasing resource flows to the poorest countries, improving their terms, and enhancing their quality. In fact, a significant shift in the allocation of U.S. aid in favor of the poorest countries has already taken place in the last few years. Currently, seventy percent of our bilateral development assistance is programmed for countries with per capita GNP of $300 or less. Our bilateral aid to the poorest countries is expected to increase in the future and will be supporting multilateral efforts, such as the IDA, that benefit the poorest countries. We believe that all donor countries should provide development assistance to the least developed countries on a grant basis. We intend to seek Congressional authority to provide U.S. aid on this basis. We also support the idea of reciprocal untying of aid by the major donors. In multilateral discussions, the U.S. originally proposed the creation of the IMF Trust Fund and worked successfully to have it established. Congress recently authorized a contribution of $200 million to IFAD. Also, we have proposed in the Law of the Sea Conference an approach allocating the revenues from international seabed mining that would reserve a portion for the benefit of the poorest countries.

Many of the other measures envisioned at UNCTAD IV to assist the least developed, island and land-locked countries are also being implemented in existing aid programs. The area of special measures for these groups of countries will probably be a relatively uncontroversial one in development finance discussions in the near future.

What we need to generate is a strong political will among OECD nations to concert together and hammer out common ground before they sit down across the table from the LDCs, with all the pressures that entails. The Summit is an ideal place to lay the groundwork since the countries there are obviously the key ones to creating such a political will. With it, the various North/South backstopping groups already in existence can do their job effectively. Without it, OECD countries will lapse back into disarray threatening the success of the North/South dialogue as a whole.

C. Next Steps in the North/South Dialogue

1. The CIEC

In the wake of UNCTAD IV, the focus of attention in the North/South dialogue will now shift for the remainder of this year to the CIEC. To maintain momentum of the dialogue, it is important that the final CIEC Ministerial meeting in December be able to point to concrete results in a number of areas. At mid-year, we will begin to move the four CIEC commissions out of the current phase of analysis of problems into a more action-oriented phase. The senior officials' meeting of the CIEC in early July will begin this transition. We will use the meeting to begin narrowing the range of issues in the CIEC work programs and endeavor to concentrate on those in which progress is possible in the second half of the year. Any list of CIEC action issues must, of course, be balanced in terms of industrialized country and developing country interests. We have begun talking with the other industrialized countries regarding a tentative list of topics. To be effective, industrialized country cooperation in CIEC must be better than we experienced at UNCTAD.

We want to use CIEC to push initiatives already tabled (e.g. technology, aid untying, International Resources Bank, etc.). We also want to exploit the more focused nature of the CIEC forum to draw attention of the LDCs on the need for forms or rules of the game as we attempt to improve relations between industrialized and developing countries in the fields of trade, investment and energy. Our objectives in the Energy Commission -- which we want to continue to make a central element in the overall North/South dialogue -- are spelled out in the separate summit paper on Energy.

2. Commodities

Commodity issues now enter an "action" phase of exploratory discussions on the common fund and on 18 individual commodities -- scheduled to begin this fall. We must take steps to strengthen cooperation and coordination among the industrial countries if we are to avoid being forced into choosing between the alternatives of U.S. isolation and possible rupture of the North/South dialogue on the one hand or acceptance of sweeping and unrealistic proposals for restructuring world commodity trade on the other.

3. French Aid Initiative for Africa

During a May summit of France and 19 French-speaking black African countries, President Giscard D'Estaing proposed a new African aid fund. The stated objectives of the fund (i.e. aid for the Sahel, mineral resources development, aid for development of transportation in land-locked countries, and agricultural development) closely parallel some of our own most recent aid initiatives for Africa. While Giscard's initiative represents a potential threat to eclipse our own programs, the lack of both initial and subsequent clear articulation of the major elements of the proposed fund (size, organization, relationship to other organizations, etc.) strongly suggest that it is a highly personal initiative of Giscard's, which we can shape to suit our interests. Chief among these is to economically strengthen moderate countries in Africa.

This process has been initiated by emphasizing to the French the positive role that the fund could play in coordinating aid to Africa from donor countries, rather than simply evolving into another costly aid program with areas of interest overlapping those of existing institutions. We hope later to further mold Giscard's initiative, probably into a combination of a modest fund and a flexible coordinating mechanism that would organize groupings of donors and recipients according to the objective to be addressed (e.g. such as developing the Sahel). However, the U.S. cannot, at this time, pledge new financial resources to such a fund. A method of pre-selecting moderate African nations as recipients of coordinated bilateral and multilateral aid would result from the French proposal.

Support of Giscard's initiative at this time will facilitate our African strategy. Furthermore, your support of the French initiative at the Summit may also enable us to approach them more successfully on other issues; such as increasing French aid to Portugal or reconsidering their sale of a nuclear reprocessing plant to Pakistan.

TAB 7

BACKGROUND PAPER

East-West Economic Relations

The most notable recent development in East-West economic relations is the growing Soviet hard currency debt.

The Soviet hard currency deficit is now about $7.5 billion, over twice the 1973 figure. Total indebtedness is over $10 billion. The hard currency trade deficit in the first quarter of 1976 was $2 billion. Unless the Soviet trade picture is vastly improved in the last half of 1976, this deficit will reach $4-6 billion for the year.

To finance a $6 billion deficit in 1976 without debt rescheduling, the Soviets will almost certainly have to exhaust their ability to obtain new Western financial credits not linked to new import orders.

As long-time creditors, with a substantial unused credit line to the USSR, the British, and probably the French, will likely seek discussion of this issue. The Italians should have a similar interest.

In the early 1960s the U.K. was quite impenetrable when the U.S. tried to develop a common East-West credit line through NATO. This attitude changed somewhat in the later 1960s and early 1970s during those periods when it was possible for the U.S.Export-Import Bank to undertake some direct financing or financial guarantees, and the U.S. became a more active participant in East-West export credit activities.

There is a danger that our private and official credit institutions may collectively build up such a large creditor position vis-a-vis the Soviet Union and Eastern Europe that it would weaken the Western financial system.

In response to an acute hard currency payments problem, the Soviets might cut back on imports or expand exports, drawing on those devices of centrally controlled purchase practices and competitive export pricing that are available to state-trading economies. These possibilities emphasize the importance for the Western industrialized countries of developing a common approach in these matters.

While the United States has registered concern about the impact of such potential problems in East-West economic relations and anticipated the need for restraining devices --for example, the market disruption provisions in the Trade Act -- our allies have opposed the idea of disciplining East-West economic relations through general codes of conduct or other restraining measures of a multilateral character. However, they have dealt with this problem on a bilateral basis.

The system has worked well from their standpoint, without political complications, and they are basically unreceptive to the notion that East-West trade requires a different set of trading and financing premises.

We hope, however, that the participants at Puerto Rico will agree with the U.S. proposals in the OECD that the evolution of East-West economic relations warrants continued surveillance and consultation, and that significant deterioration in the Soviet-Western trade and payments position would require a collective response.

EASTERN EUROPEAN TRADE WITH

SEVEN WESTERN SUMMIT COUNTRIES

(Millions of Dollars)

	1969		1974	
	Exports	Imports	Exports	Imports
U.S.S.R.	1,485.0	605.3	4,541.2	1,237.6
Bulgaria	150.0	48.7	541.4	159.5
Czechoslovakia	331.9	245.2	912.1	642.7
GDR	521.8	357.0	1,399.1	952.8
Hungary	204.8	86.8	945.2	449.0
Poland	437.7	165.3	2,570.7	722.1
Romania	415.4	120.6	1,312.8	492.7
TOTALS	3,546.6	1,628.9	12,222.5	4,656.4
	$5,175.5		$16,878.9	

BACKGROUND PAPER

SELECTED GRAIN AND SOYBEAN DATA FOR U.S. AND USSR

Two tables are attached showing selected grain and soybean data for the U.S. and USSR, including the Department of Agriculture's current forecasts for the 1976-crop marketing year. The 1976/77 forecast, based on current generally favorable growing conditions in the U.S. and throughout the world (the major exception being Western Europe), points to:

* A record U.S. grain crop, resulting in a significant increase in carryover stocks--which are presently at historically low levels in the case of feed grains.

* A smaller U.S. soybean crop, reflecting an acreage shift from soybeans to grain and cotton, which will draw carryover stocks down to a relatively low level.

* A recovery in USSR grain production which is likely to reduce their import demands from the unusually high level in 1975/76 (a large part of this reduction is expected to be in purchases from the U.S.).

Admittedly, these early season projections for 1976/77 are highly tentative. Actual results could differ significantly from these estimates due to unusually poor--or favorable--growing conditions during the remainder of the year, or due to changes in other factors affecting supply and/or utilization. To illustrate possible uncertainties in the forecasts for 1976/77, projections made a year ago for 1975/76 are compared below with actual outcomes for 1975/76.

Production of:	Estimate 6/11/75	Actual 6/23/76
	(million metric tons)	
Feed Grains	197	184
Wheat	57	58
Soybeans	41	41

USSR GRAIN -- 1975/76

(million metric tons)

Item		Production	Imports	Exports	Net Imports
June 9, 1975	Estimate:	200	10	5	5
June 23, 1976	Actual:	140	26+	0.5	26

June 24, 1976

U.S. -- GRAINS AND SOYBEANS: Supply-Utilization Data, 1971/72-1976/77 Marketing Years 1/

Item	1971/72	1972/73	1973/74	1974/75	1975/76: Prelim.	1976/77 Forecast
	(million metric tons)					
FEED GRAINS 2/						
Production	188.4	181.3	186.0	150.0	183.6	198.9*
Supply 3/	220.2	227.1	216.9	172.0	199.4	215.1*
Domestic use	150.3	157.3	155.0	121.0	134.4	147.4*
Exports	24.5	39.1	40.4	35.7	49.0	40.6*
Carryover	45.4	30.7	21.5	15.3	16.0	27.1*
WHEAT						
Production	44.0	42.1	46.4	48.9	58.1	53.1*
Supply 3/	66.4	68.9	62.8	58.2	69.8	71.2*
Domestic use	23.0	21.8	20.4	18.8	19.8	20.0*
Exports	16.6	30.8	33.1	27.7	32.0	28.6*
Carryover	26.8	16.3	9.2	11.7	18.1	22.6*
TOTAL GRAIN						
Production	232.4	223.4	232.4	198.9	241.7	252.0*
Supply 3/	286.6	296.0	279.7	230.2	269.2	286.3*
Domestic use	173.3	179.1	175.4	139.8	154.2	167.4*
Exports	41.1	69.9	73.5	63.4	81.0	69.2*
Carryover	72.2	47.0	30.7	27.0	34.1	49.7*
SOYBEANS						
Production	32.0	34.6	42.1	33.1	41.4	36.7*
Supply 3/	34.7	36.6	43.8	37.8	46.4	42.2*
Domestic use	21.4	21.8	24.4	21.3	25.6	24.9*
Exports	11.3	13.1	14.7	11.5	15.4	14.6*
Carryover	2.0	1.7	4.7	5.0	5.4	2.7*

NOTE: Totals may not add due to rounding.

* Midpoint of range in current estimates.
1/ Marketing years: corn and grain sorghum, October-September; wheat, barley and oats, June-May; soybeans, September-August.
2/ Corn, grain sorghum, barley and oats.
3/ Beginning stocks, production and imports (if any).

June 24, 1976

USSR -- Grain Production and Trade
1971/72-1976/77 Marketing Years

Marketing Year	Production	Trade		
		Imports	Exports	Net Imports
	(million metric tons)			
1971/72	181	8.0	6.7	1.3
1972/73	168	21.9	1.7	20.2
1973/74	222	11.7	6.0	5.7
1974/75	196	5.2	5.0	0.2
1975/76	140	26.3*	0.5*	25.8*
1976/77 forecast	190	17.0	2.0	15.0

* Preliminary.

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BACKGROUND PAPER

USSR GRAIN SITUATION

The USSR grain crop in 1975, at 140 million metric tons, was disastrously short of their initial production plan of 215 million tons. As a result, they are expected to import nearly 30 million tons of grain during the 15-month period July 1975-September 1976, including 16 million from the U.S. The Soviets also had to cut their domestic consumption by around 20 million tons, virtually halt their normal 3 to 5 million ton exports to Eastern European countries, and presumably draw sharply upon their reserve stocks.

This year, despite a less ambitious production plan of 205 million tons, they may again fall short. The current USDA estimate, published June 22, places the USSR grain crop at 190 million tons. The current CIA estimate is 195 million tons. The 5 million tons difference is based on differing judgments with respect to the likely impact of weather on the crop. It is early, and these forecasts could change considerably. For example, last year at this time USDA estimated the crop at 200 million tons compared to the final figure of 140 million tons. If the 190 million ton crop materializes, the Soviets would likely continue importing at above normal levels. Consumer requirements are virtually certain to require the Soviets to rebuild their hog and poultry populations, and their livestock product output, as quickly as possible. There would also seem to be compelling reasons to rebuild their grain stocks. These considerations suggest that a crop of around 190 million tons will result in net imports of perhaps 15 million tons. Admittedly this will require a large amount of foreign exchange.

Based on public announcements, the Soviets have thus far bought 5 million tons of grains from all origins for shipment in the 12 months beginning October 1, 1976. Of this total, 2.2 million is from the U.S. (mostly corn), and 2 million from Canada and 1 million from Australia (all wheat). When the initial semi-annual consultations under the new 5-year agreement were held on May 24-25 in Washington, the Soviets said that it was too early to know what their requirements for U.S. grains in 1976/77 would be and whether they would want to purchase in excess of 8 million tons (which would require prior approval by the U.S.). If, as in 1975/76, they were to again succeed in obtaining around 10 million tons of grain from non-U.S. origins, it is entirely possible that Soviet import needs stemming from a 190 million ton grain crop could be covered by taking 6 to 8 million tons from the U.S., which would be permitted without further consultations as provided for in the U.S./U.S.S.R. agreement.

June 24, 1976

BACKGROUND PAPER

EUROPEAN COMMUNITY GRAIN SITUATION

The European Community (EC), particularly a region centered in northern France, is currently suffering a very unusual and extended period of springtime drought. Grain harvests will be much smaller than expected earlier. The shortfall will be mainly in spring sown feedgrains rather than wheat. Currently, based on information through June 20, the crop is estimated at only 97 million tons, about the same as last year's reduced crop. If dry weather continues, the final figure will be even lower.

Given current information, U.S. corn exports for the 1976/77 marketing year are expected to drop by 6.5 or 7.5 million metric tons from the 1975/76 level.

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TAB 8

(d) two-party contractural or other arrangements between an agency of the U.S. Government and an international organization for research or other services.

In addition, the figures representing U.S. contributions to the IFIs are appropriated amounts -- not disbursed amounts.

CURRENT ACTIVE INTERNATIONAL ORGANIZATIONS 1/ WHICH HAVE RECEIVED U.S. CONTRIBUTIONS

U. N. SPECIALIZED AGENCIES, AND IAEA:

United Nations
Food and Agriculture Organization
Intergovernmental Maritime Consultative Organization
International Atomic Energy Agency
International Civil Aviation Organization
  Joint Financing Program
International Labor Organization
International Telecommunication Union
U. N. Educational, Scientific and Cultural Organization
Universal Postal Union
World Health Organization
World Meteorological Organization

INTER-AMERICAN ORGANIZATIONS:

Organization of American States
Inter-American Indian Institute
Inter-American Institute of Agricultural Sciences
Inter-American Tropical Tuna Commission
Pan American Health Organization
Pan American Institute of Geography and History
Pan American Railway Congress Association
Postal Union of the Americas and Spain

REGIONAL ORGANIZATIONS:

NATO Civilian Headquarters
North Atlantic Assembly
Central Treaty Organization
Colombo Plan Council
2/ International Commission for Supervision and Control of Laos
International Commission of Control and Supervision in Viet-Nam
Organization for Economic Cooperation and Development
Southeast Asia Treaty Organization
South Pacific Commission

OTHER INTERNATIONAL ORGANIZATIONS:

Bureau of International Expositions
Consultative Group on International Agricultural Reserch
Customs Cooperation Council
General Agreement on Tariffs and Trade
Hague Conference on Private International Law
International Agency for Research on Cancer
International Agreement, Maintenance of Lights in the Red Sea
International Bureau of the Permanent Court of Arbitration
International Bureau for the Protection of Intellectual Property
International Bureau for the Publication of Customs Tariffs
International Bureau of Weights and Measures
International Center for Restoration of Cultural Property
International Coffee Organization
International Commission for the Conservation of Atlantic Tunas
International Commission for the Northwest Atlantic Fisheries
International Cotton Advisory Committee
International Council for the Exploration of the Sea
International Council of Scientific Unions
International Criminal Policy Organization
International Hydrographic Organization
International Institute for Cotton
International Institute for the Unification of Private Law
International Lead and Zinc Study Group
International North Pacific Fisheries Commission
International Organization for Legal Metrology
International Rubber Study Group
International Seed Testing Association
2/ International Sugar Council
International Union of Official Travel Organizations
International Whaling Commission
International Wheat Council
Interparliamentary Union
North Atlantic Ice Patrol
North Pacific Fur Seal Commission
Permanent International Association of Navigation Congresses
West African Rice Development Association

SPECIAL VOLUNTEER PROGRAMS

2/ Asian Institute of Economic Development and Planning
CENTO Multilateral Technical Cooperation Fund
2/ CENTO Multilateral Science Fund
Colombo Plan Drug Abuse Program
Colombo Plan Population Program
Indus Basin and Tarbela Development Funds
Inter-American Committee on the Alliance for Progress
Intergovernmental Committee for European Migration
IAEA Operationsl Program
International Sceretariat for Volunteer Service
2/ Nam Ngum Development Fund
OAS Export Promotion Center
OAS Special Development Fund
OAS Special Multilateral Fund (Education and Science)
2/ OAS Tourism Year of the Americas
2/ OECD Population Fund
PAHO Special Health Promotion Funds
United Nations Children's Fund
2/ Humanitarian Assistance: India/Bangladesh
2/ U. N. Technical & Operational Assistance to the Congo
United Nations Development Program
United Nationsl Environment Program
U. N./FAO Sahelian Trust Fund
U. N./FAO World Food Program
United Nations Fund for Drug Abuse Control
United Nations Fund for Namibia
United Nations Fund for Population Activities
U. N. High Commissioner for Refugee Program
2/ Humanitarian Assistance: India/Bangladesh
2/ Southern Sudan Relief Operation
2/ South Asian: Exchange of Persons
2/ Asians Expelled from Uganda
United Nationsl Relief and Works Agency
2/ UNRWA Arab Refugee Training
2/ United Nationsl Relief Operation in East Pakistan and Bangladesh
U. N. Institute for Training and Research
2/ U. N. Research Institute for Social Development
United Nationsl Trust Fund for Development Planning and Projections
2/ United Nations Volunteers Program
Special Contributions for Viet-Nam
WHO Special Programs
WHO Volunteer Assistance Program

BACKGROUND PAPER
International Institutions

INTERNATIONAL ORGANIZATIONS - AN EXPANDING BURDEN FOR THE U.S.

The attached table and listing provide evidence of the problems the U.S. Government faces in attempting to meet the requirements imposed on it by the growing number of international organizations. In numbers, the organizations to which the U.S. contributes have expanded by over 100 percent, from 46 in 1955 to 95 in 1974. More importantly, the financial burden has expanded by a factor of twelve, from $104.4 million in 1955 to $1,285.2 million in 1974. Thus, the U.S. is required to bear both direct and indirect financial burdens resulting from the expansion of international organizations: direct burdens in providing budgetary support for the institutions and indirect burdens in expanding the bureaucracy to support U.S. participation in the deliberations of these organizations.

Number of International Organizations 1/ Which Received U.S. Contributions 2/ and the Aggregate Amount of Such Contributions for Fiscal Years 1955, 1960, 1965, 1970, and 1974 (Contributions are in millions of dollars)

	1955	1960	1965	1970	1974
Number of International Organizations (Including IFIs)	46	67	73	87	95
Number of International Financial Institutions (IFIs)	1	4	4	5	5
Total U.S. Contribution to the International Organizations (including the IFIs)	104.4	412.6	826.3	1,030.1	1,285.2
U.S. Contribution to the International Financial Institutions (IFIs)	0	280.0	517.5	686.0	788.0

1/ International Organizations in this context include all intergovernmental bodies having three or more members

2/ U.S. contribution in this context includes all expense items related to U.S. support for the international organizations except:

(a) the cost to the U.S. Government of salaries and expenses of American employees detailed to the secretariats of the international organizations;

(b) loans to international organizations which are to be repaid to the U.S. Government;

(c) cost of commodities donated pursuant to P.L. 480, except those specifically pledged as part of a U.S. contribution;

INTERNATIONAL FINANCIAL INSTITUTIONS

International Finance Corporation
International Development Association
International Bank for Reconstruction and Development
Inter-American Development Bank
Asian Development Bank

1/ International Organizations in this context include all intergovernmental bodies having three or more members

2/ Did not receive U.S. financial support during fiscal year 1974, but received U.S. support in the past

BACKGROUND PAPER

International Institutions

It is our firm belief that economic relations among trading countries must be conducted by the international markets. This is the bedrock of the U.S. approach. It is a fact that the vast majority of international interactions is carried out by private individuals in the markets. Trade, tourism, private investment are the bread and butter of a nation's external transactions -- and these are the daily work of the markets, operating outside the realm of governments. The aim of the trading world and international institutions should be to let the international markets do their vital work and to reduce the imperfections of the market place.

As the world economy becomes increasingly integrated and intricate, it may seem that greater "political will" and international monitoring are called for to direct the complex market system which has the power to affect the lives of people all over the world. In fact, this is the argument of many developing countries. The LDCs want to ensure that the operation of the huge world economy is directed by government -- and in their favor. Consequently, developing countries as well as Communist countries press for intergovernmental control over the international economic system.

As a result, there has been a definite trend toward the use of institutional means to control the international economy. Coupled with this has been a trend -- largely due to defensive behavior by the industrialized countries -- toward delaying confrontation and diffusing international economic issues by referring economic problems to new institutions.

Prime Minister Wilson claimed at Rambouillet that there is inordinate proliferation of world bodies dealing with the same economic issues. He distributed an illustrative list of organizations and groupings in the areas of trade, finance, relations with LDCs, energy, raw materials and commodities, and East-West economic developments. (Attachment A).

The list is long because it includes bodies that perform quite different functions: operating universal bodies like the Fund and Bank which function on a continuing basis supported by a strong management and staff; small groups like G-5 (ministers of the major industrial democracies) that meet ad hoc for confidential discussion of major economic issues for the purpose of reaching agreement on policy; the Group of 77 and Group of 24, which are developing country groups in which OECD countries do not participate; UNCTAD, which is the LDC pressure group on all economic issues; the CIEC commissions which are new small experimental bodies for the North-South dialogue; and OECD committees for consultation and coordination by policy-making officials from the advanced countries.

The multiplication of organizations is not itself proof of redundancy. We face new problems that perhaps are not best dealt with in existing trade, finance, and development organizations, such as problems of the environment and of the oceans and seabeds. Even when several bodies are concerned with the same subject matter, as in the Prime Minister's list, they may differ in approach and perspective and serve a useful purpose thereby.

This does not mean that there are not opportunities for reducing duplication of effort. We believe, as Prime Minister Wilson has indicated, that the trend toward organizational involvement in the international economic system is movement in the wrong direction (Attachment B). The situation calls for a concerted effort to reverse the trend. We should try to minimize overbuilding of the international institutional framework, and minimize duplication among and within institutions. Specific examples of immediate actions which could be taken are:

United Nations

Work presently is going on to rationalize the economic and social sectors of the UN system. In December 1975, the General Assembly established an intergovernmental ad hoc committee to prepare recommendations on the subject. The latest meeting of the committee took place between June 2 and June 11 of this year. The U.S., the G-77, and the EC-9 have each submitted to the committee papers of their own on revising the UN economic and social structure, and views on these different drafts are being exchanged during the current meeting. This process offers a good opportunity to reduce overlap and over-development within the UN organization.

In the spirit of this overall restructuring effort, some specific ways of streamlining the UN structure could be to:

(1) Make sure that where commodity organizations exist, as they do for wheat, coffee, and cocoa, or where the FAO has ongoing programs, UNCTAD relies on these organizations instead of taking on and duplicating their work.

(2) Prevent duplication of work in the UN on transnational enterprises, currently being handled by the Committee on Transnational Enterprises.

(3) Make every effort to avoid future special sessions of the General Assembly on subjects, such as development, which are handled regularly by other UN bodies.

<u>OECD</u>

We propose that the OECD launch a new effort to revise its organization and strip away bodies which serve only marginal purposes. This should be an undertaking of highest priority for the senior representatives from capitals. Among those OECD committees which might be reviewed are:

1. Tourism Committee
2. Payments Committee
3. Industry Committee
4. Committee on Monetary and Foreign Exchange Matters
5. Turkish Consortium Committee
6. Greek Consortium Committee
7. Education Committee
8. Maritime Transport Committee
9. Development Assistance Committee
10. Fisheries Committee.

International Development Lending Institutions (IDLIs)

We propose that the Development Committee of the IMF and World Bank undertake to review the activities of the IDLIs, and suggest changes to reduce duplication and eliminate unnecessary institutional activity. A review such as this would greatly help the Development Committee fulfill its role as coordinator of the international development lending institutions. As part of its review, the Development Committee might consider suggesting increased specialization of the regional banks vis-a-vis the World Bank, for example, in the areas of mid-level vocational education, development finance companies, and agricultural credit.

BACKGROUND PAPER

List of International Institutions Distributed by Prime Minister Wilson at Rambouillet

This list follows, as far as possible, the order of items on the Summit Agenda, though classification is inevitably somewhat arbitrary. Some are purely regional groupings, of which the EEC is the most stable example. Commonwealth organizations and working groups are not listed separately. They cover a wide range of economic issues at all levels, hinging on the relationship between developed and developing countries. Heads of Government and Finance Ministers meet regularly; the Commonwealth Secretariat organizes work on an extensive spread of subjects, e.g. through the Commonwealth Fund for Technical Co-operation. There are also many separate Commonwealth organizations, such as the Commonwealth Agricultural Bureaus, Commonwealth Foundation, etc.

INTERNATIONAL ECONOMIC PROBLEMS - TRADE AND MONETARY

A. Organizations with a Trade Emphasis

a. GATT	
i. Multilateral Trade Negotiations (MTN's)	Concerned with: i. reducing tariff and non-tariff barriers; ii. improvement of Article XIX of GATT, the "safeguard" clause, to define more precisely the circumstances under which action to control imports may be allowable; iii. agriculture; iv. tropical products.
ii. Consultative Group of 18	Set up at insistence of Director-General to consider broad issues of trade policy.
b. OECD Trade Committee	Concerned with any trade measures which may infringe the OECD Trade Pledge. Confined to OECD countries i.e. industrialized nations.
c. IMF	Concerned with measures to counter protectionism for balance of payments reasons. Membership world-wide.
d. UNCTAD	Membership world-wide.
i. Committe on Invisibles and Financing related to Trade.	Most of its work will be carried over to Special Session of Trade Development Board, March 1976.

ii.	Special Committee on Preferences	Meets January 1976
iii.	Commission on Trans National Corporations.	Meets February 1976
iv.	Trade Development Board (TDB) Special Session.	To be held March 1976. Expected to undertake substantive preparatory work for UNCTAD IV.

B. Groupings with a Monetary Emphasis

a.	International Monetary Fund	128 Members. Objectives are: i. to promote a freer system of world trade and payments as means of helping members to achieve economic growth, high employment levels and improved living standards; ii. ensure that adjustment process works smoothly; iii. ensure that world liquidity is adequate to meet i. and ii. Run by Board of Governors, with day-to-day administration by Executive Directors on continuing basis Interim Committee of 20 Governors set up in 1974 to supervise adaptation and management of the monetary system and to deal with sudden disturbances.
b.	Group of 10(G10)	Members are: US, UK, Belgium, France, Germany, Italy, Netherlands, Sweden, Canada and Japan, (the IMF members participating in General Arrangements to Borrow (GAB)) Irregular and ad hoc meetings of officials. Useful for confidential discussion of international monetary problems. Ministers meet to discuss wider political aspects.
c.	Group of 5 (G5)	Comprises US, UK, Germany, France and Japan (and sometimes Italy). Irregular meetings of Finance Ministers usually before major IMF meetings, provide discussion

	of major economic issues in wider context. <u>Try to agree a common line</u>. Also meetings of officials.
	/d. Bank of International Settlement
d. Bank for International Settlement (BIS)	Promotes co-operation among central banks and provides additional facilities for international settlements. Governors meet regularly in Basle under BIS auspices to discuss banking aspects of major international questions. Membership is open to central banks which play a significant role in international banking.
e. Organization for Economic Co-operation and Development (OECD)	22 developed members: EEC and EFTA members plus Finland, Greece, Iceland, Spain, Turkey, Canada, US and Japan. Yugoslavia is associated with some OECD work. Three main objectives: i. to promote highest sustainable economic growth and employment and rising standard of living in member countries; ii. contribute to sound economic expansion of members and non-members which are in process of development; iii. further expansion of world trade on multilateral non-discriminatory basis in accordance with international obligations.
i. Working Party No. 3	A working party of the Economic Policy Committee. Deals with policies to promote equilibrium in international payments. Comprises high-level financial and central bank officials of 10 principal OECD countries.
ii. Other Committees and <u>ad hoc</u> groups covering a wide range of activities	

f. Group of 77 (G77) — The developing countries, now more than 77, who act as a group at international meetings, especially UN Bodies.

g. Group of 24 (G24) — Developing country group (8 each from Africa, Asia, Latin America) deputed by G77 to consider monetary matters at Ministerial level.

h. Group of 33 (G33) — /h. Group of 33 (G33) Comprises G24 at official level plus 9 developing country Executive Directors of IMF.

RELATIONS WITH DEVELOPING COUNTRIES

a. Conference on International Economic Co-operation (See also under Energy, Raw Materials and Commodities) — 27 members, with aim of representing interest of ldc's, oil producers and developed countries. Meets at Ministerial level on 16 December. 4 Commissions: Energy;Commodities; Development problems Financial questions.

b. UNCTAD IV — Takes place in Nairobi in May 1976. Agenda will cover broad range of monetary and trade questions.

c. IMF/IBRD Joint Development Committee — Meet regularly. Broad mandate to review and advise on all aspects of transfer of real resources to developing countries.

d. IBRD — Aims to assist in development of productive facilities and resources in developing countries, mainly by hard loans Also provides technical assistance.

e. International Development Association (IDA) — Promotes development of ldcs mainly by providing finance on very soft terms. Open to IBRD members.

f. International Finance Corporation — Encourages growth of productive private investment in developing countries. Open to IBRD members.

g. Development Assistance Committee (an OECD body) — Members have agreed to secure expansion of volume of resources made available to ldcs and to improve their effectiveness. Members periodically review amount and nature

	of their contributions to aid programs and consult on their development assistance policies.

ENERGY

a. CIEC	Orignially the consumer/producer dialogue, now extended to cover whole range of relations with developing countries. Its Commission on Energy will "facilitate all arrangements which may seem advisable in the field of energy". 10 developing country members (including oil producers) and 5 industrialised. Agenda undefined.
b. International Energy Agency	18 industrialized members, not including France. Aims to improve consumer co-operation in development of alternative energy sources, energy conservation, R&D, emergency oil sharing and co-operation with oil producers and ldcs. Much preparatory work done.
c. OECD: Temporary Working Party of WP3	Covers all aspects of financial relations between oil producers and industrialized consumers which might be relevant to CIEC.

RAW MATERIALS AND COMMODITIES

a. OECD High-Level Group on Commodities	Studying commodity problems, particularly in context of UNCTAD IV and CIEC.
b. UNCTAD Committee on Commodities	Following up resolution of Seventh Special Session and studying UNCTAD integrated approach.
c. CIEC	A Raw Materials Commission is proposed. Its role has not been decided.
d. MTN's (see also 1 A(a)(i)	In the raw materials field, work is proceeding on tropical products, agriculture and the sectoral approach.

. Food and Agriculture Organization (FAO)	A comprehensive strategy on agricultural commodities is being examined.
i. World Food Council	First met in June 1975. Purpose is to co-ordinate follow-up action to World Food Conference. Studying measures to increase food production, food aid, world grain reserves, and fertilizer supply.
ii. Committee on Commodity Problems	Responsible for reviewing production/trading/distribution and related economic problems concerning commodities. Undertakes international review of commodities situation and solving of commodity problems on international basis. Reports to FAO Council.
iii. World Food Programme	Set up under Resolution of World Food Conference. Its governing body is to be reconstituted into the Committee for Food Aid Policies which will be concerned with overseeing food and food aid as well as to FAO and ECOSOC. Will probably meet in April/May 1976..
iv. International Fund for Agricultural Development (IFAD)	Aim is to invest in food production in ldcs by helping projects and programmes as well as by grants. UK is a member of Ad Hoc Working Group. No financial contributions have yet been made.
f. IWC (International Wheat Council)	Follow-up to World Food Conference. Its work is concerned with discussion of cereals in MTNS.

EAST/WEST ECONOMIC DEVELOPMENTS

a. NATO Economic Committee	Provides for notification of officially backed credits over 5 years, and supply by each country of six month returns of liabilities in each Eastern European market.

b. Gentleman's Agreement on Export Credit	An informal agreement to which the USA, EEC and Japan are parties

TAB 9

SOVIET HARD-CURRENCY DEBTS

BACKGROUND PAPER

The Soviet hard-currency debt has risen sharply in 1975. Medium and long-term indebtedness is now about $7.5 billion, over twice the 1973 figure. Total indebtedness is over $10 billion, of which private Western banks hold almost $5 billion.

The 1975 hard-currency trade deficit was $6.3 billion. To finance the deficit, the Soviets needed Western commercial loans ($4.3 billion), loans from Mid-East OPEC countries ($500 million), and gold sales ($1 billion), as well as Western government-backed credits.

The prospects for 1976 are questionable:

-- The hard-currency trade deficit in the first quarter was $2 billion.

-- Western gold supplies are expected to rise, so that increased Soviet sales will probably mean lower prices.

-- Unless the Soviet trade picture is vastly improved in the last half of 1976, the deficit will reach $4-6 billion.

-- To finance a $6 billion deficit in 1976 without debt rescheduling, the Soviets will almost certainly have to exhaust their ability to obtain new Western financial credits not linked to new import orders.

1977 could be a danger point:

-- A bad harvest in 1976 would add to the grain bill in 1977 and force the Soviets either to take severe measures to redress the trade imbalance, or to jeopardize their credit rating by seeking a rescheduling of the debt.

-- Sluggish Western recovery, depressing demand for Soviet goods, could have a similar effect.

Thus, a heavy trade deficit in 1976 (expected), plus a bad 1976 harvest and/or sluggish export earnings (possible), could result in a serious financial problem for Moscow by 1977.

Soviet options:

If faced with a need to redress the trade imbalance in 1977, there are a number of steps the Soviets could -- and presumably would -- take before appealing to the West for debt rescheduling or other financial assistance. These include:

-- Cut back on imports. In the case of machinery and equipment previously ordered and financed with medium- and long-term credits, this would mean requesting delays in delivery or canceling contracts. In the case of grain shipments, it would mean greater austerity at home and further slaughter of livestock.

-- Expand exports. An aggressive export drive could include dumping.

-- Squeeze Eastern Europe by diverting readily saleable goods, such as oil, to Western markets.

-- Sell gold, regardless of the market price.

-- Tap new sources of funds, particularly in the Middle East. There is some evidence that this is already being attempted, without striking success. Revision of Jackson-Vanik would make U.S. government-backed credits available; CCC credits for grain purchases would be especially valuable to the Soviets under these circumstances.

Conclusions:

Although Western bankers are asking somewhat stiffer terms now than they have in the past, the Soviet Union is still considered an excellent credit risk in the financial community. The situation is serious, but it has not become critical. There is as yet no opportunity for the United States or the West to turn Soviet indebtedness to specific political advantage, and lack of control over the private banking community would make this difficult in any case. A sharp deterioration in the Soviet financial position could also give the Soviets a chance to try to exercise some leverage through the threat of default.

Since the passage of Jackson-Vanik, the United States has been unable to extend any new government-backed financing to the USSR. Our position is thus fundamentally different from that of our allies, who have extended over $11 billion in credit lines since mid-1974.

Likely Results of Raising Issue:

Private bankers are already becoming increasingly nervous and demanding higher interest rates than the Soviets have been paying. The mere fact that the West discussed the issue would encourage this trend. The effect would be even greater if the Summit participants choose to make this review public in the communique.

The U.S. business community is already uncertain about the political climate for doing business with the USSR and the action described above could exacerbate this uncertainty.

If the Soviets see us as behind the review, they could make difficulties for our business people. Conceivably, they could consider it a hostile gesture - a U.S. effort to get others to join in our restrictive credit policy, or even an attempt to undermine their credit rating.

We believe that the value of Western unity, if it can be achieved, outweighs these concerns. We understand the allies are agreeable to having the Soviet debt question raised at the Summit and may well accede to its further examination.

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

June 25, 1976

MEMORANDUM FOR: THE PRESIDENT

FROM: ALAN GREENSPAN
BRENT SCOWCROFT

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 attention 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 past-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 of 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 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 inter-nationalistic 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-a-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.

-- <u>Schmidt's</u> 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 this Summit. Schmidt has campaigned domestically on the platform that "no one in Europe has it better than Germany" in order to underling 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-a-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". Nonetheless, intensive inter-party 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.

-- <u>Moro</u>, 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 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 psycholical
effects of the recent drift in the EC. Alhough 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 an 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 announed 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 co-operative 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 lower 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 whole heartedly 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 it 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 rigorous 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 to 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 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 protectionist, 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. 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 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. 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 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.

THE PRESIDENT HAS SEEN....

U.K. Inflation and the Government Budget Deficit

Inflation

Table 1 presents the rates of inflation in retail prices, wholesale prices, average earnings, and the rate of change in the exchange rate for sterling against the dollar for 1965-1976. The attached graph shows the rates of inflation in retail prices and average earnings for the 1971-1976 period.

- -- In the mid-1960's, U.K. wage and price inflation rates were relatively moderate, but started to rise in the early 1970's.
- -- U.K. inflation rates were high even before the oil price rise at the end of 1973 but have increased significantly until recently.
- -- A slowing in price inflation began around the third quarter of 1975, before a decline in wage inflation and at the time a limit on wage increases took effect.
- -- It is not expected that the rate of price inflation will be reduced below 10 per cent until at least mid-1977.

Government Budget Deficit -- Public Sector Borrowing Requirement

In the United Kingdom, the public sector includes central government, local government, and nationalized industries. The deficit of this sector is referred to as the public sector borrowing requirement. Table 2 presents data on the size of the public sector borrowing requirement in relation to nominal gross domestic product (roughly equivalent to GNP), total public expenditure, and total public sector revenue for calendar years during the 1965-1975 period.

-- The relative size of the public sector borrowing requirement has grown during the 1970's, as has the relative size of the public sector (as measured by <u>total</u> public expenditures, i.e., including capital expenditures for nationalized industries).

-- In 1973 and 1974, even though the unemployment rate had decreased from its 1972 level, the relative size of the borrowing requirement continued to increase.

-- The borrowing requirement for the current fiscal year that began April 1 is expected to be about £12 billion, about 10 per cent of nominal gross domestic product.

TABLE 1
United Kingdom: Price, Wage, and Exchange Rate Developments (1965-1976)

		Retail Prices		Wholesale Prices		Average Earnings in Great Britain (SA)		Dollar Price of Sterling	
		Index (excluding seasonal food)	Percentage Change over Previous Period (annual rate)	Index	Percentage Change over Previous Period (annual rate)	Index	Percentage Change over Previous Period (annual rate)	Average	Percentage Change over Previous Period (annual rate)
1965		80.2	4.6	83.3	3.7	74.1	7.1	2.80	0.1
1966		83.2	3.7	85.6	2.8	79.0	6.6	2.79	-0.3
1967		85.2	2.4	86.5	1.1	81.8	3.6	2.75	-1.4
1968		89.3	4.8	89.9	3.9	88.2	7.8	2.39	-13.1
1969		93.9	5.2	93.4	3.9	95.2	7.8	2.39	0.0
1970		100.0	6.5	100.0	7.1	106.7	12.1	2.40	0.4
1971		109.5	9.5	109.0	9.0	118.7	11.3	2.44	1.7
1972		117.0	6.8	114.8	5.3	134.1	13.0	2.50	2.5
1973		126.7	8.3	123.2	7.3	152.1	13.4	2.45	-2.0
1974		147.0	16.0	152.0	23.4	178.8	17.5	2.34	-4.5
1975		182.6	24.2	188.7	24.1	226.5	26.7	2.22	-5.1
1972:	1	113.9	5.8	112.1	4.8	126.4	13.3	2.60	15.8
	2	115.9	7.2	113.5	5.1	130.5	13.6	2.60	0.0
	3	117.8	6.7	115.6	7.6	135.0	14.5	2.45	-21.2
	4	120.7	10.2	118.0	8.6	141.8	21.7	2.36	-13.9
1973:	1	122.2	5.1	119.5	5.2	144.0	6.4	2.42	10.6
	2	125.2	10.2	120.1	2.0	149.6	16.5	2.53	19.5
	3	127.7	8.2	124.2	14.4	154.7	14.3	2.48	-7.7
	4	131.8	13.5	129.1	16.7	159.8	13.9	2.38	-15.2
1974:	1	137.2	17.4	138.3	31.7	159.1 1/	-1.7 1/	2.28	-15.8
	2	145.3	25.8	148.9	34.4	170.1	30.7	2.40	22.8
	3	149.4	11.8	156.1	20.8	185.5	41.4	2.35	-8.1
	4	156.1	19.2	164.9	25.5	200.3	35.9	2.33	-3.4
1975:	1	165.6	26.7	176.0	29.8	209.6	19.9	2.39	10.7
	2	180.7	41.8	186.3	25.5	218.1	17.2	2.32	-11.2
	3	188.7	18.9	193.4	16.1	234.5	33.6	2.13	-28.9
	4	195.2	14.5	199.1	12.3	243.9	17.0	2.04	-15.9
1976:	1	200.9	12.2	206.8	16.4	250.8	11.8	2.00	- 7.6

1/ The decline in average earnings for the first quarter of 1974 reflects a three-day work week associated with a miners' strike.

United Kingdom: Retail Prices and Average Earnings, 1971-1975

(Percentage change over preceding half-year at annual rate)

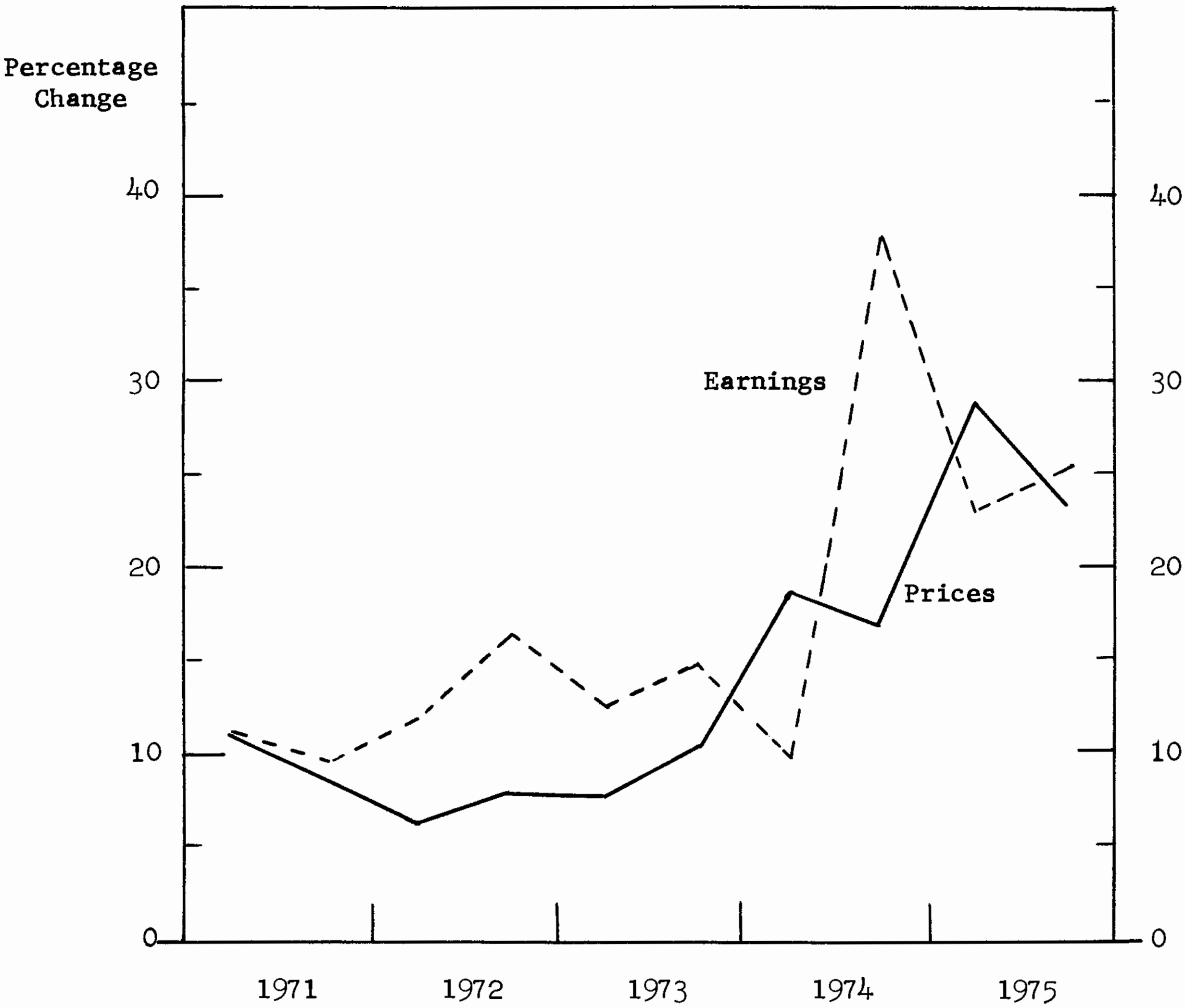

TABLE 2

United Kingdom: Public Sector Borrowing Requirement and Related Data (1965-1975)

Calendar Year	Public Sector Borrowing Requirement (£ Million)	Public Sector Borrowing Requirement as a Percentage of: Nominal GDP	Total Public Expenditure	Total Public Sector Revenue	Total Public Expenditure as a Percentage of GDP	Unemployment Rate
1965	1,205	3.4	8.5	9.3	39.7	1.4
1966	961	2.5	6.3	6.7	40.3	1.5
1967	1,862	4.6	10.6	11.9	43.7	2.3
1968	1,279	2.9	6.7	7.2	44.1	2.4
1969	-466	-1.0	-2.4	-2.3	42.7	2.4
1970	-18	-0.0	-0.1	-0.1	43.1	2.6
1971	1,371	2.4	5.6	6.0	43.0	3.4
1972	2,038	3.2	7.4	8.0	43.6	3.7
1973	4,176	5.8	13.0	15.0	44.9	2.6
1974	6,356	7.8	15.2	17.9	51.6	2.6
1975	10,464	10.3	19.4	24.0	53.1	4.0
Fiscal Years (beginning April 1)						
1975/76	10,546	9.7e				
1976/77	11,962e	9.5e				

e = estimate.

Suggested List of Lead-off Speakers for Monday Sessions

Trade and Investment -- Prime Minister Miki

East/West — Prime Minister Callaghan

North/South — Chancellor Schmidt

Energy — Prime Minister Trudeau

THE PRESIDENT HAS SEEN....

THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
WASHINGTON, D.C. 20220

June 24, 1976

MEMORANDUM FOR THE PRESIDENT

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 international 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. 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.

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 worlds' 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. 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 March 27, at which I discussed the situation with Finance Vice Minister Yoshida. 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

1) Parity — unfortunate / misinterpreted / not aimed at any nation
sterling undervalued.
$5.3 billion.

2) Italy + U.K.
U.K. — Official position — no additional financing available.
Will have to go to IMF with tough terms with
serious political ramifications.

Italy — severe terms with political ramifications.
Only ½ billion left to draw on.

3) Safety - net — when will Congress act? (Healey)
No certainty of Congressional action this year.

4) Balance of payments etc.
OPEC — $35 billion in surplus.
Japan & West Germany — in surplus.
Japanese — suppressing Yen to keep surpluses growing.
(Bergston)
U.S. is concerned. We hope Japan
floating freely.

5) North — South problems — Common fund — buffer stocks/commod.
Giscard — Africa fund.
Productivity of aid — U.S. & West German
believe in balanced view. Political & economic
issues. U.S. will participate in negotiations.

American Economy

CPI / WPI

WPI - .8
.7 next month

CPI - .6
.5 next month

Industrial Production - Up.

Unemployment - upward seasonal adjustment

Trade - surplus surplus. (May)
drop in oil imports.

GNP - +4%/+5%
real world over 7% strong gains

No significant deterioration in recovery. Some slowing down

Interest Rates - political pressures.

"crowding out" - { Treasury borrowing
{ private investment.

Short term benefits / long term liabilities
Most of tough problems behind us.

THE WHITE HOUSE

WASHINGTON

June 16, 1976

PREPARATION FOR THE INTERNATIONAL SUMMIT
June 17, 1976
2:00 p.m.
Cabinet Room

From: L. William Seidman LWS

I. PURPOSE

To review issues, objectives and the U.S. position in the major subject areas scheduled for discussion at the International Summit in Puerto Rico.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: Working groups, composed of members of the Economic Policy Board and the National Security Council have prepared briefing materials on the major subject areas for discussion at the Summit. The papers were drafted through an interagency clearance process. Some minor changes will continue to be made in light of ongoing developments.

A book of briefing materials including papers outlining fundamental issues, U.S. objectives, and proposed remarks as well as background materials is attached.

This meeting is designed to review the papers and positions in each of the major subject areas.

B. Participants: Henry A. Kissinger, William E. Simon, L. William Seidman, Alan Greenspan, Arthur F. Burns, Brent Scowcroft, Frederick B. Dent, Paul H. O'Neill

C. Press Plan: White House Press Corps Photo Opportunity.

III. AGENDA

A. Economic Developments and Outlook

Alan Greenspan will review the briefing materials for the Summit discussion on economic developments and outlook. Inflation

B. Relations with Developing Countries

Secretary Kissinger will review the briefing materials prepared for the Summit discussion on relations with developing countries. Coordination of policies.

C. Financial and Monetary Issues

Secretary Simon will review the briefing materials prepared for the Summit discussion of financial and monetary issues.

1 Japan

D. Trade

Ambassador Dent will review the briefing materials for the Summit discussion on trade issues.

2

E. Investment

Secretary Simon will review the briefing materials prepared for the Summit discussion on investment issues.

Bribery

1 W.G.

F. East-West Economic Relations

Secretary Simon will review the briefing materials for the Summit discussion on East-West economic relations. Debt-rescheduling.

3

G. Energy

Secretary Kissinger will review the briefing materials prepared for the Summit discussion on energy. IEA.

H. International Institutions

William Seidman will review the briefing materials for the Summit on international institutions.

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

June 27, 1976

MEMORANDUM FOR: THE PRESIDENT

FROM: BRENT SCOWCROFT

SUBJECT: Scenario for 4:00 Opening of Summit

You will open the meeting with a prepared statement putting the meetings in broad political/economic perspective, emphasizing the significance of consultations and cooperation among the leaders of the major industrial democracies. After that you should call on President Giscard d'Estaing to open the afternoon discussion on the issues of economic recovery and expansion, together with monetary and financial issues.

Following this, you have a choice: if Schmidt or someone else seems especially eager to chime in you can let him do so and then follow up his statement with your remarks (Tab A in your book entitled "Economic Developments and Outlook"), or you may wish to make your statement on recovery and expansion at that point, before calling on anyone else. Schmidt's views will probably be similar to your own. Therefore, if you go first, he will likely be supportive of your approach; this may be the preferable course of action. You will then have a choice of calling on Schmidt or any other leader eager to discuss this matter.

At some point in the discussion you can turn to the monetary and financial issue, for which your statement is at Tab B in your book. You can do this at any time, but you might wait until the discussion of recovery and expansion had proceeded for about an hour and a half, or until another leader begins to get into detail on monetary and financial issues.

THE ECONOMIC SCENE

Questions at the Summit

By THOMAS E. MULLANEY

WHEN the surprising word went out tentatively a week ago that a second economic summit conference of the Western world's top leaders was being organized only seven months after their historic conclave in Rambouillet, France, some commentators immediately surmised — and perhaps with good reason — that political considerations were a more compelling factor than international economic problems as the motivating force this time.

Not so, protested Treasury Secretary William E. Simon last Thursday at a press briefing on some of the United States' goals for the two-day meeting in Puerto Rico scheduled for June 27 and 28. Not so, echoed Secretary of State Henry A. Kissinger at the same session.

"We do not believe the cohesion of the industrialized democracies is a partisan issue," Mr. Kissinger added.

Nevertheless, the suspicion will linger with some authorities that political benefits had an important bearing in the apparently sudden decision of the West's leaders to stage a highly-visible economic conference so soon again. It will come on the virtual eve of the Republican national convention, at which President Ford faces a serious challenge, and prior to political tests that may materialize for several other participants.

Be that as it may, the real questions are whether this upcoming meeting of the industrialized world's chief executives is necessary, what its agenda will be or should be, and whether they can accomplish anything constructive for future economic coordination, harmony and progress.

Without denying the obvious political overtones of a Western economic summit at this time, one might make a case that the economic reasons for a candid, face-to-face discussion of global issues among the top officials of the United States, France, Britain, West Germany, Italy, Japan and Canada may be even more urgent now than they were at Rambouillet last November.

The major item on the agenda last fall, when only the United States seemed to be emerging from the free world's serious recession, was whether or not this country and others should adopt more stimulative meas-

Economic Indicators appear on page 14.

ures to try to hasten the return to general, solid economic growth. Monetary problems were also at issue, but they were reasonably resolved at Rambouillet and a subsequent session of finance ministers on the island of Jamaica last January.

Now, perhaps, the problems are even more difficult — how to manage an orderly and sustained general recovery in the world, how to avoid the errors of the past when economies were strong, how to achieve greater stability in the international currency markets, and how to cope with the widening breach between the industrialized world and the underdeveloped countries.

There are other issues and challenges still to be faced, of course. High-level world inflation remains a nagging common problem. So are interest-rate, energy, debt and trade issues, all of which could stand greater examination, coordination and cooperation.

The new conference of world leaders will come close on the heels of the Italian elections in two weeks, the decision that President Ford must make around mid-month on possible import quotas for specialty steel imports into the United States, the welcome surprise of unchanged oil prices from the recent meeting of the producer nations in Bali, and the disappointment over the results of the United Nations Conference on Trade and Development at Nairobi last week.

Secretary Simon said the United States would not go to Puerto Rico with specific policy goals and cautioned that no one should expect that "important announcements will come out that will instantly solve problems." But President Ford seemed to strike the proper note when he said last Thursday:

"In the past, world leaders have met to deal with crises, but today's complex problems require that leaders meet to avoid them."

New crises could certainly materialize if some new programs are not formulated to deal with recurrent gyrations in the currency markets, with the unsatisfied aspirations of the underdeveloped countries, with world needs for new sources of energy, and with potential impediments to expanded global trade. There is also the enormous problem of reducing unemployment without resorting to the excessively expansive fiscal and monetary remedies of the past that created so much havoc.

The highest priority for the Western leaders, in the view of economist Norman Robertson of the Mellon Bank, "should be a coordination of economic policies, now that recovery in almost every industrialized country is proceeding stronger than expected at Rambouillet last November, to make sure that nations avoid the blunders they committed in 1972 and 1973."

It was at that time that all nations were recklessly pursuing overly expansive spending and monetary policies. Those policies fostered excessive demand everywhere, inducing a huge worldwide boom and then the near-bust of 1973-1975.

Henry Kaufman, economist for Salomon Brothers, said he was not convinced that the upcoming Puerto Rico meeting is "that urgent at this time, but it could do some constructive things."

He urged consideration to the growing debt burden of the underdeveloped nations, now standing at the staggering figure of $135 billion, as well as efforts to develop a much more uniform energy program and an agreed policy vis-a-vis the major oil-producing nations.

"The United States," Mr. Kaufman said, "has emerged from its recession into a recovery in much better economic and financial shape than most other countries. This should result in a greater political clout for America and enable the nation to achieve its economic and political objectives better than it has in the past."

"We also need some clarification of our attitude toward Europe," the economist continued. "We have been paying more attention to the Soviet Union and China than to our relationships in Europe, which may become more precarious in coming months, particularly if the Communists come into Government in Italy and perhaps other countries."

Other economists in the banking and business world stressed the importance of dealing with the continued gyrations in the international currency markets and a better effort to repair relationships with the Third World after the recent failure of the United Nations Conference on Trade and Development in Nigeria.

On the currency question, the continued turbulence in the foreign exchange markets has demonstrated that the present floating-rate system, while averting the traumatic crises of the past under the old Bretton Woods system of fixed parity relationships, has not been a panacea, by any means. How do you function under floating rates? The world certainly has much to learn on that question.

The British pound has been subjected to persistent pressures that have driven its exchange value down to the $1.70 level from $2.40 a year ago. The Italian lira and some other currencies have also been pushed sharply downward, while the German mark, the Swiss franc and some other currencies remain overvalued.

These conditions have generated tensions, to say nothing of trade and inflation problems, that could lead to greater destabilization on the international economic scene. Obviously, fears of competitive devaluations for trade advantages in several countries still exist and nettle the Western world.

How to check those trends is a suitable matter for discussion at the Puerto Rico conference, but the answer to that $64 question is not easy. It is time, however, for probing discussion of the rules of the currency game. One commentator recently suggested it might be appropriate to establish some daily limits on fluctuations in the foreign exchange markets, such as those that prevail in the American commodity futures markets. But is that the suitable answer?

In a talk in Toronto two years ago, Gabriel Hauge, chairman of the Manufacturers Hanover Corporation, stressed the importance of effective stabilization policies in individual countries.

"It would appear," said the New York banker-economist at that time, "that the choice between a par-value (currency) system with flexibility and a floating system with rules is not all that great. However, neither will work unless each country puts forth its best efforts to maintain the health of its own currency.

"International cooperation is clearly more than ever the 'sine qua non' of living together on this terrestrial ball," Mr. Hauge added. "Indispensable as it is, however, international cooperation must never become an escape mechanism from the rigors of doing what each of us knows must be done at home."

That would seem to be an appropriate text for the world leaders as they gather at Puerto Rico three weeks hence. This follow-up to Rambouillet may well be unnecessary and a political expedient, as some critics maintain, but it could serve to advance international economic understanding and cooperation on many crucial issues for the Western world. And that would be at least another small step forward.

The conference should also augment the process of educating heads of state on the various stakes in the international economic realm and the risks they run if they pursue policies that are too nationalistic in scope. Puerto Rico should provide a worthwhile opportunity for another economic lesson for every one.

MARKETS IN REVIEW

Stocks Sell Off for Second Week

The stock market closed Friday on a discordant note — Citicorp's announcement of a quarter-point increase in the prime lending rate to 7.25 percent.

Continuing concern over rising interest rates appeared to be one of the reasons why the Dow Jones industrial average fell by 11.43 points for the week to 963.90, the lowest level since Feb. 18.

Volume was soft, too. The four-day trading week, truncated by the Memorial Day holiday, saw a total of 64.86 million shares cross the tape, compared with 84.24 million the week before. Average daily trading volume was off from around 16.8 million to 16.21 million shares.

Over the last two weeks, the Dow Jones industrials [illegible]

supply figures the Federal Reserve released Thursday, but technical analysts did not see that as an unalloyed blessing.

The same Federal Reserve statement showed a sharp increase in business loans — one more indication of growing momentum in the economy, but something of a double-edged omen for the Fed watchers. They feel that too much buoyancy would push short-term interest rates to the point where Treasury bills and other short-term money market instruments would become more attractive than stocks.

The market sold off last week in the face of encouraging business news that included another increase in new factory orders and another sizable boost in automobile production schedules. Some analysts argue that the stiff

BACKGROUND PAPER

Relations between Developed and Developing Countries

A. State of Play in North/South Dialogue

Following the success of OPEC nations in utilizing oil as an economic and political weapon to promote their foreign policy interests, several developing nations in 1974 initiated efforts to employ the United Nations General Assembly and its subsidiary bodies as major instruments to achieve their economic objectives. Their aims have been to press for redistribution of economic wealth and to seek special trade benefits and increased financial flows.

A strategy of confrontation was employed by the G-77 group with some success at the 6th Special Session of the United Nations General Assembly in April 1974. At that time, developing nations voted as a bloc to endorse documents calling for a "New International Economic Order" and supported an ancillary document, the "Charter of Economic Rights and Duties."

At the 7th Special Session of the United Nations in September 1975, the United States took the initiative in proposing a comprehensive package of proposals designed to respond to economic problems of developing countries. These included programs to (a) increase concessional aid flows to LDCs, (b) strengthen the technological and scientific base in developing countries, (c) expand world food production inter alia through our endorsement of the International Fund for Agricultural Development, and (d) endorse the generalized system of trade preferences for products entering the U.S. markets. In discussions and negotiations of the 7th Special Session, we sought to lay a foundation for further communication between developed and developing -- the North/South dialogue -- and establish an outline for mutually profitable discussion of economic development issues.

Follow-up work in the North/South dialogue has been continuing at meetings this year of the four commissions of the Conference on International Economic Cooperation (CIEC) relating to energy, raw materials, economic development and finance. The LDCs as well as the major oil exporting nations are well represented in these deliberations, holding ten of the fifteen seats in each commission. Our aim has been to maintain a leading role in efforts to have nations review common economic problems and to demonstrate to LDCs that their interests can be sustained in non-UN forums.

At the May meeting of the United Nations Conference on Trade and Development (UNCTAD), the United States again put forward a series of proposals to deal with the problems of the developing world. Important progress was made on a number of matters. Overall, we attained most of our objectives at UNCTAD although the Conference did not endorse our Resource Bank proposal.

The North/South dialogue will now shift base from UNCTAD to other forums, principally the CIEC commissions which will meet once a month (except in August) during the remainder of 1976. Our objectives in these meetings will be to select specific economic issues of interest to participants and to seek by January 1977 a consensus agreement on those which we endorse.

B. Major Issues in the North/South Dialogue

1. Commodities

Commodities will continue to be a key issue in our relations with the developing world. LDCs rely on the export of primary products including agricultural products, for well over half of their export earnings. In 1973 the LDCs had total exports of $109 billion composed of $45 billion for petroleum products, $42 billion in other primary commodities, $23 billion in manufactures and $1 billion in miscellaneous products. More than 50 LDCs rely on three or fewer commodities for more than half their export earnings. The prices of most LDC primary commodity exports fluctuate widely, which has made economic planning difficult for many LDCs. Also, the LDCs claim that the prices of their primary commodity exports have declined relative to DC manufactured exports and that the purchasing power of export earnings has thus declined, making economic development relatively more expensive each passing year.

The LDCs have proposed (1) to stabilize commodity markets, and thus their export earnings, through a network of commodity agreements and a commond fund to finance buffer stocks, and (2) to maintain the real purchasing power of

June 25, 1976

18 selected industrial and agricultural commodities (Nairobi List)

Foodstuffs (4)

Bananas
Sugar
Meat
Oilseeds, vegetable oils

Tropical products (3)

Tea
Coffee
Cocoa

Non-mineral industrial commodities (5)

Cotton
Jute
Hard fibres and products
Rubber
Tropical timber +)

Mineral industrial commodities (6)

Tin
Bauxite
Manganese
Iron ore
Cooper
Phosphates

+) Could not be taken into account owing to lack of statistical data.

Developing Countries

International Trade in the 17 commodities of Nairobi (except tropical timber), according to countries, for 1972

(87 countries)

Country	Population in million	Exports of the 17 commodities in million $	Percentage of total exports of the country	Imports of the 17 commodities in million $	Percentage of total imports of the country	Balance in trade with 17 commodities in mill. $
Brazil	98	2415	61	129	3	+ 2286
Malaysia	11	812	57	51	4	+ 761
Sambia	4	781	.	23	.	+ 758
Chile	10	743	86	113	12	+ 630
Zaire	19	545	88	6	1	+ 545
Philippines	39	516	45	14	1	+ 502
Cuba	9	530	66	31	3	+ 499
Columbia	23	503	58	8	1	+ 495
Argentina	24	554	28	107	5	+ 447
Peru	14	441	47	11	1	+ 430
Mexico	54	450	26	37	1	+ 413
Egypt	35	373	45	59	7	+ 314
Indonesia	122	290	16	20	1	+ 270
Liberia	2	268	99	-	-	+ 268
Thailand	38	283	26	35	2	+ 248
Ivory Coast	5	247	45	-	-	+ 247
Ghana	9	237	69	-	-	+ 237
Turkey	37	250	27	23	2	+ 227
Angola	6	218	43	-	-	+ 218
India	563	527	21	303	13	+ 224
Sudan	16	243	67	50	14	+ 193
Sri Lanka	13	231	73	40	12	+ 191
Venezuela	11	196	5	8	.	+ 188
Costa Rica	2	189	68	2	1	+ 187
Dominic.Rep.	4	186	53	7	2	+ 179
Ecuador	6	175	52	-	-	+ 175
Uganda	10	174	67	-	-	+ 174
Nigeria	69	211	10	41	3	+ 170

Country	Population in million	Exports of the 17 commodities in million $	Percentage of total exports of the country	Imports of the 17 commodities in million $	Percentage of total imports of the country	Balance in trade with 17 commodities in millio[n] $
Ecuator. Guinea	3	165	76	-	-	+ 165
Jamaica	2	151	40	5	1	+ 146
Nicaragua	2	138	58	-	-	+ 138
Bangladesch	72	191	42	53	7	+ 138
Senegal	4	125	58	-	-	+ 125
Guatemala	6	123	37	-	-	+ 123
Cameroon	6	115	53	-	-	+ 115
Pakistan	67	168	24	55	8	+ 113
El Salvador	4	106	35	-	-	+ 106
Kenia	12	125	47	20	4	+ 105
Uruguay	3	97	45	-	-	+ 97
Mauritius	1	95	89	-	-	+ 95
Mauretania	1	90	.	-	-	+ 90
Honduras	3	84	41	-	-	+ 84
Ethiopia	26	79	47	-	-	+ 79
Guyana	0,7	77	51	-	-	+ 77
Tansania	14	73	23	-	-	+ 73
Panama	2	65	54	-	-	+ 65
Syria	7	87	34	26	5	+ 61
Marocco	16	135	21	77	9	+ 58
Madagaskar	7	49	30	-	-	+ 49
Nepal	11	50	.	7	.	+ 43
Fidji	0,5	41	56	-	-	+ 41
Reunion	0,4	40	80	-	-	+ 40
Sierra Leone	3	38	33	-	-	+ 38
Surinam	0,4	34	20	-	-	+ 34
Togo	2	33	66	-	-	+ 33
Bahrain	0,2	33	.	-	-	+ 33
Martinique	0,3	27	60	-	-	+ 27
Trinidad	1	29	5	3	.	+ 26
Bolivia	5	24	12	3	2	+ 21
Zypern	1	18	13	-	-	+ 18

- 4.

Country	Population in million	Exports of the 17 commodities in million $	Percentage of total exports of the country	Imports of the 17 commodities in million $	Percentage of total imports of the country	Balance in trade with 17 commodities in million $
Guadaloupe	0,3	16	40	-	-	+ 16
Somalia	3	13	29	-	-	+ 13
Jordania	2	9	19	-	-	+ 9
Burman	29	6	4	-	-	+ 6
Haiti	4	6	15	-	-	+ 6
St.Lucia	0,1	6	.	-	-	+ 6
Niger	4	6	11	-	-	+ 6
Mozambique	8	6	3	-	-	+ 6
Gambia	0,4	5	26	-	-	+ 5
Tunesia	5	22	7	19	5	+ 3
Gabun	0,5	52	22	-	-	+ 52
Dutch Antil.	0,2	-	-	3	.	- 3
Taiwan	15	1	.	4	.	- 3
Kuwait	0,8	-	-	3	-	- 3
Bermudas	0,1	-	-	5	4	- 5
Bahamas	0,2	-	-	8	2	- 8
Upper Volta	5	-	-	8	13	- 8
Singapur	2	2	.	15	.	- 13
South Vietnam	22	-	-	19	3	- 19
Libya	2	-	-	19	1	- 19
Iran	31	78	2	99	4	- 21
Saudi-Arabia	8	-	-	26	2	- 26
Iraq	10	-	-	56	8	- 56
Yugoslavia	21	207	9	281	8	- 74
Algeria	14	3	-	91	7	- 88
Hongkong	4	-	-	129	3	- 129
South Korea	32	-	-	138	6	- 138

Developing Countries

International Trade in the 17 commodities of Nairobi (except tropical timber), according to commodities, for 1972 in Million $

Commodities	Exports	Percentage of world exports	Imports	Percentag of world imports
Bananas	535	89	45	5
Sugar	2.172	64	706	20
Meat	1.003	34	160	5
Oilseed	502	42	77	5
Vegetable oils	201	22	413	42
Tea	590	81	224	29
Coffee	3.127	97	150	4
Cotton	2.025	65	561	17
Jute	247	96	98	34
Hard fibres and products	76	96	6	7
Cocoa	711	99	26	3
Rubber	878	97	125	12
Tin	521	83	23	4
Bauxite	240	79	1	0,4
Manganese	116	59	8	3
Iron ore	1.280	42	-	-
Copper (total)	2.707	59	338	8
Phosphates	232	56	114	17
Total	17.163		3.075	

Industrialized Countries

International Trade in the 17 commodities of Nairobi
(except tropical timber), according to countries, for 1972

Country	Population in million	Exports of the 17 commodities in million $	Percentage of total exports of the country	Imports of the 17 commodities in million $	Percentage of total imports of the country	Balance in trade with 17 commodities in million$
Australia	13	1.442	23	54	1	+ 1.388
South Africa	24	457	17	51	1	+ 406
Canada	22	960	4	643	1	+ 317
Newzealand	3	221	12	15	1	+ 206
Irland	3	168	10	16	1	+ 152
Sweden	8	320	3	277	2	+ 43
Norway	4	85	2	93	1	- 8
Denmark	5	134	3	164	3	- 30
Greece	9	16	2	63	3	- 47
Israel	3	7	1	54	3	- 47
Portugal	10	-	.	60	3	- 60
Finland	5	22	.	110	3	- 88
Austria	7	7	.	145	3	- 138
Netherlands	13	450	2	631	2	- 181
Switzerland	6	13	.	256	2	- 243
Spain	34	42	1	336	4	- 294
Belg./Luxemb.	10	486	3	1.080	6	- 594
France	52	781	3	1.921	5	- 1.140
Italy	54	13	.	1.736	9	- 1.723
Great Britain	56	241	.	2.208	6	- 1.967
FRG	62	484	2	2.916	6	- 2.432
USA	209	1.623	2	4.546	6	- 2.923
Japan	107	30	.	3.821	16	- 3.791

24 Countries

 industrialized countries

ernational trade in the 17 commodities of Nairobi
(except tropical timber), according to commodities,
for 1972 in million $

Commodities	Exports	Percentage of world exports	imports	Percentage of world imports
Bananas	34	6	836	93
Sugar	958	28	2.319	66
Meat				
	1.816	62	2.886	93
	701	58	1.165	82
Oilseed	495	54	515	52
Vegetable oils	79	11	469	61
Tea	111	3	3.096	91
Coffee	576	18	1.751	55
Cotton	8	3	153	53
Jute	3	4	75	84
Hard fibres and products	4	1	572	77
Cocoa	23	3	693	65
Rubber	80	13	531	86
Tin	61	20	283	93
Bauxite	57	29	232	85
Manganese	1.400	46	2.677	89
Iron ore	1.412	31	3.667	81
Copper (total)	120	29	409	62
Phosphates				
Total	7.938		22.329	

Socialist countries

International trade in the 17 commodities of Nairobi (except tropical timber), according to commodities, for 1972
in million $
(statistical breakdown according to countries not available)

Commodities	Exports	Percentage of world exports	Imports	Percentage of world imports
Bananas	33	5	16	2
Sugar	261	8	514	15
Meat	116	4	72	2
Oilseed	3	0,25	187	13
Vegetable oils	216	24	55	6
Tea	60	8	80	10
Coffee	1	-	162	5
Cotton	530	17	890	28
Jute	2	1	37	13
Hard fibres and pr	-	-	8	9
Cocoa	-	-	148	20
Rubber	-	-	239	23
Tin B	25	4	62	10
Bauxite	22	1	19	6
Manganese	23	12	31	12
Iron ore	584	12	317	11
Copper (total)	119	3	174	4
Phosphates	61	15	129	10
Total	1.856 = 4 per cent of total exports of Socialist Countries		3.140 = 7 per cent of total imports of Socialist Countries	

Balance: - 1.294