Collection: McMinn, Douglas W.: Files, 1982-1985
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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
50901	CABLE	010857Z MAY 82 *R 4/20/2010 M2007-081*	2	5/1/1982	B1
50912	NOTES	HANDWRITTEN MEETING NOTES *R 5/24/2010 NLRRM2007-081*	1	ND	B1
50902	LETTER	SCHMIDT TO RR *R 4/20/2010 M2007-081*	2	5/3/1982	B1
50903	LETTER	TRANSLATION OF SCHMIDT TO RR LETTER *R 4/20/2010 M2007-081*	1	ND	B1
50904	CABLE	021113Z MAY 82 *R 4/20/2010 M2007-081*	1	5/3/1982	B1
50905	MEMO	NAU THRU TYSON TO CLARK RE EC PARTICIPATION AT VERSAILLES *R 4/23/2010 NLRRM2007-081*	1	5/7/1982	B1
50913	MEMO	NAU TO CLARK RE CONSULTATIONS *R 10/1/2010 MR2007-081/1*	1	5/7/1982	B1
50906	PAPER	JUNE SUMMITS: CONSULTATIONS GAME PLAN *R 4/20/2010 M2007-081*	3	ND	B1
50907	MEMO	NAU TO CLARK RE MEETING WITH ATTALI REPRESENTATIVES *R 4/23/2010 NLRRM2007-081*	2	5/7/1982	B1

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
50908	LETTER	DRAFT MESSAGE TO PM SUZUKI *R 4/20/2010 M2007-081*	2	ND	B1
50910	MEMO	DRAFT FOR THE PRESIDENT RE STRATEGY FOR SUCCESS AT VERSAILLES *R 4/20/2010 M2007-081*	4	ND	B1
50909	MEMO	DRAFT FOR THE PRESIDENT RE STRATEGY FOR SUCCESS AT VERSAILLES *R 4/20/2010 M2007-081*	6	5/18/1982	B1
50911	PAPER	DISCUSSION PAPER RE STRATEGY FOR SUCCESS AT VERSAILLES *R 4/20/2010 M2007-081*	5	ND	B1

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B-1 National security classified information [(b)(1) of the FOIA]
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NATIONAL SECURITY COUNCIL MESSAGE CENTER

File France Summit (France)

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EB FOR BOB HORMATS, DEPARTMENT PASS NSC
E.O. 12Ø65: GDS 4/4Ø/9Ø (GALBRAITH, EVAN G.) OR-M
TAGS: EGEN, EFIN, OCON, FR, OVIP (ATTALI, JACQUES).
SUBJ: VERSAILLES SUMMIT - ATTALI'S VIEWS

1. (C - ENTIRE TEXT)

2. AT A TETE-A-TETE LUNCHEON AT THE RESIDENCE, JACQUES ATTALI, SPECIAL ADVISOR TO PRESIDENT MITTERRAND AND PRINCIPAL SUMMIT ORGANIZER, MADE THE FOLLOWING COMMENTS ABOUT THE VERSAILLES SUMMIT:
A. MITTERRAND WILL OPEN THE PROCEEDINGS WITH A REPORT (ABOUT FIFTEEN PAGES) RAISING QUESTIONS ABOUT THE FUTURE TECHNOLOGICAL WORLD. HE WILL TOUCH ON POSSIBLE PROBLEMS CAUSED BY THE RAPID RISE OF TECHNOLOGY, E.G., UNEMPLOYMENT, TRADE, EAST-WEST RELATIONS, NORTH-SOUTH QUESTIONS, ETC. NO DECISIONS ARE EXPECTED TO COME FROM THIS REPORT EXCEPT AN AGREEMENT TO FORM A FUTURISTIC STUDY GROUP WHICH WILL REPORT AT THE NEXT SUMMIT. A PRELIMINARY DRAFT OF THIS REPORT PREPARED BY ATTALI, (BUT SUBJECT TO MODIFICATION BY MITTERRAND HIMSELF) WILL BE CIRCULATED SOON BY PIERRE MOREL (ATTALI'S ASSISTANT) WHO WILL TRAVEL TO THE VARIOUS SUMMIT CAPITALS TO EXPLAIN IT.
B. AT VERSAILLES ON THE NIGHTS OF THE 4TH AND 5TH OF JUNE, THE HEADS OF GOVERNMENT WILL DINE ALONE WITH THE INTENTION OF DISCUSSING PRIMARILY POLITICAL MATTERS.
C. ATTALI WONDERED WHO WILL BE THE U.S. NOTETAKER AT THE WORKING SESSIONS. HE ADVOCATES THE U.S. SHERPA, I.E. BOB HORMATS, BUT, BASED ON OTTAWA, REALIZES THIS MAY NOT BE THE CASE.
D. ATTALI FEELS CONFIDENT THAT THE FRENCH DESIRE OF AVOIDING CONFRONTATION AT THIS MEETING WILL BE ACHIEVED. HE DOES FEEL, HOWEVER, THAT THE U.S. RUNS THE RISK OF BEING ISOLATED IN THE EYES OF THE GROUP OF 77 ON THE ISSUE OF GLOBAL NEGOTIATIONS, MORE SPECIFICALLY ON THE ORGANIZATION OF VARIOUS SPECIALIZED INTERNATIONAL INSTITUTIONS. ATTALI TOLD ME THAT FRANCE DOES NOT WISH TO SEE A FUNDAMENTAL CHANGE IN THE FORM OF THESE INSTITUTIONS BUT MERELY WISHES TO GIVE THE THIRD WORLD COUNTRIES MORE OF AN APPARENT ROLE.

CONFIDENTIAL

CONFIDENTIAL

NATIONAL SECURITY COUNCIL MESSAGE CENTER

E. HE TOLD ME HE PLANS TO GO TO WASHINGTON ON MAY 23 FOR A FINAL REVIEW OF THE ISSUES RELATING TO THE SUMMIT.
F. ATTALI AGREED THAT HE AND I SHOULD CONSTRUCT AN AGENDA FOR THE BILATERAL MEETINGS BETWEEN THE TWO PRESIDENTS DURING AND AFTER LUNCH ON JUNE 3. THIS AGENDA SHOULD RELATE AT LEAST IN PART TO THE SUMMIT BUT WE SHOULD NOT GIVE THE IMPRESSION THAT WE ARE MAKING ANY SIDE ARRANGEMENTS.

3. ATTALI AND I ALSO HAD A LONG DISCUSSION ON THE EFFECT OF DECLINING U.S. RATES OF INFLATION ON WALL STREET AND ON INTEREST RATES. I REVIEWED THE SIZE OF OUR CAPITAL MARKET AND ITS ABILITY TO ABSORB OUR BUDGET DEFICIT WITHOUT CROWDING OUT OTHER BORROWERS PROVIDED THE INFLATIONARY PSYCHOSIS WAS ELIMINATED BY THE CONTINUOUS APPEARANCE OF STATISTICS SHOWING GOOD PROGRESS ON INFLATION.
GALBRAITH
BT

EXDIS EXDIS EXDIS EXDIS

Sugar – Katz

File
France
Summ

3

RR viewed as thoroughly Amer. Pres. – in WG + GB
don't stretch him to meet mold of past P
don't have him say anything in German
is unique personality
seen primarily as actor
Lot of strong support for US in Germany
Pacifism in Germ. runs deep
Germs. don't share our view of max. opport. + risk – more security oriented
Golden opport. for P.

Germ.
Can't appeal to free enterprise
rather Red than dead
→ base of good will for Sovs. Still higher level of good will for US
positive view of him personally for his emph. on reductions
→ troops expression of friendship rather than defense

US int. rates have effect – 54% in UK, 57% in WG
Germs. more aware of high US int. rates than Brit.
→ Germs. conv. of Reagan's sincerity on arms talks
Strong support for cont'd troop presence
Germs don't feel "prepare for war to prevent it"
Germs think ~~#~~ US would start war (14%), USSR (30%)
→ 4 out of 10 Germs think Sov. actions promote peace more than war.
Strong support for NATO
→ Germ. thinks he may start unnec. war
→ Ranks low on humanit. + trustworthiness

What do you like most @ RR
20% in UK said not an actor
25% in FRG same
13% in Germ. said dang.
12% in Germ. says decisive + consistent

Admin. in Germ. of our democ. system

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

May 3, 1982
8:45 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Baldrige, Donovan, Brock, Weidenbaum, Harper, Porter, Darman, Fuller, Gergen, Lyng, Sprinkel, Ikle, Leland, Hormats, Kudlow, Cribb, Gray, Ernst, Nau, Platt, Hemel, Bledsoe, Baroody, Thompson, Sittman, and Ms. Dunlop

1. The Versailles Summit

The Council reviewed a series of papers regarding the Versailles Economic Summit prepared by the Departments of State and Treasury and the Office of the U.S. Trade Representative.

Secretary Regan briefly reviewed the ongoing work among senior U.S. officials and the President in preparing for the summit, the role of summits in enabling heads of state of the industrial democracies to exchange views and focus on mutual long-term economic problems, the need to avoid resorting to protectionism in periods of economic difficulty and adjustment, and the need to develop a unified approach with our allies on conducting trade with the Eastern Bloc nations.

Mr. Hormats then reported on the preparatory meeting for the Versailles Summit recently held at Ramboulliet. He reviewed the international problems discussed at the Ramboulliet meeting, the stresses that the recent recession has imposed on the international trading system, the need to develop formal rules and arrangements for strengthening the General Agreement on Tariffs and Trade (GATT), and an expected French initiative at Versailles to raise the implications of technology on western economies as a major subject for discussion.

Mr. Sprinkel presented his view of the Ramboulliet session. He discussed the assurance that the U.S. representatives had given at the meeting regarding America's willingness to consult with its allies in coordinating economic policies and the emphasis placed at the meeting by the French on the need to reduce unemployment. He also discussed a Japanese request, received through diplomatic channels, soliciting U.S. cooperation in intervening to raise the value of the yen on world currency markets and the general effectiveness of governmental intervention in altering foreign exchange values.

Mr. Weidenbaum reported on his participation in the recent OECD meetings in Paris. He discussed European attitudes towards high U.S. interest rates and projected budget deficits, international pressures on the U.S. to adopt a more expansionary monetary policy, and the sympathetic tone that he believed the U.S. should adopt at Versailles in reacting to other nations' economic problems. He also discussed the international political consequences of Japan's import barriers, attitudes of Western European trade unions towards governmental allocation of capital for investment, and French policies towards reducing employment in nationalized industries.

Mr. Hormats reviewed two papers prepared for the summit, one on East-West economic relations and the other on trade objectives and strategy. His discussion on East-West economic relations centered on the impact of recent developments in Poland on western nations' trade policies toward the Eastern Bloc, controls on western credits to the East and the need to establish effective mechanisms for measuring the volume of credits provided, and the desirability of discussing East-West issues with several of our allies prior to the beginning of the summit. His discussion of trade objectives and strategy focused on the agreement among our allies that the summit should address GATT rules and mechanisms and the timeliness of the summit in view of growing pressures on the world trading system.

The Council's discussion of the issues pertaining to the Versailles Economic Summit centered on the operational meaning of international economic coordination, the implications of recent Japanese gold sales, the importance of conveying an appropriate response to European economic difficulties, the role of the service sector in new job creation in the U.S. and elsewhere, the progress of negotiations regarding the rescheduling of Polish debt, and the Europeans' perceptions of the effects of the division of authority between the President and the Congress on achieving of U.S. economic objectives.

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RECEIVED 03 MAY 82 18

TO PRESIDENT FROM SCHMIDT, HELMUT DOCDATE 03 MAY 82

File France Summit

KEYWORDS: GERMANY F R FRENCH SUMMIT SHULTZ, GEORGE

HS

SUBJECT: LTR TO PRES RE MTG W/ SHULTZ BEFORE ECONOMIC SUMMIT

ACTION: PREPARE MEMO FOR CLARK DUE: 04 MAY 82 STATUS S FILES

FOR ACTION	FOR CONCURRENCE		FOR INFO
RENTSCHLER	STEARMAN	NAU	KRAEMER
			MYER
			TYSON
			BAILEY
			STATE

COMMENTS

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00 MAY 3 P5:01 SECRET

THE AMBASSADOR
OF THE
FEDERAL REPUBLIC OF GERMANY
WASHINGTON, D.C.
3072

Dear Mr. President,

I have the honor to transmit to you the following message from Federal Chancellor Helmut Schmidt:

"Lieber Ron,

ich danke Ihnen sehr für Ihr Schreiben, mit dem Sie mir den Besuch von George Shultz ankündigen. Selbstverständlich bin ich sehr gerne bereit, George Shultz zu empfangen, zumal ich ihn als Gesprächspartner seit vielen Jahren sehr schätze. Als Termin schlage ich den späten Nachmittag des 6. Mai vor. Es wäre zweckmäßig, wenn sich George Shultz zuvor noch direkt mit meinem Büro in Verbindung setzen würde.

Auch ich halte es für sehr wichtig, daß wir uns schon bei der Vorbereitung des Wirtschaftsgipfels so weit wie möglich abstimmen. Es ist unser gemeinsames Anliegen, unsere Zusammenarbeit zu verstärken und den Gipfel zum Erfolg zu führen.

Mit freundlichen Grüßen
p.m. Yours Helmut "

The President

A courtesy translation is attached.

After receipt of this message, the office of Federal Chancellor Helmut Schmidt has informed me that the Chancellor proposes to meet with Mr. Shultz at 6.30 p.m. on May 6, 1982.

Respectfully yours,

Washington, D.C., May 3, 1982

SECRET

COURTESY TRANSLATION

Dear Ron,

Thank you very much for your letter informing me of the forthcoming visit by George Shultz. I shall of course be very happy to receive him, especially since I have known, and had great respect for, him for many years. May I suggest that the visit be planned for the late afternoon of May 6. It would be helpful if George Shultz would before then contact my office directly.

I, too, consider it very important that we co-ordinate our positions as far as possible during the preparatory phase of the economic summit. It is our shared objective to enhance our co-operation and bring the summit to a successful conclusion.

Yours

(sgd.) Helmut

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NATIONAL SECURITY COUNCIL MESSAGE CENTER

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File France Summit

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USEC
E.O. 12Ø65: GDS 5/3/88 (LOWRIE, ARTHUR L.) OR-P
TAGS: ECON, EFIN, EEC, BE
SUBJECT: EC PARTICIPATION AT VERSAILLES SUMMIT
REF: BRUSSELS 5659

1. (CONFIDENTIAL - ENTIRE TEXT)

2. ACCORDING TO SENIOR COMMISSION OFFICIAL, AT THE APRIL 24-25 SHERPA MEETING, THE FRENCH AGREED THAT EUROPEAN COUNCIL PRESIDENT (BELGIAN PRIME MINISTER) WILFRED MARTENS COULD ATTEND AND PARTICIPATE IN ALL SUMMIT ACTIVITIES INCLUDING DINNER AND THAT BELGIAN FOREIGN MINISTER LEO TINDEMANS WOULD PARTICIPATE IN THE SAME MANNER AS OTHER FOREIGN MINISTERS.

so dinner will be for 9

3. EC COMMISSION PRESIDENT THORN WILL PARTICIPATE IN ALL EVENTS, INCLUDING MEALS, AS HE DID AT OTTAWA SUMMIT. EC VICE PRESIDENT RESPONSIBLE FOR EXTERNAL AFFAIRS WILHELM HAFERKAMP WILL NOT ATTEND THE SUMMIT.

4. IN ANOTHER INNOVATION, DEPUTY SECRETARY GENERAL OF THE COMMISSION SECRETARIAT MICHAEL JENKINS, WHO IS DE FACTO COMMISSION POLITICAL DIRECTOR, WILL ATTEND A MEETING OF THE SUMMIT POLITICAL DIRECTORS IN PARIS, MAY 14TH, AS WILL BELGIAN POLITICAL DIRECTOR ALFRED CAHEN. VEST
BT

CONFIDENTIAL

11

NATIONAL SECURITY COUNCIL

6 May 82

Henry Nau

- Was just hand-carried by Japanese Embassy.

- I will transmit to Clark and recommend he mention to P at 0930 meeting.

- If you have any ~~[illegible]~~ "hobby horses" you want me to include, please let me know tomorrow A.M.

Dick

Dick,

12

File
France
Summit

(Translation)

May 1, 1982

Dear Mr. President,

Thank you very much for your letter of April 21, which Vice President Bush kindly transmitted to me at the time of our meeting on April 24.

We were indeed most pleased to welcome the Vice President and Mrs. Bush as guests of the Japanese Government. The visit marked another high point in our bilateral relationship, which, as I told him, has truly entered into a partnership of maturity.

The Vice President and I had a very productive meeting, discussing a broad range of issues, both bilateral and international, through our frank exchange of views. We have renewed our confidence and determination to further strengthen our alliance and to work towards our common goal.

During the course of our discussions on economic matters, I pointed to the urgent need to revitalize the world economy and to the importance of the recovery of the U.S. economy in that regard. Current economic difficulties being the causes of the rise of protectionism in various parts of the world, I explained to the Vice President the contributions made by Japan in recent months aimed at further promoting the free trade, such as the unilateral reduction of tariffs. I also indicated that further measures are under active study by the Japanese Government. I should like to take this opportunity to emphasize my belief that efforts by all sides to revitalize their economies and to take steps to contain protectionism is of utmost importance at this juncture.

I hope to continue to work closely with you, Mr. President, and look forward to seeing you at Versailles in June.

With warmest personal regards,

Sincerely,

Zenko Suzuki
Prime Minister of Japan

13

May 6, 1982

Dear Mr. President:

I have the honor to transmit to you a letter, enclosed herewith, from Mr. Zenko Suzuki, Prime Minister of Japan.

Allow me to extend my warmest personal regards.

Sincerely yours,

Yoshio Okawara
Ambassador of Japan

The President
The White House
Washington, D. C. 20500

CONFIDENTIAL

14

MEMORANDUM

3183

NATIONAL SECURITY COUNCIL

CONFIDENTIAL

INFORMATION

May 7, 1982

MEMORANDUM FOR WILLIAM P. CLARK

THROUGH: CHARLES P. TYSON

FROM: HENRY R. NAU

SUBJECT: EC Participation at Versailles

You should be aware that the European Community decided and the other Summit countries apparently agreed that both Prime Minister Martens of Belgum, the sitting President of the European Council, and President Thorn of the EC Commission would participate in the restricted dinners and lunches among the heads of government and state at Versailles. Thus, there will be nine participants at these meetings in Versailles (rather than eight as at Ottawa).

This is an unfortunate decision, since the dinner discussions are the best opportunity for frank exchanges. The Community, hardly a political and economic power on the same footing as the individual member states, is now disproportionately represented. Presumably, this will happen only once because in other years, one of the Summit countries has always held the Presidency of the European Council either during the first or second half of the year. The Summit was then scheduled for either June or July in order to insure that a Summit country was in the Presidency. This year non-Summit countries are in the Presidency for both halves of the year -- Belgium now and the Netherlands after June.

CONFIDENTIAL
Review 5/7/88

CONFIDENTIAL

~~SECRET~~

#3152

15

File France Summit

MEMORANDUM

NATIONAL SECURITY COUNCIL

~~CONFIDENTIAL~~
~~WITH SECRET ATTACHED~~

May 7, 1982

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: HENRY R. NAU HRN

SUBJECT: Consultations Leading Up to the Versailles and Bonn Summits

State has forwarded, somewhat belatedly, the game plan for consultations leading up to the Versailles and Bonn Summits (Tab A). As you recall, the Senior White House Group asked State to forward this game plan, along with a letter from the President to the Summit participants. The latter is being sent forward on another track to the President for his signature.

It may be useful to circulate this game plan to the Senior White House Group for information purposes.

Dennis Blair concurs.

RECOMMENDATION: That you sign the attached note to the Senior White House Group (Tab I) circulating the consultations game plan (Tab A).

APPROVE ________ DISAPPROVE ________

Attachments

Tab I Memo to SWHG
A Game Plan

~~CONFIDENTIAL~~
~~WITH SECRET ATTACHED~~
Review 5/7/88

cc: N.Bailey
D.Blair
D.Gregg
C.Tyson
J.Rentschler

~~SECRET~~

16

MEMORANDUM

~~SECRET~~

#3152

THE WHITE HOUSE

WASHINGTON

CONFIDEN~~TIAL~~
~~WITH SECRET~~ ATTACHMENT

MEMORANDUM FOR THE SENIOR WHITE HOUSE GROUP
FOR VERSAILLES SUMMIT PREPARATIONS

FROM: WILLIAM P. CLARK
MICHAEL K. DEAVER
Co-Chairmen

SUBJECT: Consultations Leading Up to the Versailles and Bonn Summits

The attached consultations game plan from the State Department indicates the series of meetings over the next 10 days in which our representatives will be advancing U.S. positions on issues for the Versailles Summit. We are circulating it to you for your information.

Attachment

Tab A Game Plan

Copies to:
Edwin Meese III
James Baker
Craig Fuller
Robert McFarlane
Richard Darman
William Sittmann
Bob Hormats
Beryl Sprinkel
Henry Nau

CONFID~~ENTIAL~~
~~WITH~~ SECRET ATTACHMENT

Review 5/7/88

DECLASSIFIED
White House Guidelines, August 28, 1997
By amh NARA, Date 8/20/08

~~SECRET~~

17

SECRET/SENSITIVE

JUNE SUMMITS: CONSULTATIONS GAME PLAN

Intensive and timely consultations with the Allies will be crucial if we are to achieve our objectives for the two Summits. This is particularly true of the key period bracketed by the Presidential letter and speech in early May and the NAC Ministerial in mid-May, during which we will need to secure agreement on:

-- Our overall approach to Versailles and Bonn, through which we seek to send a clear message of unity, vitality, and resolve to our own publics and to the East.

-- Our specific objectives for the two meetings, to include:

o At Versailles:

-- Reaffirmation of an economic strategy which targets price stability, efficiency and the private sector.

-- Commitment to the multilateral trading system, and to a productive forward-looking GATT Ministerial.

-- Emphasis on the security dimension of East-West economic relations, evidenced by agreement on limiting official credits to the USSR and by a continuing commitment to a strengthened COCOM.

o At Bonn:

-- Establishment of framework of restraint and responsibility for East-West relations.

-- Completion of Spanish accession.

-- Agreement on "Charter" for improved conventional defense.

-- Allied support for our arms control policy.

In order to accomplish this we will need to make maximum use of any leverage provided by the President's letter and speech, particularly with regard to START, other arms control issues, or the budget deficit. Among the key opportunities during this period are (for full list see attached chronology):

SECRET/SENSITIVE
RDS-1 04/28/02

o DPC Ministerial: May 6-7

Inter alia to firm up the conventional defense component of the Bonn Summit and the defense "Charter."

o George Shultz' mission to Europe, Canada and Japan: May 6-14

To express the President's concern about the international economic situation, his understanding of the impact of U.S. policy on other countries and to provide a channel to the President for the personal views of other Versailles participants. (Schultz may deliver the President's letter on the Summits to European Heads of State.)

o Walt Stoessel's trip to Europe: May 6-14

To follow up with the Germans, French and British on the key elements of the President's letter/speech and lay the groundwork for agreement at the NAC Ministerial on the basic elements of our approach, particularly those specific initiatives not appropriate for DPC consideration or needing complementary initiatives.

o OECD Ministerial: May 10-11

Secretaries Regan and Baldridge, USTR Brock, and CEA Chairman Weidenbaum, together with Walt Stoessel, can lay the groundwork for Versailles through their own formal remarks and in bilaterals. The OECD can play an important role in broadening agreement on our initiatives, especially on trade and investment issues and certain technical aspects of East-West economic relations. We must ensure that the communique contains elements supportive of our objectives at Versailles/Bonn.

o IMF-related meetings: May 11-14

Secretary Regan, in the G-5, G-10 and bilateral meetings, can establish the U.S. position on general economic policy to ensure broad, if not unanimous, agreement on economic policy objectives for Versailles. Finance Ministers from other Versailles participants will be particularly interested in discussing the U.S. budget outlook. (If we decide to seek an operational outcome in the area of enhanced international economic cooperation, Regan could nail down a specific forum -- e.g., more frequent G-10 Ministerial meetings -- at this time.)

o "Sherpa" Meeting in Paris for Versailles: May 13-14

To pull together a package for Versailles, perhaps expressed as a communique, that contains the major U.S. objectives; and to identify issues which will have to be resolved before Versailles.

o Quadripartite Foreign Ministers Dinner at Luxembourg: May 16

To agree at four on our approach to the Bonn Summit, which we would then seek to have NAC Ministers ratify during May 17-18 meeting.

o NAC Ministerial: May 17-18

Formalize agreement, to extent possible, on content and outcome of Bonn Summit.

SECRET

VERSAILLES/BONN SUMMITS: CALENDAR OF CONSULTATIONS/OPPORTUNITIES

MAY

1	Presidential letter to NATO Heads of Government/State, tailored as appropriate to Versailles Summit participants.
5	Spanish Foreign Minister Perez Llorca visits Washington.
6-7	DPC Ministerial in Brussels.
6-7	U.K. Foreign Secretary to Washington (?).
6-7	Export Credit Arrangement meeting; urge upward recategorization of the USSR.
6-14	George Shultz' mission to Europe, Canada, and Japan (Bonn, 5/6-7; Rome, 5/7-8; London, 5/8-10; Brussels, 5/10; Paris 5/10-11; Tokyo, 5/12-13; Ottawa, 5/13-14).
6-14	Deputy Secretary Stoessel in Europe (Bonn, 5/6-7; Berlin. 5/7-10; Paris, 5/10-12; London, 5/12-13; Frankfort, 5/13-14).
8-9	Informal "Gymnich" meeting of EC Foreign Ministers.
10-11	OECD Ministerial - Secretaries Regan, Baldridge, CEA Chairman Weidenbaum, USTR Brock and Deputy Secretary Stoessel attend.
11-14	IBRD/IMF meeting, Helsinki. Use bilaterals on fringes.
13-14	Seven-nation Political Directors meeting for Versailles Summit.
mid-May	SCG meeting
14-15	Possible Visit by the Secretary to Greece and Turkey
14-16	"Sherpa" meeting in Paris for Versailles Summit.
16	Quadripartite Foreign Ministers dinner at Luxembourg.

~~SECRET~~
GDS 04/28/88

MAY (continued)

16-20 Possible trip by Under Secretary Eagleburger to Europe.

17-18 NATO Foreign Ministers meeting, Luxembourg.

24-25 EC Foreign Ministers meeting.

28-31 North Atlantic Assembly, Madeira.

JUNE

4-6 Versailles Summit.

7-9 President in Rome/London.

9-10 President in Bonn; NATO Summit.

MAY/JUNE

Any scheduled Congressional trips.

NAU: 167 22

National Security Council
The White House

Package # 326 File France Summit

82 MAY 8 A12:08

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	1	P	
Bud McFarlane	2	M	
Jacque Hill	3	J	
Judge Clark	4	C	I
John Poindexter			
Staff Secretary	5		
Sit Room			

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MEMORANDUM

NATIONAL SECURITY COUNCIL

CONFIDENTIAL

INFORMATION

May 7, 1982

noted
cc to Deaver

MEMORANDUM FOR WILLIAM P. CLARK

FROM: HENRY R. NAU HRN

SUBJECT: Meeting with Attali Representatives on French President's Technology Report

Bob Hormats, Beryl Sprinkel, and I met for two hours with Pierre Morel and Marc de Brichanbault of Jacque Attali's office, to discuss the French President's report on technology. This was the first detailed presentation of the contents of the report.

The report will contain three parts:

-- First part identifies the new technologies of the future, micro-electronics, bio-technology, new material, space and oceans, and emphasizes the social and political problems which these technologies will create.

-- The second part identifies five major areas in which Summit leaders have political interests at stake in the new technologies -- employment consequences, protectionism, risk of concentration and monopolies, inequality with developing countries spawned by technology, and consequences for the social and cultural identity of individual nations.

-- The third part proposes cooperative efforts to achieve new growth through technology, to develop human resources through greater cooperation in vocational training, etc., and to cope with the impact of technology on culture. The centerpiece here is a study group of prominent industrial and government leaders that would develop cooperative projects and report back to Summit leaders at the next Summit.

In our response, we emphasized the political attractiveness of the subject because it deals with the longer-term and represents a more fundamental approach to our economic problems and because it offers hope in the midst of the present recession. We urged that the report be positive about the benefits of technology and not overemphasize centralized management of technology either by government or

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industry. We supported the ideas of a study group as long as its work was closely integrated with existing institutions and activities already underway in these institutions.

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File
France
Summit

Draft Message to Prime Minister Suzuki

Dear Mr. Prime Minister

I very much appreciate receiving your letter suggesting that our monetary experts meet to consider ways to cope with exchange market problems.

I should say at the outset that the United States is prepared to accept the consequences for exchange rates of the free play of market forces. In our discussions with Japan, we have focused not on statistical balances in U.S.-Japan trade, but on the elimination of barriers to trade and capital markets so that market forces can operate freely and efficiently. I have every confidence in America's ability to compete effectively in trade with other nations, if given the chance under even-handed trading rules. It is, moreover, of crucial importance to maintenance of the open trading and financial system that all nations' rules be, and be perceived as, fair and open. This is why it is so important that Japan move boldly and promptly to open its import and capital markets, and I look forward to hearing the details of the program you are developing.

Nonetheless, we too are troubled by exchange market disorder and volatility and have been considering ways in which the major countries could help stabilize exchange market conditions in a meaningful and lasting way. We feel deeply that exchange market instability and wide exchange rate movements are not only undesirable but are attributable to the pursuit of divergent economic objectives and policies by the major countries. In important respects, Japan's

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success in dealing with inflation through controlled monetary growth and strengthened fiscal discipline provides a worthy lesson for others. As you know, my own efforts are directed to similar objectives. Success in the United States and pursuit of these objectives by other nations would, I am confident, provide a sound underlying basis for the greater exchange market stability we all wish to see.

For this reason, the United States has proposed, in the Summit preparatory context, consideration of ways in which the major nations might better cooperate in the establishment of longer range objectives and policies to reduce domestic inflation and permit sustainable economic growth through increased opportunities for productive investment. I hope you and your colleagues will consider this proposal carefully and positively. I believe it offers hope for genuine improvements in the economic performance of the key industrial countries, and thus for greater international financial and monetary stability. If such an approach can be agreed, the Versailles summit will indeed have made a valuable contribution to world economic health and stability.

Ronald Regan

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File France Summit

Draft Memo to the President

The participants in the Versailles Summit are asking a lot of one another.

What Countries Want

The European allies and Japan seek

-- lower U.S. deficits and interest rates;

-- greater intervention by the U.S. in foreign exchange markets;

-- U.S. agreement not to apply further, or to lift altogether, sanctions on the Yamal pipeline;

-- U.S. agreement to launch global negotiations; and

-- no further trade commitments until current problems with agriculture, steel and the Japanese domestic market are resolved.

The United States seeks

-- greater convergence of basic economic policies among Summit countries to lower inflation, increase real growth and free up market forces;

-- agreement on maintaining and extending the open trading system; and

-- limitation on officially-sponsored credits to the Soviet Union.

To ensure a successful Summit, the United States has to set priorities and be willing to bargain.

What we have to Gain and the Benefits

1. Economic Policies

Gain: Achieve greater convergence of basic economic policies among Summit countries.

Benefit: Demonstrate President's leadership to reduce inflation and curb excessive government intervention in the world economy, no less than at home.

2. Trade

Gain: Secure commitments to maintain and extend open trading system.

Benefit: Confirm U.S. commitment to economic interdependence with the allies and contribute to reduction of government interference in world economy.

3. East-West Credits

Gain: Limit officially-supported credits to the Soviet Union.

Benefit: Reinforce President's concern with minimizing the flow of Western resources to the Soviet Union as long as the Soviet Union continues its military buildup and its aggressive behavior (Poland, Afghanistan, etc.).

<u>What we have to Give and the Costs</u>

1. Exchange Rates

Give: Greater willingness to intervene in exchange markets.

Costs: Unless combined with commitments to discipline monetary and fiscal policy, would reflect abandonment of President's fight against inflation and appear to sanction government intervention in market place.

2. Pipeline

Give: Agreement not to extend or to lift the pipeline sanctions.

Costs: Would appear to be abandoning another hardline policy toward the Soviet Union.

3. Multilateral Trade

Give: Concede to European reluctance to move forward on trade.

Costs: Would abandon traditional post-war U.S. leadership in the multilateral trading system and miss perhaps last opportunity to set trading system on constructive course for 1980s.

4. Bilateral Trade

Give: Work out differences with Europeans on agriculture and steel.

Costs: Would risk strong opposition from U.S. steel industry and U.S. farmers and appear to interfere with the market place (if voluntary export quotas were agreed to).

5. Global Negotiations

Give: Agreement to launch global negotiations.

Costs: Would appear to be a reversal of the President's policy at Cancun, unless coupled with statement of our conditions.

What Does the U.S. Do?

The most significant issue in terms of the policy and public significance of the Summit is the coordination of international monetary and basic domestic economic policies. This is also the most important issue to the Europeans and the Japanese. The most important issues to the U.S. are the multilateral trade issue and the East-West credit issue.

Hence, the basic tradeoff would be a willingness on our part to accommodate the Europeans and Japanese on monetary and economic policy coordination in return for their willingness to move in our direction on multilateral trade and East-West credit issues. We should therefore maintain a parallelism between progress on the coordination issue and progress on the trade and credit issues.

There are more specific tradeoffs to be considered within the context of each issue.

-- On macroeconomic and monetary policy coordination, a tradeoff between our willingness to restate U.S. non-intervention policy in exchange markets in a more flexible manner in return for European agreement to enter a consultative process and express public commitments to pursue common longer-term policies to curb inflation, reduce budget deficits and control money supply.

-- On trade, commitments from the Europeans to undertake a significant work program and to envision significant negotiations in a series of new areas such as services, investment, etc., and with the developing countries in return for U.S. agreement to moderate pressures on steel and agriculture issues with the Community and to sustain pressures on Japan to liberalize its import regime.

-- On credit issues, U.S. willingness not to extend or perhaps even to lift sanctions on the pipeline in return for European commitments to a mechanism to monitor and restrain officially-supported credits to the Soviet Union.

-- on global negotiations, develop and present before Versailles a forthcoming U.S. response to the G-77 proposal in New York consistent with the President's Cancun policy in return for European and Japanese support for the U.S. proposal to open a new round of trade negotiations with the developing countries in the GATT.

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File
France
Summit

TONE OF PUBLIC AND PRIVATE DISCUSSION OF SUMMIT ISSUES

It was agreed at yesterday's CCEA meeting that it would be important to the success of the President's trip to Europe to set a positive tone in describing our position on the key issues and our sensitivity to the European problems. The following conveys some general thoughts which reflect the points that several of us made at that meeting.

First, Europe faces major economic problems. In particular, Europe's extremely high rate of unemployment is resulting in increasing stress of both a social and political nature. Such things as high U.S. interest rates and exchange rate volatility are widely believed in Europe by public and politicians to have an adverse impact on European trade and investment.

Second, our objective at the Summit is not to impose solutions but to develop a broader and deeper consensus on the nature of the problems we face individually and collectively. We will seek to identify opportunities for enhanced cooperation to restore prosperity and stability in our economies, to strengthen the capability of the trading system to deal with new and old trading problems, and to enhance chances for common action in such areas as energy, East-West relations and relations with developing countries.

Third, while our views on exchange rate intervention are well known, we should, as Beryl Sprinkel indicated, note that we have been and are in fact willing to intervene where disruptions occur. We have made clear that we are willing to discuss questions of intervention in a framework of a greater convergence of fundamental economic policies, which in the end is the only sustainable way of fostering exchange rate stability.

Fourth, on trade, we would like to manage constructively outstanding trade issues while working with Europe and Japan, and our other trading partners, to improve the international trading system and the GATT for the benefit of all. We must insist that Japan accept its responsibilities as the second largest trading nation by opening its economy to the play of competitive market forces. We are not out to attack the European Community's Common Agricultural Policy but we have major problems with important aspects of the way it is implemented. We do not seek to dictate any particular agenda for the GATT Ministerial but to gain common recognition of the major problems in the trade area, a common political commitment to address them together and a consensus that unless these problems are addressed the entire system will be seriously weakened.

Fifth, on East-West issues, we place high priority on an agreement to limit official credits and guarantees to the USSR. We see this as an objective based on sound economic principles. We are not trying to fashion an anti-Soviet Summit nor is our objective in any way the basis of a desire to launch economic warfare.

Sixth, on energy, we see this as a unifying issue and will aim to discuss ways of increasing energy production in the Western world and reducing vulnerability to interruptions.

Seventh, on North/South issues, we aim to be constructive and pragmatic, building on the "spirit of Cancun."

File France Summit

DRAFT MEMORANDUM FOR THE PRESIDENT

SUBJECT: STRATEGY FOR PROGRESS AT VERSAILLES

A positive outcome at the Versailles Economic Summit is extremely important, both in terms of your overall trip to Europe and in terms of the future course of the international trading and financial system. In recent years, International cooperation, support for the multilateral trading system and international institutions necessary for a healthy world economy ~~are becoming~~ have weakened. A strong new political commitment to improve cooperation and institutions, and resolve pressing problems and differences, is needed to avoid further deterioration and place the free world economy on a more promising course. ~~will continue~~. We will not have another opportunity this year to reverse these trends if we fail to do so at Versailles; economic tensions will therefore worsen, leading to increased political friction and perhaps a retreat into further protectionism. From this perspective, ~~And~~ Versailles will also set the tone for ~~each~~ other stops on ~~the rest of~~ your trip, particularly the NATO Summit.

Each participant at Versailles will have somewhat different priorities and preferences. ~~want certain things, and there will thus be inevitable differences among objectives~~. We all seek the same objectives but we differ in terms of economic structures and policy approaches. We are pressing hard for results which stress the fundamental theme and goals of your policy. ~~but in the final phase of preparation, progress will~~ Achieving success obviously depends on the willingness of each participant to engage in some "give-and-take" to arrive at a package acceptable to all ~~to which~~ directed toward ~~and which moves for its solutions and~~ significant ~~institutional~~ improvements in international cooperation. A lowest common denominator approach in present circumstances would be a lost opportunity to set bold new directions in international cooperation..

We plan to stress the need for improved consultation and coordination in the setting of long~~-~~er-term economic policies with the objective of achieving greater convergence of basic ~~[illegible]~~ policies d~~iscipline~~ and greater ~~international economic~~ resulting stability in international economic relations. The Europeans are likely to accept the need for greater policy convergence but advocate more immediate ~~extensive exchange market~~ intervention to stabilize exchange rates and to ease current policy constraints, such as high interest rates. We have indicated a willingness to counter disorderly situations in exchange markets ~~disruption~~, but have advocated primary reliance on ~~market signals in~~ a framework of convergence of domestic policies focused on lower inflation and greater efficiency.

Our other high priorities are to strengthen the multilateral trading system and to reinforce Western solidarity in economic relations with the East. The Europeans with serious domestic unemployment and in some cases weak governments would rather avoid specific or "overly ambitious" commitments on both of these issues at the moment; the Japanese will support our trade objective for their own reasons, but are closer to the Europeans on East-West questions. The Europeans, on the other hand, will play up political ~~[illegible]~~ aspects of North-South issues, especially the "Global Negotiations," ~~largely for symbolic reasons. but~~ and emphasize aid while showing greater reluctance to open their markets to LDC products.

There are specific tradeoffs to be considered within the context of each issue:

-- On macroeconomic policy coordination, we could restate our exchange market policy in a more flexible manner if the Europeans agree to enter a consultative process leading to long-term stability with the recognition that it would not be appropriate to intervene in exchange markets to counter fundamental market forces. The costs of more intervention under these circumstances would be small as compared to the benefits of a more regularized effort to attain more discipline and longer term stability.

-- On trade, we want strong public commitments from the Europeans, Japanese and Canadians to cooperate with us on a significant trade work program leading to meaningful negotiations on high technology issues, services, agriculture, and investment. We could agree to expressing these commitments at Versailles in less detail than we had hoped. We and the EC could also agree to try to resolve bilateral issues, such as in the area of agriculture, in a constructive way. The cost here would be that we might obtain less specifity, but a higher degree of support for our trade priorities.

-- On East-West issues, we want European and Japanese commitments to a mechanism to restrain officially-supported credits to the Soviet Union, this would make it easier for you to ease U.S. pressures in areas of East-West trade (e.g. pipeline related export restrictions) important to the others and cooperate with the Europeans on harmonizing approaches to Eastern European debt. The cost of agreeing to eliminate restrictions on pipeline-related equipment would be small because the pipeline, by all accounts, is likely to proceed no matter what we do. A harmonious approach for rescheduling Eastern European debt would improve repayment projects The ultimate gain here is agreement for good and understandable economic reviews to put in place long-term restriction on credits and guarantees to the Soviets without a political fight which would weaken the alliance and save the climate for the NATO Summit..

In such a heterogeneous package, the costs and benefits are difficult to evaluate with any precision. The constituency for the gains differ from that of the bearers of the costs - making it necessary to evaluate the acceptability of the entire package. One thing is clear -- without some "give" on our part, there will be little or no chance for any "take," and little progress at Versailles. The rest of your trip, plus the NATO Summit, would likely be less successful as the result.

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File
France
Summit

MEMORANDUM FOR THE PRESIDENT

Subject: Strategy for Success at Versailles

A positive outcome at the Versailles economic summit is important in its own right and will set the tone for the rest of your European trip. Each participant has a shopping list, with inevitable conflicts among objectives and among means of pursuing those objectives. In the final phase of preparation, progress will depend to a degree on the willingness of each participant to engage in some "give and take" to arrive at a package acceptable to all.

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We plan to stress the need for improved consultation and coordination in the setting of long-term economic policies, with the objective of achieving greater economic discipline and greater international financial stability. ¶Our other priorities are to strengthen the multilateral trading and investment system and to reinforce Western solidarity in economic relations with the East. The Europeans strongly resist these priorities and would rather avoid specific or "overly ambitious" commitments on these issues at the moment; the Japanese will support the trade objective for their own reasons but are closer to the Europeans on East-West questions. The Europeans, on the other hand, will play up North-South issues, specifically the "global negotiations," and the shortfall in US support for IDA the concessional loan program of the World Bank, ~~largely for~~ symbolic reasons. The French will be pushing a technology initiative, which is ~~a~~ Mitterrand is theme for the Summit. ~~pet, but which~~ This subject has ~~and has certain~~ useful aspects for us with its emphasis on growth and the longer-term task of revitalizing our economies but, as the French see it, it also envisages a large government role in the identification, development and control of technology which is contrary to our market orientation.

~~There are some trade-offs within each of these issues, and we may be able to trade off between some areas:~~

-- ~~In the macroeconomic policy area~~ The others have pressed us to reduce the budget deficit, reduce interest rates and intervene in exchange markets. We have responded with an ~~ag~~ initiative for closer consultation among the key currency countries ~~on coordination and~~ consultation within the IMF on longer-term economic policy as the basic source of exchange rate stability -- a point with which they all fundamentally agree -- together with willingness to study the impact of past exchange market intervention. This initiative ~~has been basically~~ will be embodied in a monetary policy statement which has been agreed in the preparatory process and is reflected in the draft Communique. While this initiative has many advantages from our point of view, it also responds to French preoccupation with the monetary system and European desires to have the U.S. restate its exchange rate policy in a collective framework. It ~~is regarded by the others as~~ represents a major "cooperative" U.S. step, is likely to be a centerpiece of the Summit and is something we think all will want to happen. ~~The key point is that we~~ We should be ~~We should be~~ ~~have been cooperative in this area~~ willing to use this if necessary to obtain key U.S. objectives in other areas. (Note: This agreement does not involve a U.S. commitment to conduct more exchange market intervention, but to study the intervention issue. We need to be alert to avoid being pressed into a commitment on intervention.)

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-- On trade and investment, we want to strengthen public commitments from the others to resist protectionism and to cooperate with us on a significant trade program and to agree to meaningful negotiations on services and agriculture, both with them and with the developing countries.

We want agreement on work toward development of an international framework in the investment area to provide the basis for ensuring preservation of an open international investment system. We also want endorsement of the objective of further reduction in subsidized export credits, including endorsement of a recent compromise put forward in the OECD framework. The draft communique reflects some of our major objectives on trade, but is silent on export credit subsidies and investment. Some will resist strong commitments, and we could agree to broad expressions in less detail in order to get the basic commitments. We and the EC could also agree to try to resolve in a constructive way bilateral issues such as steel and agriculture. (Note: If the steel issue is resolved by mandatory EC export restraints, the U.S. will be sharply criticized for championing free trade on the one hand and forcing its trading partners into trade restrictions on the other (to wit another Japan automobile case)) ~~The cost here would be that we~~ The objective here would be to obtain less detail but a higher degree of support for our ~~broader~~ longer term trade priorities ~~for~~ this decade.

-- On East-West issues, the European commitments ~~to a mechanism~~ to restrain officially supported credits to the Soviet Union would make it easier for you to ease U.S. pressures in areas of East-West trade important to the others. The draft Communique is now silent on this point, ~~and we have met considerable resistance on~~ We have made little progress on the credit issue in recent meetings, and ~~Agreeing to~~ It would also be helpful, if the Europeans agree to cooperate on credits, to eliminate restrictions on ~~related~~ oil and gas equipment ~~can be used to our advantage, for example, and~~ related to the pipeline. The pipeline by all accounts is likely to ~~proceed~~ no matter what we do. The ultimate gain here would be an agreement to put in place long-term restrictions and guarantees to the Soviets. Our willingness to engage in closer consultations on macroeconomic policies and to engage in a multilateral study of intervention ~~could~~ should

~~On the other hand, if the allies do not agree to credit restrictions, even~~ with

we need to

On the other hand, if the allies do not agree to move forward on credit issues, we face a problem of credibility since we have threatened further sanctions.

be used to elicit the others' support on this key issue of Western solidarity.

-- On North-South issues, we are pressing an approach that stresses the importance of sound economic policies and free market orientation in trade, investment and domestic policies in developing countries as essential ingredients in the development process. The Europeans, largely for symbolic reasons, stress official assistance, new institutional arrangements and commodity price support programs ~~are pressing for Summit acceptance of a number of points~~ -- global negotiations (GNs), an IBRD energy affiliate, an IDA special fund, and more financing for export stabilization. We do not agree with these emphases, and they ~~which are~~ are currently in bracketed language in the draft Communique. ~~and with which we do not agree. It is possible that U.S. willingness to downplay the need for discipline in aid recipient countries could be used to blunt the European push for these items.~~ We should be ready to consider a further U.S. response to the GNs issue consistent with the conditions you set out at Cancun, if the Europeans drop some of the more objectionable proposals and accept more of our own emphases. But here again, we should be prepared to use the desire of others to have an agreement on macroeconomic policy coordination to further our objectives in the North-South area.

-- On technology, The French initially presented ~~Mitterrand will present~~ a statement that envisages heavy governmental involvement in the identification of frontier technology, its development and management. This directly counters our own emphasis on ~~the advantages of~~ the free play of market forces and ~~reduction of government interference with markets~~ we have successfully insisted on a greater recognition of the competitive conditions conducive to technological innovation. As reflected in the draft Communique, the French will press for specific follow-up, including establishment of a working group by the Summit countries to report by the end of 1982 and consideration of that report at the 1983 Summit in the United States. Though we have not seen precisely what Mitterrand will present, we know we have fundamental problems with the French papers that have been circulated in the preparatory process. We will need to be prepared to argue the substance at the Summit. But as a purely procedural matter, the Heads of State should not be expected to give such prominence to a statement presented at the Summit or to pin down what will be on the agenda for the 1983 Summit. At a maximum, the Summit Communique should note Mitterrand's statement and indicate that it will be given careful consideration by Summit governments in the months ahead, and will be taken up by the 1983 Summit, as necessary.

File France Summit

SECRET/SENSITIVE DISCUSSION PAPER

A STRATEGY FOR SUCCESS AT VERSAILLES

The Versailles Summit offers an historic opportunity to strengthen economic cooperation at a time of severe pressures for "going-it-alone" in the face of widespread unemployment and pressing trade problems among Summit countries. A constructive and cooperative outcome will require forward looking commitments by all participants and some give-and-take among them. We must determine our top priority objectives, and of equal importance, what we gan give to insure others come along with the package. In particular, we may want to be more accommodative on short-term issues in order to pin down commitments by others on subjects of long-term concern.

I. What we want

-- An operational commitment by all Summit countries to achieve stability and growth in the international economy, lower inflation, creation of productive employment, monetary and fiscal discipline, greater reliance on market forces to allocate resources and convergent policies to achieve those objectives -- in essence greater economic stability and growth abroad to complement the President's efforts to achieve these at home.

-- Agreement on the overriding importance of an open trading system as a stimulus to economic growth and on the responsibility of Summit nations to reduce trade distortions and to improve the system's capability to resolve trade problems. Specifically, we seek a political commitment to reverse: (a) the increasing use of trade distorting measures and (b) growing protectionist pressures. To these ends, we want to work together for a constructive GATT Ministerial which strengthens the GATT system on safeguards, agriculture, and subsidies and expands GATT disciplines to new areas (services, high-technology, trade-related investment regulations) and new countries (advanced developing countries).

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GDS 5/4/88

-- Limitation on officially-supported credits to the Soviet Union. Additionally strengthening of the COCOM system (building on the January High-Level Meeting) to deny Soviet access to technologies with military applications.

II. What others want

-- Lower interest rates in the United States and greater willingness by the U.S. to intervene to counter disruptions in foreign exchange markets.

-- For the Europeans, efforts to resolve differences with the U.S. on agriculture and steel and greater Japanese openness and export restraints, including a shift in Japanese domestic policy which would sharply reduce the export-orientation of the Japanese economy.

-- U.S. willingness not to disrupt Europe's efforts to complete the first phase of the Yamal/Siberian pipeline project.

-- For France, Italy and Canada; a more accommodative U.S. attitude to LDC desires such as Global Negotiations.

III. The elements of a package

On economic and international monetary policy: Domestic macroeconomic policy convergence and exchange rate stability are natural partners. Greater coordination (a) to lower inflation and increase growth (which in the medium-term go hand-in-hand) and (b) to avoid sharp swings from pursuit of one objective and then the other. This can be an historic breakthrough.

The difficulty lies in assuring that policy convergence occurs, and that exchange intervention is not used to avoid domestic policy adjustments. If the Europeans -- primarily the French and Italians -- are prepared to participate in a system which disciplines domestic policy, then exchange rate intervention will be less necessary. U.S. flexibility on intervention policy -- in the framework of our basic principles of not going against fundamental market forces -- would be seen in Europe as a positive step demonstrating sensitivity to one of their major concerns. The Administration's tough stand on the primacy of responsible domestic policies as the major determinant of exchange markets stability has put us in a position to exercise considerable leverage in obtaining commitments to specified policy objectives and convergent policy actions on the part of other countries.

France, Italy and Japan approach this issue from the exchange market intervention side. The U.S., the British and the Germans place the accent on convergent domestic policies. A compromise between these two positions formed the basis of the European Monetary System in 1979. Similar compromise on a global basis is possible but will require the French and the Italians to make major adjustments in their domestic policy.

-- On trade: Defusing controversy over international monetary questions will enhance the chances of a more positive European attitude on further trade liberalization. A good Japanese import liberalization program would also be an important contribution. But we will also need to start a process which will resolve US/EC bilateral issues. This is likely to involve efforts to resolve GATT agricultural complaints coupled with a longer term but concrete commitment from the EC to work on the management of agricultural subsidies and possibly an understanding on what the "Subsidies Code" means by a "reasonable share of the market" in key commodities. We must avoid allowing tensions in this area to prevent us from realizing the opportunity to establish a fundamental political commitment at Versailles to the major improvements in the trading system which are needed for the 1980s. This commitment must be expressed in terms of concrete forward-looking objectives for the GATT Ministerial.

-- On East-West economic issues: We need a clear-cut positive European reaction to our concerns which demonstrates a united Western position on economic relations with the East. The best chance for such action is on credit policy. Jim Buckley has moved this issue along and on May 14 we will table and discuss a specific set of principles that could lead to an agreement to be blessed at the Summit. We have made clear that the U.S. does not intend this as the first shot in a policy of "economic warfare" but as a means of ensuring financial prudence and increasing the difficulty of Soviet decisions on resource allocation. In order to obtain an enduring and institutionalized operational agreement on credit limitation, we may need to move toward the Europeans on some issues of concern to them, such as the pipeline.

IV. A Strategy for Developing the Package

Negotiations on the three major elements of the package -- macro and monetary, trade, East-West -- can proceed on parallel tracks.

-- Macro and monetary: Discussions at the April 23-25 Sherpa meeting revealed the possibility of sufficient movement by the French on policy coordination to make future and more operational discussions feasible. A small working group chaired by Dick Erb is working up a specific U.S. proposal in anticipation of a proposal coming from the French. An exchange of proposals will take place during the week of May 3. Based on this exchange, Secretary Regan can undertake policy level discussions in the G-5 at Helsinki.

The sub-group of the Summit preparers will meet on May 14 to review the possibility of an agreement -- which could be an historic step toward greater international economic stability.

-- Trade: Meetings on the fringes of the GATT CG-18 meeting (May 7) as well as the OECD Ministerial and the Quad Trade Ministers meeting will afford us an opportunity to explore with the Japanese the shape of their proposed trade liberalization program, and to impress on them once again the importance of effective measures, including actions to improve substantially access to Japan's market for agricultural as well as industrial products. As for the US-EC disputes, we could work quietly with the EC between now and the Quadrilateral meeting and try to engage their interest in developing a process along the lines sketched out above. We can stress the importance of using this opportunity to shore up the trade system, and the bleak consequences of allowing the trading partners who should be its strongest supporters to become mired in an endless series of disputes. In order to achieve our goals at the Summit, it would not be necessary to have a deal consummated, but it would be important, in view of the deadlines on some of our GATT cases, to have the process fairly far advanced.

-- East-West Economic Issues: Jim Buckley met with representatives of the other summit countries and the EC Commission on April 23 to take one step further the idea of restricting Western official credits. This was the first multilateral meeting following a series of bilateral meetings.

Our objective is to get agreement on the need to restrain officially-supported lending to the USSR. At the April 23 meeting the U.S. presented its analysis of the Soviet financial situation and outlined our ideas for a credit-restriction regime. The group will meet again on May 14.

Timing is critical. The week of May 10 involving the OECD Ministerial, the IMF meetings in Helsinki, the Quad Trade Ministers meeting, the parallel meetings on monetary and East-West issues and the Sherpa meeting on the weekend is feasible. We must have clear ideas on specifically what we want to come of each meeting and on what we can give if necessary to get it.

PRESS THEMES FOR EUROPEAN TRIP

The President should project the role of statesman with a confident and long-term view of the problems faced by the industrial world and with a concern for the wellbeing of the Western system and not just bilateral U.S. interests.

Most of the leaders of the other Summit countries are preoccupied with their own short-term, national economic and political problems and afflicted by a certain loss of confidence and perspective. They focus on volatile anti-nuclear sentiments, immediate unemployment problems, existing trade disputes (e.g., Japan), competition for relatively meager sales to the Soviet Union and Eastern Europe, and the ephemeral political aspects of relations with developing countries (e.g., Global Negotiations).

By contrast, the President should convey that he is dealing with fundamental issues and the turning around of the Western Alliance after a decade of neglect of its security, of stagflation in its economy, and of failure to nurture and renew our basic democratic values. He should wage the same campaign against erratic, stop and go policies in the international system that he has done domestically. Hence, he expresses a determination to:

-- stay on course with a comprehensive economic program to reduce inflation and to increase incentives for investment, employment and savings and to avoid the failed short-term policies of the past which produce momentary improvements and lasting disadvantages;

-- appeal for closer coordination of basic economic policies among the Summit countries to control inflation and stimulate investment, bringing about the stable and sustained growth and employment that everyone wants but on noe but he has a clear plan to achieve (this is the Sprinkel economic policy coordination initiative for Versailles);

-- insist that economic relations with the Soviet Union be consistent with broader and longer-term political and security objectives within the Western Alliance and ensure that short-term economic practices to subsidize trade and credit with the East do not indirectly contribute to lowering the cost of the Soviet military build-up and foreign policy behavior;

-- deal with the inescapable problem of deterence and peace with NATO as the centerpiece of Western solidarity which has produced 37 years of peace in central Europe;

-- address relations with developing countries in a broad and multi-faceted perspective, recognizing the dialogue (Global Negotiations) as a part but only a part of many other aspects of development (trade, investment, commercial lending, domestic economic policy of recipient countries).

-- rekindle Western awareness and pride in the common democratic character and values of our people, emphasizing increased human exchanges among youth and other groups in our societies.