

F. Venice, June 22-23, 1980

Just as in the previous year, where the energy issue had dominated the agenda of the Tokyo Summit, at Venice virtually all attention was put on the question of a common western response to the Soviet invasion of Afghanistan. The German delegation attending the summit (Chancellor Schmidt, Foreign Minister Hans-Dietrich Genscher, Finance Minister Matthöfer and Economics Minister Graf Lambsdorff) repeatedly pointed out that it felt that the Afghanistan issue should have priority at Venice, especially since there had developed serious disagreement between the United States and West Germany on the question of East-West relations after the invasion.⁸⁰

These differences were most dramatically manifested in a letter sent by President Carter to the Chancellor a few weeks before the summit. In this letter Carter directly accused Bonn of moving away from the NATO decision to place intermediate range nuclear missiles in Europe and strongly opposed the planned visit to Moscow by Schmidt a few weeks after Venice. This letter had resulted from anxiety in the Carter administration over statements made by the Chancellor of a possible delay in the stationing of the missiles in Germany and the fear of 'neutralist tendencies in the Federal Republic.'⁸¹

⁸⁰ Frankfurter Allgemeine Zeitung, June 21, 1980.

⁸¹ "Nachrüsten, nicht verhandeln" in Der Spiegel, June 27, 1980.

The letter was strongly condemned by the Chancellor and since both leaders were facing crucial elections that year, there was a real fear that they would use a hardening of their positions in order to gain an electoral advantage. Yet even though this "confrontation"⁸² caught virtually all the attention of the German media prior to Venice, both leaders did meet bilaterally during the summit and repeatedly stressed that their misunderstanding had been cleared up.⁸³

Nevertheless, key differences remained. In the political discussion of the leaders, Schmidt presented a very detailed assessment of the situation after the Soviet invasion of Afghanistan in which he strongly worried about the risks of a further deterioration of the East-West conflict. He also outlined the goals of his upcoming visit to Moscow and sought an endorsement from the other leaders. All except Carter strongly supported his visit to the Soviet Union. The US President merely pointed out that it had been a very "good statement"⁸⁴

During the discussion about a response to the Soviet invasion, Chancellor Schmidt, Giscard D'Estaing and Margaret Thatcher strongly opposed an overly harsh criticism of the Soviet Union in

⁸² Frankfurter Allgemeine Zeitung, June 21, 1980.

⁸³ Ibid., June 23, 1980.

⁸⁴ "Nachrüsten, nicht verhandeln" in Der Spiegel, June 27, 1980.

the communique of the summit, since they viewed this as being largely counterproductive. Schmidt wanted the leaders to greet the announced Soviet partial troop withdrawal from Afghanistan as an important "first step"⁸⁵. But President Carter was able to prevail in his demand for a total withdrawal, which was ultimately accepted by all.⁸⁶

On the question of East-West trade and an economic embargo of the Soviet Union, agreement remained more elusive. The Chancellor stressed that any commercial agreement made by Germany with Moscow would have to be honoured just as those made with western countries. He totally opposed an economic embargo and pointed out that even after the Soviet invasion of Afghanistan trade should be kept at its existing level. Schmidt tried to explain to his partners the German government's inability to easily forego trade with Moscow. He pointed out that good economic relations were an important element for the stability of East-West relations in Europe and that a trade embargo would have serious repercussions for the German economy.⁸⁷ Germany, unlike the United States, had built up strong economic contracts with eastern Europe and any break off in trade relations would have threatened hundreds of thousands of jobs. Nevertheless, these arguments seemed to have made very little impact on Carter as he

⁸⁵ Ibid.

⁸⁶ Ibid.

⁸⁷ "Nachrüsten nicht verhandeln" in Der Spiegel, June 27, 1980.

continued to stress his own view that the allies of the United States should not supply the USSR with even semi-modern technology. Carter threatened he would oppose any future exception from the export restriction list of the COCOM.⁸⁸

Yet, it is also clear that just as the Chancellor was not able to convince Carter of his own position, the President failed to convince Schmidt to further reduce economic ties with the Soviet Union. In fact on his visit to Moscow Schmidt did sign an extension to the twenty-five year programme for closer economic cooperation between the Federal Republic and the USSR.

The general economic discussions at the summit were once again dominated by the two issues of energy and inflation. Schmidt gave the other leaders a short report on economic developments since Tokyo and he especially highlighted the German efforts at preventing inflated energy prices from causing a corresponding increase in wages and incomes.⁸⁹ He then turned to the energy question and once again introduced the concept of an effective energy dialogue between the oil consuming and producing countries. While recognizing that many oil producing countries were still resisting such a conference, Schmidt now pointed out that the German government had received strong signals in the last few months that some major suppliers were now showing a

⁸⁸ Frankfurter Allgemeine Zeitung, June 23, 1980.

⁸⁹ Die Zeit (R. Herlt), June 27, 1980.

stronger interest for world wide dialogue.⁹⁰

The German delegation also strongly pushed for a summit commitment that domestic oil prices should correspond to world levels. All leaders, except the Canadian Prime Minister Pierre Trudeau, accepted this whilst the Canadian opposition ensured that a watered down version was put in the final communique. It was now noted "that the domestic prices should take into consideration world prices."⁹¹ All leaders also accepted the need to further attempt to contain inflationary pressures. This was once again viewed as largely the result of Schmidt's success in convincing his partners over the previous five summits of the 'dangers of inflation'.

On the question of North-South relations Chancellor Schmidt expressed his strong support for the recommendations of the Brandt Commission for an informal dialogue with the leaders of the third world. But as this was only supported by Prime Minister Trudeau and strongly opposed by both Japan and the United States, this proposal was not adopted.⁹² The summit leaders nevertheless did give the World Bank and IMF a greater role in recycling money to the poor and indebted countries and once again supported a statement against protectionism. They also endorsed the International Energy Agency decision of May,

⁹⁰ Ibid.

⁹¹ Ibid.

⁹² Putnam and Bayne, Hanging Together, p. 125.

G. Ottawa, July 20-21, 1981

Whereas at previous summits Chancellor Schmidt had tried to convince his partners of the need for concerted action against inflationary pressures in their own economies, 1981 signalled a distinct shift in focus.⁹⁶ Efforts by the US Federal Reserve to put an effective brake on the money supply in order to exert a downward pressure on inflation had resulted in record high interest rates (21%) by late 1980. These would remain at high levels throughout 1981. This immediately impacted on the value of the US dollar which appreciated by 30% against most of the major currencies.⁹⁷ The Reagan administration that took office in January 1981, strongly endorsed this strategy of using monetary policy to fight inflation.

But this strategy had begun to place the other governments in an unwelcome dilemma. As Putnam and Bayne point out in their assessment of the 1981 summit: "If the other major economies allowed their own currencies to continue depreciating in relation to the American dollar inflation in their countries would be given a powerful push yet if they tightened their monetary policy to defend their currencies they would add further to the deflationary pressures on their economy."⁹⁸

⁹⁶ Die Zeit (R. Herlt), July 17, 1981.

⁹⁷ Putnam and Bayne, Hanging Together, p. 127.

⁹⁸ Ibid., p. 127.