

part. A

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Begins: <sup>26</sup> / 4 / 82.  
Ends: 26 / 7 / 82.



Chancellor's (Howe) Papers :

VERSAILLES ECONOMIC  
SUMMIT JUNE - JULY 1982

PO -CH /GH/0063

PART A

Disposal Directions : 25 Years

*D. Anderson*

25/7/95.



**CONFIDENTIAL***Mr. Butler*CONFIDENTIAL [CULL]  
FM LUXEMBOURG 261500Z APR 82TO IMMEDIATE FCO  
TELEGRAM NUMBER 59 OF 26 APRIL 1982  
INFO IMMEDIATE PARIS BONN WASHINGTON *London 1845*  
INFO SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN  
LUXEMBOURG ATHENSPREPARATIONS FOR VERSAILLES ECONOMIC SUMMIT:  
INTERNATIONAL MONETARY SYSTEM

FOLLOWING FROM HANCOCK

## SUMMARY

1. THE POSSIBILITY OF AN INITIATIVE ON THE INTERNATIONAL MONETARY SYSTEM WAS DISCUSSED AT THE SECOND DAY OF THE PREPARATORY DISCUSSIONS FOR THE ECONOMIC SUMMIT AT RAMBOUILLET ON SUNDAY 25 APRIL. THE UNITED KINGDOM WAS REPRESENTED BY COUZENS (TREASURY) BRIDGES (FCO) AND HANCOCK DEPUTISING FOR ARMSTRONG. IT WAS AGREED THAT AN EFFORT SHOULD BE MADE TO FIND A BASIS FOR ACTION TO IMPROVE THE WORKING OF THE INTERNATIONAL MONETARY SYSTEM AS PART OF THE PREPARATIONS FOR THE VERSAILLES SUMMIT. CAMDESSUS, THE FRENCH DIRECTOR OF THE TREASURY, WILL CIRCULATE A NOTE EXPLAINING FRENCH IDEAS TO THE FINANCE MINISTRY REPRESENTATIVES OF THE SEVEN COUNTRIES. THIS WILL BE DISCUSSED AT A DINNER TO BE ARRANGED IN PARIS BY CAMDESSUS ON FRIDAY 14 MAY.

## DETAIL

2. SPRINKEL (UNITED STATES) OPENED THE DISCUSSION BY SAYING THAT THERE WERE AT LEAST TWO PROPOSALS, ONE BY THE UNITED STATES CONTAINED IN A DOCUMENT HE HAD CIRCULATED TO THOSE PRESENT, AND ONE SUGGESTED BY THE HOST COUNTRY. HIS IDEA WAS THAT THE MAJOR COUNTRIES SHOULD TRY HARDER TO DEVELOP SUCCESSFUL POLICIES FOR REDUCING INFLATION WHICH OVER TIME COULD BE EXPECTED TO LEAD LOWER INTEREST RATES AND HIGHER INVESTMENT AND ALSO TO GREATER STABILITY IN EXCHANGE RATES. HE HOPED THAT IT WOULD BE POSSIBLE IN SOME WAY TO RECONCILE THIS APPROACH WITH THAT SUGGESTED BY FRANCE.
3. CAMDESSUS SAID THAT HE THOUGHT THAT IT WAS AGREED THAT THE PRINCIPLE OF STABLE BUT ADJUSTABLE EXCHANGE RATES SHOULD BE RESPECTED AND THAT MORE EFFORT SHOULD BE MADE TO PREVENT EXCESSIVE FLUCTUATIONS. SUCH A POLICY MUST BE BASED ON CONVERGENCE OF ECONOMIC POLICIES AND NOT ON MASSIVE INTERVENTION. IN THE VIEW OF THE FRENCH GOVERNMENT PUBLIC OPINION SHOULD BE CONVINCED THAT THE SUMMIT COUNTRIES WERE NOT COMPLACENT. CAMDESSUS HAD THEREFORE HOPED THAT AGREEMENT COULD BE REACHED ON THE FOLLOWING POINTS:

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- I. THE SUMMIT COUNTRIES AGREED THAT STABILITY OF EXCHANGE MARKETS WAS AN ELEMENT IN THEIR COMMON RESPONSIBILITY:
  - II. INTERVENTION TO SECURE A COMPETITIVE ADVANTAGE SHOULD BE EXCLUDED:
  - III. BUT THE SUMMIT COUNTRIES DID NOT EXCLUDE INTERVENTION WHICH WAS CONSISTENT WITH THE MODIFIED IMF ARTICLES ON FLOATING EXCHANGE RATES:
  - IV. THE COUNTRIES POSSESSING THE FIVE CURRENCIES IN THE SDR BASKET HAD A SPECIAL RESPONSIBILITY AND SHOULD BE SUBJECT TO AN ENHANCED DEGREE OF MULTILATERAL SURVEILLANCE:
  - V. THERE SHOULD BE A STUDY AIMED AT THE RECONSTRUCTION OF THE INTERNATIONAL MONETARY SYSTEM IN A MEDIUM-TERM PERSPECTIVE.
4. THE IMPLEMENTATION OF THESE PRINCIPLES WOULD REQUIRE INCREASED COOPERATION HAVING THE FOLLOWING ELEMENTS:
- I. REGULAR CONSULTATION ON THE FUNDAMENTALS WHICH SHOULD DETERMINE EXCHANGE RATES INCLUDING INTEREST RATES:
  - II. EXCEPTIONAL CONSULTATIONS WHICH SHOULD BE AUTOMATIC WHEN ONE OF THE SDR CURRENCIES GOT OUT OF LINE WITH THE REST:
  - III. A CENTRAL ROLE FOR THE INTERNATIONAL MONETARY FUND:
  - IV. MORE COOPERATION BETWEEN THE CENTRAL BANKS.
5. SPRINKEL SAID THAT THERE WAS A GREAT DEAL OF SIMILARITY BETWEEN THE UNITED STATES POSITION AND THAT DESCRIBED BY CAMDESSUS. HE HAD ONLY ONE FEAR WHICH WAS THAT CAMDESSUS' SUGGESTIONS WOULD LEAD TO EXCESSIVE INTERVENTION. MASSIVE INTERVENTION DEALT WITH THE SYMPTOMS OF DISEQUILIBRIUM AND NOT WITH THE BASIC CAUSE. HOWEVER THE UNITED STATES DID NOT RULE OUT INTERVENTION ALTOGETHER AND HAD ON FOUR OCCASIONS RECENTLY BEEN READY TO MOVE INTO THE MARKETS BUT THE PRESSURE HAD CEASED BEFORE THEY HAD ACTUALLY DONE SO. SPRINKEL AGREED THAT THE FIVE SDR CURRENCIES HAD A SPECIAL RESPONSIBILITY AND ESPECIALLY THE UNITED STATES. HE ALSO AGREED THAT THE CONSULTATION SHOULD CONCENTRATE ON FUNDAMENTALS BUT ANY DIFFERENCES OF VIEW ON POLICY WOULD NEED TO BE DEBATED FRANKLY.
6. WATANABE (JAPAN) SAID THAT HE UNDERSTOOD THE APPROACH BUT DID NOT BELIEVE THAT IT WAS REALISTIC BECAUSE OF THE BIG DIFFERENCES OF VIEW ABOUT POLICY AND DIFFERENCES IN ECONOMIC CONDITIONS. MUCH PREPARATORY WORK WOULD BE NEEDED BEFORE ANY SUCH PLAN COULD BE LAUNCHED.

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17.



7. SCHULMANN (GERMANY) SAID THAT HE DID NOT THINK THE SCHEME COULD BE DESCRIBED AS EXCESSIVELY AMBITIOUS. SOME OF THE IDEAS IN IT USED TO BE TAKEN FOR GRANTED. IT OUGHT TO GO WITHOUT SAYING THAT THE COUNTRIES CONCERNED WERE RESPONSIBLE FOR THE STABILITY OF THE SYSTEM AND THAT CHANGES IN EXCHANGE RATES WHICH DEFIED FUNDAMENTALS SHOULD BE EXCLUDED. THERE MIGHT BE DIFFERENCES OF VIEW ABOUT THE ROLE OF INTERVENTION CONSISTENT WITH FUNDAMENTALS BUT AT LEAST THAT POINT OUGHT TO BE DISCUSSED. THE SDR WAS A MANIFESTATION OF THE IMF AND IT WAS VERY NATURAL THAT THE CURRENCIES CONCERNED SHOULD HAVE A SPECIAL RESPONSIBILITY. A JOINT STUDY WOULD BE NEEDED.

8. WATANABE SAID THAT JAPAN WAS READY TO JOIN IN A STUDY BUT HE WAS CONCERNED THAT THE SCHEME MIGHT HAVE AN ADVERSE EFFECT ON MARKETS.

9. VAN YPERSELE (BELGIAN PRESIDENCY) ASKED WHETHER THE JAPANESE DELEGATION HAD CONFUSED WHAT WAS PROPOSED WITH THE OBLIGATIONS UNDERTAKEN BY CURRENCIES IN THE EUROPEAN MONETARY SYSTEM. THERE WAS NO QUESTION IN THE PROPOSALS OF AUTOMATIC MARGINS OR AUTOMATIC CREDIT. THE BASIC OBLIGATIONS PROPOSED HAD ALREADY BEEN ACCEPTED IN OTHER CONTEXTS, IN PARTICULAR NO COMPETITIVE DEVALUATIONS; CHECKS ON EXCESSIVE FLUCTUATIONS; AND THE SDR AS THE CENTRE OF THE SYSTEM. HE AGREED WITH SPRINKEL THAT THE DISCUSSIONS WOULD HAVE TO BE ENTIRELY FRANK BUT THEY MUST OF COURSE BE CONDUCTED IN PRIVATE. A DECLARATION AT VERSAILLES OF AN INTENTION TO MAKE PROGRESS ON THE LINES SUGGESTED COULD HAVE A BENEFICIAL EFFECT ON EXPECTATIONS.

10. COUZENS (UK) SAID THAT BRITISH MINISTERS HAD NOT YET BEEN CONSULTED BUT HE WAS CONFIDENT THAT THEY WOULD BE SYMPATHETIC TO THE THRUST OF WHAT HAD BEEN DISCUSSED BETWEEN SPRINKEL AND CAMDESSUS. HE THOUGHT THAT IT WAS IMPORTANT TO EMPHASISE THE ROLE OF THE INTERNATIONAL MONETARY FUND AT THE CENTRE OF THE SYSTEM AND THIS COULD BE THE FIRST ELEMENT IN THE RETURN TO MORE ORDER. IT WOULD HOWEVER BE DANGEROUS TO LEAD PEOPLE TO EXPECT TOO MUCH. THE ESSENCE OF THE IDEA WAS THAT THOSE COUNTRIES WITH CURRENCIES IN THE SDR BASKET HAD A SPECIAL RESPONSIBILITY TO EVERYONE ELSE AND TO EACH OTHER. HE WAS GLAD TO HEAR SPRINKEL SAY THAT THE UNITED STATES HAD A PARTICULARLY IMPORTANT RESPONSIBILITY. THE UNITED KINGDOM WOULD AGREE THAT COMPETITIVE DEVALUATION SHOULD BE RULED BUT THAT MORE LIMITED INTERVENTION SHOULD NOT BE EXCLUDED AS A SIGNAL TO THE MARKET. THIS WAS OF COURSE QUITE DIFFERENT FROM THE OBLIGATIONS WITHIN THE EUROPEAN MONETARY SYSTEM. HE WAS DOUBTFUL ABOUT THE IDEA OF A STUDY OF THE RECONSTRUCTION OF THE INTERNATIONAL MONETARY SYSTEM IN THE MEDIUM-TERM. THIS BROUGHT BACK MEMORIES OF THE UNPRODUCTIVE LABOURS OF THE COMMITTEE OF 20. ANY SUCH AMBITIOUS IDEAS SHOULD BE LEFT TO A LATER STAGE. THE CONSULTATION SYSTEM PROPOSED WOULD GIVE A DEGREE OF FORMALITY TO A FORUM IN WHICH THE COMMUNITY COUNTRIES CONCERNED COULD DISCUSS INTEREST RATES WITH THE UNITED

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/STATES





STATES AND IN WHICH THE UNITED STATES COULD SUGGEST THAT OTHER COUNTRIES WERE NOT BEING SUFFICIENTLY ANTI-INFLATIONARY IF THEY THOUGHT THAT WERE THE CASE. THE MANAGING DIRECTOR OF THE IMF OR THE IMF STAFF SHOULD HAVE A SPECIAL ROLE - FOR EXAMPLE THEY COULD PROVIDE THE SECRETARIAT. (AT THIS POINT SPRINKEL INDICATED ASSENT).

11. SARCINELLI (ITALY) WELCOMED THE PROPOSAL BUT SAID THAT TOO MANY EXPECTATIONS SHOULD NOT BE AROUSED. THE CENTRAL POINT IN HIS MIND WAS THAT OF MAKING THE SDR CURRENCIES ACCOUNTABLE. BUT BEFORE GOING FURTHER IT WAS NECESSARY TO FIND OUT WHETHER THE CLIMATE WAS RIGHT FOR SUCH AN ADVANCE. THERE WOULD BE NO POINT IN CONSULTATIONS WHICH DID NOT LEAD TO ANY CLEAR RESULT. SOME KIND OF YARDSTICK WOULD BE NEEDED TO MEASURE THE EFFECTIVENESS OF THE POLICIES. HE ASKED CAMDESSUS HOW FLUCTUATIONS WERE TO BE MEASURED. CAMDESSUS REPLIED THAT SPECIAL CONSULTATION (PARAGRAPH 4 II ABOVE) SHOULD BE AUTOMATIC IF ONE OF THE CURRENCIES MOVED MORE THAN THE OTHERS IN TERMS OF ITS RELATIONSHIP TO THE SDR.

12. DRABBLE (CANADA) GAVE THE PROPOSAL HIS WARM SUPPORT AND DESCRIBED IT AS A VALUABLE INITIATIVE. BUT HE THOUGHT THERE SHOULD BE A PRECISE ROLE FOR THE IMF MANAGEMENT. COUZENS SUGGESTED THAT THE DISCIPLINE SHOULD BE AN ANNUAL REPORT BY THE MANAGING DIRECTOR OF THE IMF TO; FOR EXAMPLE, THE INTERIM COMMITTEE, ANALYSING THE SUCCESS OF THE ARRANGEMENT. THIS COULD BE THE BEGINNING OF THE YARDSTICK SUGGESTED BY SARCINELLI.

13. ATTALI (CHAIRMAN) SAID THAT THE FRENCH INITIATIVE WAS A POLITICAL AND NOT JUST A TECHNICAL PROPOSAL. IT WAS RELEVANT TO THE PROBLEMS OF THE CRISIS WHICH WOULD BE THE THEME OF THE VERSAILLES SUMMIT.

14. AFTER FURTHER DISCUSSION, AGREEMENT WAS REACHED ON THE PROCEDURE RECORDED IN PARAGRAPH 1.

FCO ADVANCE TO:

FCO - BRIDGES

CAB - ARMSTRONG

TSY - COUZENS; LAVELLE; HEDLEY-MILLER

BANK - LOEHNIS; BALFOUR

FCO PASS SAVING TO BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN  
ATHENS

THOMAS

(REPEATED AS REQUESTED)

ADVANCED 18 REQUESTED

FINANCIAL  
ERD

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EXCHANGE

- 4 MAY 1982

ACTION

COPIES TO

SIR K. COUZENS

MR. LITTLE

MR. LAUELLE

3d/4/82

Ref. A08279

MR COLES

Versailles Economic Summit: Meeting of Personal Representatives: 24-25 April

A meeting of Personal Representatives was held at Rambouillet last weekend to prepare for the forthcoming Versailles Summit. I was able to attend the first part of the meeting before I returned to London for meetings on the Falklands. Mr Hancock took my place for the rest of the meeting. Given the restricted nature of the Personal Representatives' meeting, this was a considerable concession to my difficulties on the part of the French Personal Representative, Monsieur Jacques Attali, and I have thanked him accordingly. Mr Hancock and I were accompanied at the meeting by Sir Kenneth Couzens from the Treasury and Lord Bridges from the Foreign and Commonwealth Office.

2. There is to be a further meeting of Personal Representatives in mid-May. This will be the last meeting before the Economic Summit and will be concerned with the final preparation of the papers which the Heads of State and Government will have before them. All being well, I will hope to be able to be present for that meeting in its entirety and will report on its proceedings to the Prime Minister after my return. The proceedings of that meeting and its conclusions will, of course, have a considerable bearing on the preparation of briefs for the Summit.

3. There were, however, a number of procedural points about the Summit which were clarified at last weekend's meeting at Rambouillet. These are set out below.

4. The Heads of State and Government, Foreign Ministers and Finance Ministers will dine separately on the evening of Friday 4 June. These will be full working sessions lasting possibly five hours. The Heads of State and Government will probably have a general introductory discussion. The Foreign Ministers will be asked to concentrate on East/West relations (including the United States proposals for limiting export credit to the USSR) and North/South issues. Finance Ministers will be asked to discuss the French proposals for an improvement of the international monetary system.



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5. It has now been agreed that Foreign Ministers will attend the lunch on Saturday 5 June with Heads of State and Government. This will be the opportunity to discuss political questions, possibly with a view to the issue of agreed texts on Saturday evening. This point remains to be resolved at the next meetings of Political and Personal Representatives.

6. The dinner on Saturday 5 June is to be for Heads of State and Government alone. They will concentrate on the more sensitive political issues not suitable for reporting to the Press. At their dinner on Saturday Finance Ministers could, if appropriate, consider the technical and financial aspects of any proposals that were still being countenanced on relations with the Soviet Union.

7. The lunch on Sunday 6 June will be rather brief, but Foreign Ministers will be present with Heads of State and Government. The afternoon session will start at 2.00 pm and end at 3.00 pm. This session will provide the opportunity for final agreement of the concluding declaration. There will then on Sunday afternoon be two hours free (at the request of the Americans) before Press conferences at 5.00 pm. Eight separate rooms will be available in the Orangery so that each Head of Delegation can hold a separate national Press conference after the plenary Press conference.

8. The President of the Republic intends the concluding declaration to be short and pithy; I have been encouraging this. A note on its present shape and coverage is attached as an annex. No draft has been sent to participant countries, but Personal Representatives were consulted at Rambouillet very informally about an early draft which they were not allowed to retain. The work will be taken a stage further at the next meeting in May, and the final draft will be produced by a meeting of Personal Representatives in the night of 5-6 June. Heads of State and Government will consider the draft for the first time on Sunday morning. The French President is insistent that the discussions on Friday evening and on the whole of Saturday should be held without any regard to the text of the final declaration.

9. No Head of State and Government other than the French President will see the Press from the start of proceedings on Friday until the Press conferences on Sunday afternoon. The French President will give one Press conference during this period on Saturday afternoon to give the Press something to write about for



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Sunday. He will report the day's events and, if appropriate, release any political statements agreed at lunch.

10. It would be acceptable for individual Foreign and Finance Ministers to see the Press at the end of each half day session; but not during any session.

11. It is to be understood that no Government representative should quote the views of any other Government when speaking to the Press. Only views of his own Government should be identified. References could be made to the fact that some countries thought one thing and some another so long as they were not named.

12. It is hoped that preparatory briefing of the Press before the Summit can be very discreet. Governments should outline the points of importance to them but should not speculate on the views of others or on the likely outcome of the Summit. Above all, the French are most anxious to avoid leaks of the content of either their President's report on technology or the final declaration. The national Presses should be told to expect only a short declaration and not the traditional communique.

13. At the meeting delegations will be arranged in alphabetical order in French starting on the President's right. At the first dinner the order of precedence will be formal seniority in post. Subsequently the placement will change to permit varying contacts.

14. Spouses of Heads of State and Government are welcome. Mrs Reagan will be there. But their participation in the proceedings will be confined to the dinner and festivities on Sunday evening.

15. At the Sunday dinner there will be places for the leader plus 10. At the opera there will be places for the leader plus 15. Only the Heads of State and Government, their spouses if present, and possibly their Foreign and Finance Ministers, will be at both occasions. The French will shortly seek a list of names for both occasions. I am asking the Foreign and Commonwealth Office to give some thought to who should be in each party.

16. The dinner will be very brief, lasting 1 hour and 15 minutes. The other guests for the opera will gather in the opera house to be seated while this is going on. Then leaders, plus spouses, and possibly Ministers, will walk from the dinner to the show. The show will last only 45 minutes. It will be followed by a cocktail party lasting 15 minutes in the Galerie des Glaces. The leaders and





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spouses will then leave for a promenade in the grounds to watch the fireworks. The other guests will see the fireworks from the Galerie des Glaces windows.

17. The French President will present his report on technology and the world crisis to the first session of the Council on Saturday morning. Its contents are to be regarded as secret in the meantime. The French Personal Representative will, on his own authority, circulate a first draft of the action proposals and a sketch of the introductory analysis to other Personal Representatives for discussion at their next meeting on 14 May. In addition he will send an assistant to answer questions in advance from a nominated technical assistant of each Personal Representative. I am arranging for the Chief Scientist in the Cabinet Office, Dr Nicholson, to be our representative. He will keep other Whitehall Departments informed as necessary.

18. Political Representatives will meet on 14 May, starting at 10.00 am, to prepare the political content of the Summit.

19. *to REC of*  
*du 4/15/61*  
Financial Representatives will meet in Paris on the evening of 14 May to discuss French ideas for an improvement in the working of the international monetary system.

20. The European Community will be represented by both the Belgian Prime Minister and the President of the European Commission at sessions, including the two dinners when the Heads of State and Government are on their own. (Nothing was said about the presence of the Belgian Foreign Minister or Finance Minister or about the number of note-takers at the discussions on 4-5 April.)

21. Note-takers in the sessions will have the use of separate tele-copiers so that what they write down will be available immediately in delegation offices.

22. Each delegation will have three seats at the table (except presumably the European Community which will have only two seats, unless a change is made in the present understanding).

23. As for other delegations, the following have so far made their intentions clear: President Reagan will be accompanied by Mr Haig and Mr Regan; Chancellor Schmidt very probably by Herr Genscher and Herr Lahnstein; Signor Spadolini may be obliged to bring in addition to Signor Colombo, Signor La Malfa as well as Signor Andreatta.



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24. I am sending a copy of this minute to the Private Secretary to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

**ROBERT ARMSTRONG**

**ROBERT ARMSTRONG**

30 April 1982



Outline of French Ideas on the Declaration to be Issued at the End of the Summit

The present draft covers precisely one page in single spacing with a small typewriter. The theme of the Summit is said to be to improve the countries' understanding of the crisis which their societies are undergoing. There would be five themes:

- (i) Proposals for a constructive evolution of the international monetary system, including the reduction of inflation, the restoration of a socially acceptable level of unemployment, the reduction of interest rates and the stabilisation of exchange rates.
- (ii) The development of world trade.
- (iii) Further efforts in the field of energy saving and the development of non-oil resources in a long term perspective.
- (iv) Relations with the developing countries, with a favourable reference to launching the global negotiations soon.
- (v) A suitably welcoming reference to the President of France's report on technology and the world economic crisis.





C

(pwp)

Handwritten pink squiggle

10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

VERSAILLES ECONOMIC SUMMIT

The Prime Minister read over the weekend your minute of 30 April.

With regard to paragraph 17, in which you refer to the role of the Chief Scientist in the Cabinet Office, the Prime Minister has commented that she believes the French President's report on technology will be less a scientific exercise than one relating to industrial technology.

With regard to paragraph 18, the Prime Minister has asked why it is necessary for political representatives to meet on 14 May to prepare the political content of the Summit.

I am copying this minute to Brian Fall (FCO) and John Kerr (HM Treasury).

[He's still in trouble]

EXCHEQUER  
 - 4 MAY 1982  
 Sir K Conens  
 Mr Luttler  
 Mr Lavelle

4 May 1982





Confederation of British Industry  
Centre Point  
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London WC1A 1DU  
Telephone 01-379 7400  
Telex 21332  
Telegrams Cobustry London WC1

From  
Sir Campbell Fraser  
President

EXCHEQUER

**CBI**  
CONFEDERATION OF  
BRITISH INDUSTRY

REC	- 2 JUN 1982
ACTION	Mr Carey ✓ M2/b.
COPIES TO	CST, FST, CIT, MST(c) Sir J Waas, Sir K Conzans, Mr Little, Mr Peltz, Mr Butterworth, Mr Peck, Mr Anselm

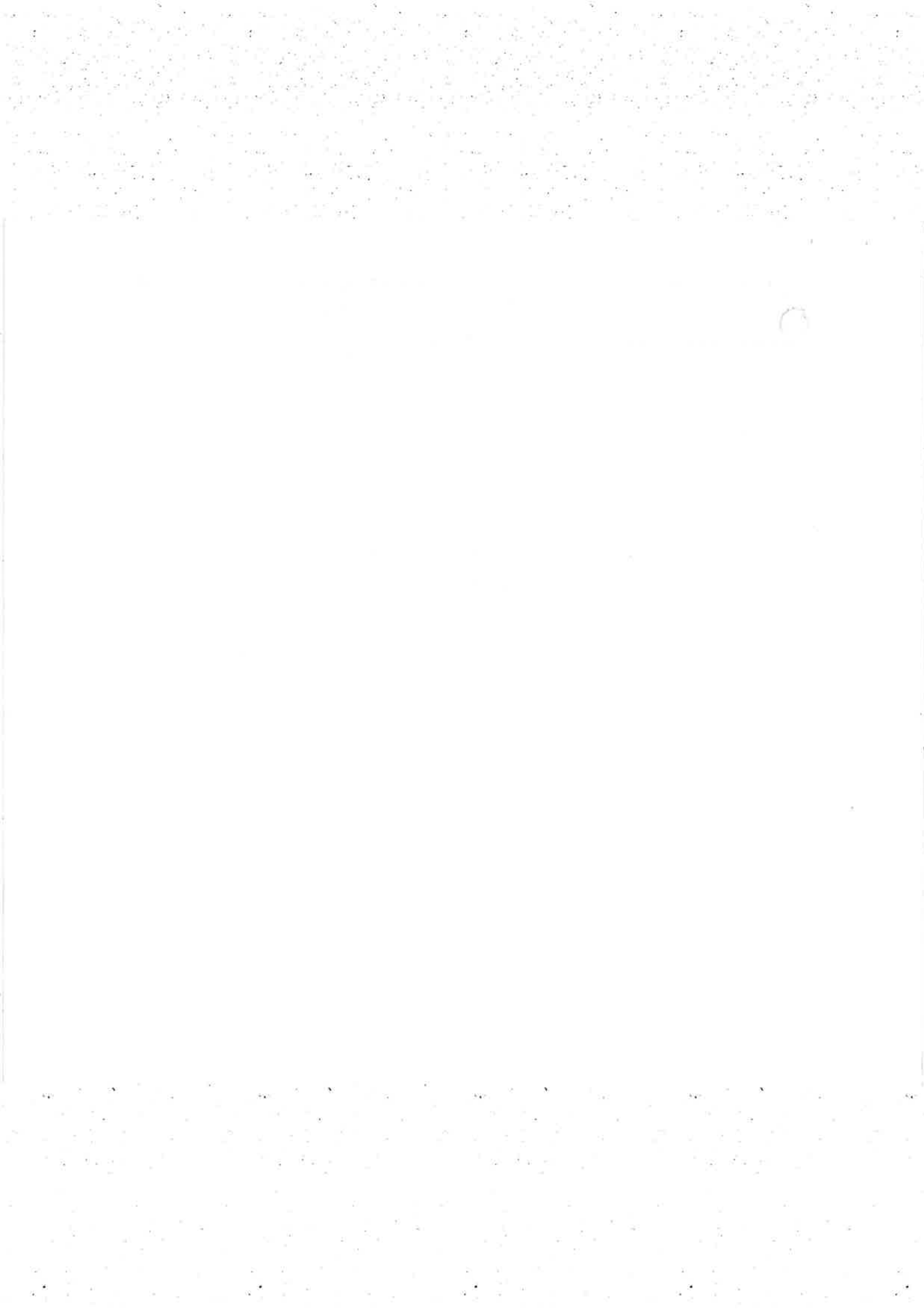
28th May 1982

*Dear Geoffrey,*

I thought that you would be interested to see the enclosed copy of a letter which I have sent to the Prime Minister concerning the OECD Consensus on Export Credit Interest Rates. I understand that this will be under discussion at the forthcoming Versailles Summit meeting.

*Yours sincerely,  
Campbell*

The Rt. Hon. Sir Geoffrey Howe, QC, MP,  
Chancellor of the Exchequer,  
HM Treasury,  
Parliament Street,  
London, SW1P 3AG



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From  
Sir Campbell Fraser  
President



COPY

28 May 1982

Dear Prime Minister

In the midst of your other preoccupations, I am loath to bother you with a technical although important matter which is likely to arise at the Versailles Summit meeting.

I am also sorry that my first letter to you after assuming office should be on a specialised theme, but I am writing on the advice of your office, with copies to the other Ministers involved, so that you may at least be aware of CBI views when you are at the Summit meeting.

The matter concerns the future of the OECD Consensus on Export Credit Interest Rates. Any decision taken at Versailles on the future of this Agreement will have significant repercussions for many of our active exporters and I therefore wanted you to be aware of the strength of feeling on this amongst our membership.

Being very much conscious of the personal interest you take in overseas trade and the contribution you have made to some of our recent successes in project business, I hope that you will be able to ensure that any changes in the Consensus will not hinder British efforts to continue winning major contracts.

The CBI has traditionally supported the maintenance of the Consensus Agreement as a valuable means of avoiding wasteful and unnecessary competition in export credit terms and this continues to be our policy. However, as in the national context, we are sure that the key to a lasting and truly effective reduction of subsidies, as opposed to merely containing them, must lie in the reduction of national interest rates. To substantially increase agreed minimum rates of interest under the Consensus in the way the US negotiators are currently demanding would fail to deal with the roots of the problem while seriously diminishing our exporters' competitiveness in world markets. Another drawback would be that the international market for capital goods, on which many jobs in Britain depend, would be diminished.

/ ...



For these reasons I would urge that any increases which are agreed should be moderate and carefully staged. I also trust that it will prove possible for you to oppose any further enhancement of special privileges granted under the Agreement. Those that exist already place our companies at a disadvantage vis-à-vis many of their most important overseas competitors. There should be a single standard for all OECD Member States without exception.

The CBI will be grateful for whatever you can do to safeguard our national trading prospects in this way.

Yours sincerely,

Original signed by  
The President  
SIR CAMPBELL FRASER

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister,  
10 Downing Street,  
London, SW 1.



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From  
 Sir Campbell Fraser  
 President



REC	- 2 JUN 1982	MS (A)
ACTION	Mr Dixon ✓ MZ/S	Sir D L AM Sir G. Gordon
COPIES TO	GT	MS (A) F
	BT	W. Quinn
	BT	W. Quinn
	MS (C)	W. Quinn

1st June 1982

Dear Private Secretary,

Sir Campbell Fraser has asked me to send a copy of a letter he has written to the Secretary of State for Trade. He would be glad if you would be kind enough to give this to the Chancellor of the Exchequer.

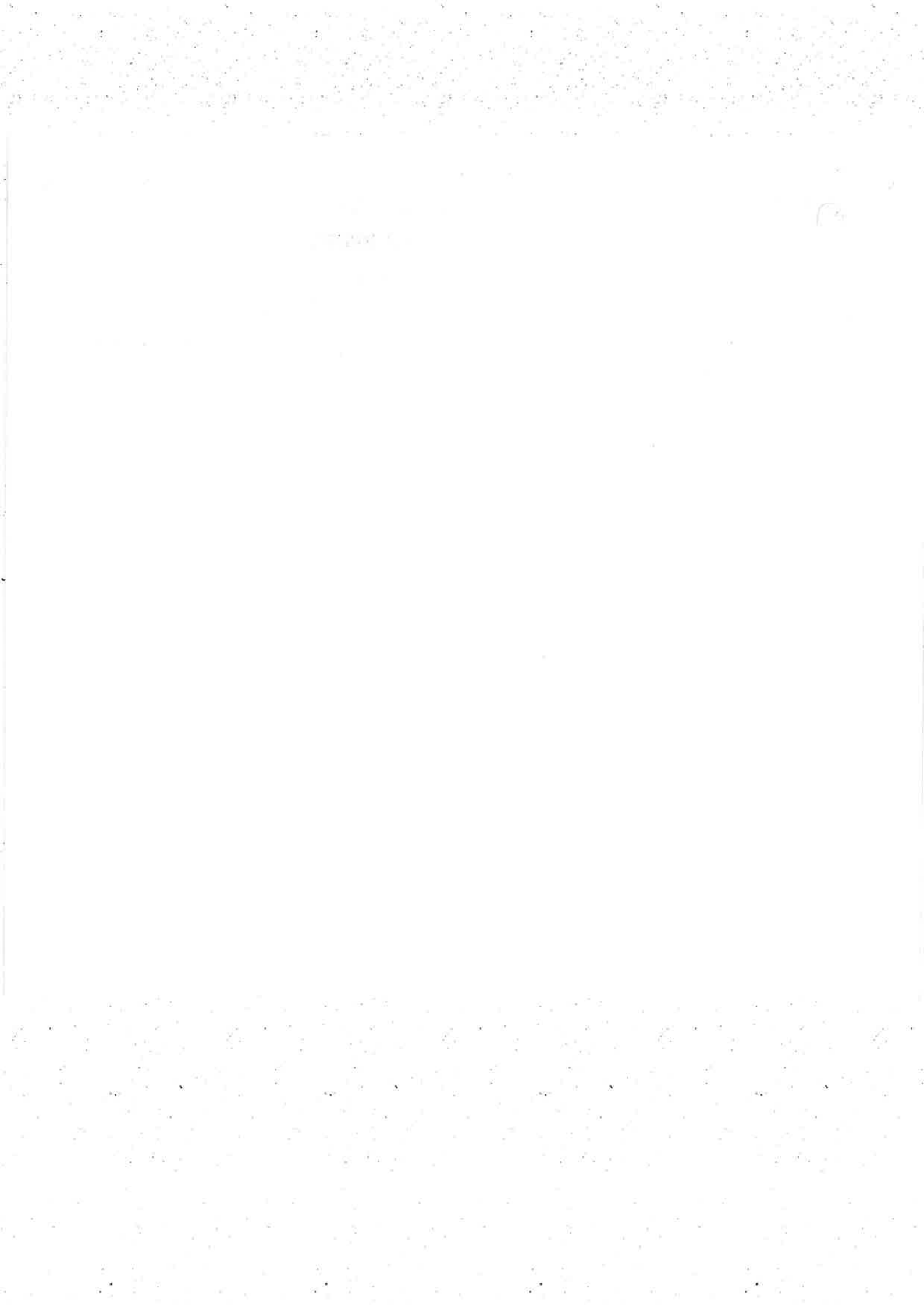
With many thanks,

Yours sincerely,

*Beatrice Tolpin*

Personal Assistant to  
 The President

Private Secretary to  
 The Rt. Hon. Sir Geoffrey Howe, QC, MP,  
 Chancellor of the Exchequer,  
 HM Treasury  
 Parliament Street,  
 London, SW1P 3AG





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From  
Sir Campbell Fraser  
President



COPY

28 May 1982

*Dear Lord Cockfield,*

The CBI Council strongly endorsed the enclosed paper on economic relations with Japan at its meeting last Wednesday. CBI members are still seriously concerned at Japanese industrial and commercial policies which were little changed by the concessions offered by Tokyo earlier in the year. Although we have not yet been able to examine the latest set of measures in detail, we can say that their effect will have to be of quite another magnitude from that of the first batch, if they are to make more than the smallest dent in the problem.

We were very gratified to read your speech to the Jiji Press on 24 May. We strongly support the tenor of your remarks and hope that our paper will in turn commend itself to you.

No doubt leaders at the Western economic summit in Versailles will be mainly concerned with the broad thrust of economic, industrial and commercial policies, but we trust that opportunities will be found then or later for HMG and the European Community to press some of our specific proposals on the Japanese. We shall certainly be doing what we can to push them at industrial level.

I know that our offices are in contact about a meeting at a convenient early date, and we might be able to discuss then some of the elements of this paper, among other subjects.

*Yours sincerely  
Campbell Fraser*

The Rt Hon Lord Cockfield  
Secretary of State for Trade  
Department of Trade  
1 Victoria Street  
London  
SW1H 0ET

Copies to: The Rt Hon Sir Geoffrey Howe QC MP  
The Rt Hon Francis Pym MP  
The Rt Hon Patrick Jenkin MP



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C 32 82

TO THE COUNCIL FOR MEETING ON 26 MAY 1982

ECONOMIC RELATIONS WITH JAPAN

INTRODUCTION

- 1 Because of mounting concern in industry, in May 1981 Council thoroughly debated the issues of the UK's economic relations with Japan and approved a line of CBI policy and measures to promote it.
- 2 This paper:
  - a reviews developments over the past year (paras 3-15);
  - b considers the options now open for further action (paras 16-22);
  - c recommends an up-dated policy line (para 23);
  - d invites Council to endorse this policy line and specific proposals to promote it (paras 24-26).

THE CONTINUING PROBLEM

- 3 The trade figures alone suggest that the condition of our relations with Japan is at least as serious as a year ago. Both the UK's and the EEC's trade deficit have continued to grow; the only argument is about the size of the increase. Because of the Civil Service dispute, the UK trade accounts for the whole of 1981 are not yet to hand, but according to Japanese statistics the UK's trade imbalance grew by 13.1 per cent to reach US\$2.07bn (cf US\$1.83bn in 1980).
- 4 UK exports to Japan apparently increased by 39 per cent last year. However, informed commentators assert that this figure, and hence the one for the size of the deficit, is grossly distorted by exceptional items. Japanese purchases of non-monetary gold from London (US\$965m) and UK vessels sent to Japan for refit - counted at their full value and as a UK export (US\$297m) - ought to be removed from the figures for UK sales. With this correction our exports fell by 16.5 per cent and the trade deficit grew by 52 per cent. At the same time Japanese exports to the UK grew by 26 per cent, faster than to any other EEC Member State.
- 5 The CBI has not criticized the size and trend of the UK's deficit mainly for its financial effects: in a multilateral payments system nations ought not to seek to balance their trade bilaterally. The UK with a current account surplus of about £6bn is at present ill-placed to argue otherwise. However we take the deficit as a reflection of the inequity in our trading relations with Japan, whose commercial practices on export markets are exceedingly disruptive in some sectors and whose home market remains difficult and costly to penetrate. Looking beyond

the figures we therefore review below the current policies of Japanese Government and industry and the action taken by HMG and the European Community to seek changes in them, measured against the proposals Council endorsed in May last year.

#### THE COURSE WE HAVE STEERED

- 6 Council accepted that the long-run effectiveness of our pressure on Japan for a more equal trade relationship with the UK depended on our mobilising the power of the whole Community market. Until we achieved such a position of strength in bargaining with Japan, the CBI was to continue active bilateral contacts with Tokyo through all channels, and HMG should keep our residual national powers in good repair for use in any emergency.
- 7 With a strong personal lead from the President, the CBI has vigorously put its case to Japanese Government and industry over the last year - most recently during a staff visit to Tokyo in early March, when the whole range of our complaints and demands for action were voiced. In the UK we have had considerable success at Ministerial and official level in getting our analysis of relations with Japan accepted and our detailed proposals for remedies adopted: and the CBI's public statements have markedly increased public and media awareness of the magnitude of the problem of our unbalanced trade with Japan.
- 8 In the EEC we have made a major effort in UNICE to achieve a strong common industrial posture. Amongst the industrial federations of the Ten there is a clear identity of view on the inequity of the trading relationship with Japan and on the measures needed to open up her market; but differences of opinion remain on the need and means for moderating Japanese exports to the Member States. There has also been a major shift of opinion in the European Commission and Council of Ministers in favour of sustaining heavy pressure on Tokyo, and a growing readiness to take practical measures in support of that policy. The prospects of presenting a common European front to Japan are therefore much more encouraging than they were 12 months ago.

#### RESULTS SO FAR

- 9 Council recommended in May 1981 that if Japan did not make an early commitment to radical alteration in her commercial policy, HMG should adopt a specific programme of action. This is summarised below with a brief account of what has been achieved.
- 10 Proposal: The EEC should ask Japan to accept a target for reducing her trade surplus with the UK (and EEC): UK sales to Japan should cover at least 60 per cent of our imports by 1985, compared with 35 per cent in 1980.
- Response: HMG now agrees that Japan must curb and then reduce her trade surplus but doubts whether a specific target is right in principle or feasible. Most of the EEC Member States and industrial federations take a similar view.
- 11 Proposal: If Japan should refuse such a target, the EEC should challenge her trade policy and practices within the General Agreement on Tariffs and Trade (GATT).

Response: EEC has decided to take Japan to GATT under Article 23, which provides for one member to arraign another for policies or measures which nullify or impair the benefits which should accrue from liberal trading rules.

12 Proposal: The UK bilaterally and through the EEC should continue its efforts to open up the Japanese market by:

- a pressing for the elimination of Japanese tariff and non-tariff barriers;
- b calling for more imports by Japanese companies and the public sector;
- c urging Japanese officials and industrial leaders positively to encourage more foreign investment in their country.

Response:

- a After vigorous internal political debate, the Japanese Government has accelerated by two years tariff cuts on some 1600 items agreed in the Tokyo Round. On average the concession amounts to about half a percentage point off duty rates. The EEC has urged Japan to go beyond the cuts agreed in the Tokyo Round and include items on which no reductions were negotiated - so far without result. For non-tariff barriers Japan has said it will take 67 measures to ease obstacles to imports. It is difficult to make a conclusive assessment of these concessions yet, though they may be useful for items like pharmaceuticals and agro-chemicals. However, both HMG and the European Commission have publicly said that they are no more than a step in the right direction.
- b The creation of an Office of the Trade Ombudsman (OTO) should in principle allow foreign exporters and their agents to seek remedies for any administrative obstacles to sales. It is essential that they should now use this machinery. Failure to do so will allow the Japanese to say that administrative barriers to imports are evidently no longer a problem.
- c Japanese industry and the public sector have not generally responded to the call to buy more manufactured imports. However, US \$500m was made available by the Japanese Eximbank to finance "emergency imports"; and the Commission is still talking to the Japanese Government about easing the conditions for EEC suppliers who tender for public contracts.
- d Japanese political and industrial leaders have not made a public commitment to encourage more foreign investment in their market, by going beyond the formal measures of liberalisation and effectively enabling foreign companies to take over domestic concerns. In particular the EEC believes that conditions for foreign banks and insurance companies should be improved. Tokyo holds that foreign banks are in principle treated the same as domestic ones, but the EEC believes the practice is otherwise, and continues to press the Japanese authorities for changes to the system.

13 Proposal: Pressure should be exerted on the Japanese to give practical effect to their wish for greater industrial cooperation with the EEC through technological exchange and joint ventures in third markets.

Response: The Department of Industry has been very active in promoting industrial cooperation. Japanese Government and industry are also promoting this concept and spreading information designed to further it. The CBI has specifically asked Tokyo to make domestic yen available to British exporters for on-lending as credits to third-country customers. We await a reply.

14 Proposal: HMG should develop a clear national policy on inward investment from Japan and work for an EEC policy on it. Such investment should be welcomed if it measures up to these yardsticks (or most of them): it should produce a net increase in jobs, use high local content, create substantial exports, and introduce new technology. Performance should be thoroughly monitored.

Response: HMG now accepts that all investment from Japan should not be given an unqualified welcome and that guidance on the lines indicated above should be issued to potential investors. It sees practical difficulties, however, in securing full compliance with undertakings.

15 Proposal: HMG should work for a common EEC import regime towards Japan, and the Community should develop an early warning system (EWS) to identify new products from Japan which threaten the industrial base of the Member States and thus should be restrained. With strong support from member trade associations, the CBI submitted an outline for an EWS to HMG, UNICE and the Commission, which provided the basis of discussion.

Response:

- a A modest start has been made on the difficult process of achieving a common import regime. The Commission now speaks for the EEC in calling for the moderation of Japanese exports of some sensitive products; and EEC-wide monitoring of certain imports has been established. The EEC is also looking at the relationship between industrial restructuring and trade policy measures, which will involve consideration of EEC-wide restrictions on items now subject to national controls.
- b An EWS could form a part of the apparatus; serve as a trigger for Government and EEC action; and help to alert sectoral Trade Associations to disturbing trends. Our proposals have aroused interest and got some backing.
- c Currently Japanese exports of motor cars, light commercial vehicles, some colour and monochrome TV sets, music centres, and certain types of machine tools are subject to restraint on the UK market. HMG accepts that national restraints on Japanese exports cannot be given up until the EEC offers something better. Meanwhile, the residual national powers available to HMG under the Anglo-Japanese Commercial Treaty for use in an emergency against sensitive imports in principle remain open to us.

#### OPTIONS FOR THE FUTURE

16 Paras 10-15 of this paper show that a number of the measures recommended

by Council a year ago have been taken or agreed upon by the Japanese or by HMG/the EEC: but paras 3 and 4 show that the balance of British and EEC trade with Japan is still deteriorating. Some further increase of the trade deficit was no doubt already in the pipeline; but there is still no sign of a reversal in the trend, and the limited successes achieved have not even kept pace with the growth of the imbalance. This is the context in which the CBI now has to consider its options.

- 17 It is clear that the ultimate response to the Japanese challenge is to match their industrial competitiveness and then sell more of our goods in competition with theirs, both in a Japanese market to which we have proper access and worldwide. This is a necessary element in any CBI policy; but it is not in itself an adequate prescription for dealing with the problem which we face, because in many sectors full and fair competitiveness with Japan is unattainable in the short term and access to the Japanese market is still inhibited.
- 18 In particular the steps so far taken by Japan to open up her market have not been on a scale sufficient to show an early and substantial effect. This is not only the view of the UK and EEC as a whole: it is shared by the United States, which in March demanded further concessions from Japan within three months, a demand to which the Japanese Government has not felt able to respond.
- 19 Japan claims she has already made a strong effort, at substantial domestic political cost, to meet the complaints of her trading partners, and at present seems either unable or unwilling to do much more. But the measures she has so far taken fall far short of the radical change in her trading policies which the EEC and US believe to be necessary to render the trade relationship acceptable. Moreover, the yen remains seriously undervalued.
- 20 Even to meet such a serious situation as this, the CBI has always rejected generalised import restrictions as being against the interest of UK industry and the economy as a whole. However, this in no way precludes CBI support for selective import restrictions to help particular sectors of industry in serious difficulty. There is therefore no question of the CBI ceasing to support those sectors which have negotiated export restraint agreements with the Japanese, or others which may come under similar threat; and we approve of the continuance, and where necessary the expansion of the EEC's surveillance measures. Where Japan fails to restrain disruptive exports or applies her existing restraints inadequately, HMG should have recourse to selective import controls, preferably on an EEC-wide basis.
- 21 In order to convince Japan that her present industrial and commercial policies remain unacceptable to her major trading partners, and further concessions by her are essential, it will be necessary for HMG and the European Community to exert the maximum pressure by all possible means short of provoking a complete breakdown in trade relations.
- 22 The essence of this approach must be to multiply the specific demands we make upon the Japanese Government, and through the alliances we now have in Europe, and should try to forge with the US, to get them adopted as common demands of all these countries.

CONCLUSIONS AND RECOMMENDATIONS

- 23 The Overseas Committee concludes that a policy based on the following elements has the best chance of success and therefore recommends it to Council:
- a the early detection and containment of disruptive Japanese exports to allow the UK sectors affected time to build their competitiveness;
  - b pressure on Japan to adopt a more expansionary domestic economic policy to reduce the drive for export-led growth and open up more opportunities for us in the Japanese market;
  - c sustained effort to chip away at Japan's barriers to imports and foreign investment;
  - d the encouragement of Japanese investment in the UK, preferably in joint ventures with British companies, provided it matches up to the criteria set out in para 14 above;

All this would be best accomplished by means of mustering support for it within the European Community, though in the last resort we must rely on our own national efforts.

SPECIFIC PROPOSALSRestraint of Japanese Exports

- 24
- a Japan should continue to internationalise her currency (and expose her domestic interest rates to external influences) and thus allow it better to reflect her competitive strength. An uplift of 20-25 per cent to the current yen rate is indicated;
  - b introduction at national and preferably EEC level of an early warning system to detect new surges in the flow of exports from Japan, so that appropriate steps can be taken by industry and Government to meet a developing threat before a particular market sector is irretrievably damaged;
  - c support by HMG for existing voluntary restraint agreements as long as needed for industries to improve their business performance. Government should be ready to support VRAs in new sectors which can show they are suffering as a result of deep Japanese penetration. Where voluntary restraint does not achieve the desired result, other measures may be necessary;
  - d pursuit of a common import regime, providing it can deliver the degree of security offered by existing national restrictions;
  - e continued development by HMG of its policy towards Japanese investment in the UK, in order to encourage performance by Japanese companies here which meets the criteria set out earlier in this paper.

Access to the Japanese Market

- 25 As an immediate follow-up to the measures recently announced by the Japanese Government, HMG should by all available means press for Japan to take the following further steps:



- a abolish all quotas on imports within two years;
- b implement on 1 January 1983 in full the tariff cuts agreed in the Tokyo Round;
- c unilaterally go beyond Tokyo Round concessions to reduce the peaks in Japan's tariff to EEC levels;
- d given the need for positive discrimination in favour of manufactured imports, allocate 50 per cent of Eximbank credits to the funding of imports;
- e create an import market development regime under which tax will be deferred for five years on 20 per cent of profits earned from imports;
- f cease administrative guidance to supermarket chains (which are open to imports) to constrain the growth of their outlets;
- g instruct the Japanese Office of Fair Trading to investigate the domination of certain sectors of the wholesale and retail distribution system by Japanese manufacturers;
- h instruct all public, local government and para-statal purchasing agencies to give full and fair consideration to foreign bids;
- i lay down that each purchasing agency shall publish the number of foreign bids received and their success rate;
- j allow foreign suppliers 60 days, rather than the 30 days stipulated in the GATT Government Procurement Code, to respond to public calls for tender, in recognition of the obstacles caused by the use of the Japanese language;
- k open up sales opportunities for foreign suppliers in the defence and aerospace fields;
- l abolish the restrictions on sales of foreign tobacco products in Japan imposed by the public monopoly;
- m publish twice a year a report on the outcome of referrals to the Office of the Trade Ombudsman to monitor progress in the elimination of non-tariff barriers; and include complaints about discrimination against foreign controlled enterprises established in Japan in the mandate of the OTO;
- n extend to UK banks and insurance companies the same conditions which their Japanese counterparts enjoy in the UK;
- o remove all remaining legal and administrative obstacles to the acquisition by foreign companies of Japanese firms except in industries vital to defence and national security.

#### Cooperation in Third Markets

- 26 HMG should continue its efforts to secure access to domestic yen for on-lending by British exporters in third markets. This would assist cooperation with Japanese companies.



Confederation of British Industry  
Centre Point  
03 New Oxford Street  
London WC1A 1DU  
Telephone 01-379 7400  
Telex 21332  
Telegrams Cobustry London WC1

From  
Sir Campbell Fraser  
President

PWF

**CBI**  
CONFEDERATION OF  
BRITISH INDUSTRY

EXCHEQUER	
REC	2 JUN 1982
ACTION	Mr Lavelle s.k.
COPIES TO	CDI, FST, EST, MIT, MTR, June 1982 Sir A Whar, Sir K Condon, Mr Ryan, Mr Little, Mrs Hedley-Miller, Mr Dixon, Mr Cary, Mr Bottrill, Mr Manki, Mr Ridley

Dear Geoffrey,

I am writing to you on the eve of the Versailles Summit to underline two major concerns of the CBI. Although I know that you are aware of these points, it may be helpful for me to put them in specific terms.

The meeting takes place at a time when the business situation both at home and abroad is more depressed than had been forecast. Our latest assessment, which will be published next Monday, indicates that export demand is less strong than we expected. This is confirmed by our last quarterly Industrial Trends Survey, which for the first time since January 1981 showed falling optimism about export prospects, and by our latest information about export order-books.

The first point I would like to stress, therefore, is that in your discussion of international economic issues at Versailles, we hope you will give a very high priority to ensuring that a recovery in the world economy is not held back by excessively high interest rates. In this context, as you know, we believe that there is a need for bold action by those present at the Summit, particularly the UK, to reduce interest rates.

(below)

My second concern is the need to achieve a fairer balance of trade with Japan, on which I have just sent you the paper approved last week by CBI Council. That paper showed a continuing increase in Japan's surpluses with the UK and with the EEC as a whole. We have not yet had a chance to evaluate in detail the second package of concessions just announced by Tokyo, but we doubt whether the first and second packages taken together will prove to match the scale of the problem. Hence the strong support given by our Council to the specific proposals in the paper for reducing the surpluses.

...../



We hope the Government will feel able to press these proposals vigorously on the Japanese. One aspect which you may have the opportunity to press at Versailles is the need for Japan to internationalise the yen, and thus allow it to reflect more accurately the competitive power of the Japanese economy. This is a theme which finds a ready echo in US industry, and doubtless in the American Administration as well.

(further below)  
Another Japanese angle which may arise at Versailles is the OECD Consensus on Export Credit. You will be aware of CBI views from my letter of 28 May to the Prime Minister which I copied to you: so I will merely mention that our concern at the level of export credit rates and at Japanese trading practices meet in that OECD negotiation. I hope you will take any opening that presents itself to emphasise that any increase agreed in the Consensus rate should be moderate and carefully staged, and that the special privileges for the Japanese Exim Bank should not be further enhanced.

I hope these notes for Versailles may be useful, even in the midst of your other preoccupations. I am copying this letter to the Private Secretary at No. 10 to keep him informed and we also intend to release it to the Press.

*Yours sincerely,  
Campbell.*

The Rt. Hon. Sir Geoffrey Howe, QC, MP,  
Chancellor of the Exchequer,  
HM Treasury,  
Parliament Street,  
London, SW1P 3AG

Copy to : A.J. Coles Esq.



From the Private Secretary

10 DOWNING STREET

CH/EXCHEQUER	
REC	2 JUN 1982
ACTION	Mr Mawhin ✓ M3/6
COPIES TO	CST, FST, EST, MSTC, MSTR, Sir A Warr, Sir K Conzen, Mr Little, Mr Carey, Mr Dixon, Mr Ridley

2 June 1982

I enclose a copy of a letter which the Prime Minister has received from the President of the Confederation of British Industry about the discussion which is likely to arise at the Versailles Summit concerning the future of the OECD Consensus on Export Credit Interest Rates.

If you consider that the contents of this letter require any updating of the Prime Minister's briefs for Versailles, I should be grateful if you could arrange, in conjunction with the Cabinet Office, to let me have a supplementary brief by close of play on 3 June.

I should also be grateful if, in due course, you could provide a draft reply for signature by the Prime Minister to Sir Campbell Fraser's letter.

I am copying this letter and enclosure to Francis Richards (Foreign and Commonwealth Office), John Kerr (HM Treasury) and David Wright (Cabinet Office).

John Rhodes, Esq.,  
Department of Trade.





28 May 1964

In the midst of your other preoccupations, I am loath to bother you with a technical although important matter which is likely to arise at the Versailles Summit meeting.

I am also sorry that my first letter to you after assuming office should be on a specialised theme, but I am writing on the advice of your office, with copies to the other Ministers involved, so that you may at least be aware of CBI views when you are at the Summit meeting.

The matter concerns the future of the OECD Consensus on Export Credit Interest Rates. Any decision taken at Versailles on the future of this Agreement will have significant repercussions for many of our active exporters and I therefore wanted you to be aware of the strength of feeling on this amongst our membership.

Being very much conscious of the personal interest you take in overseas trade and the contribution you have made to some of our recent successes in project business, I hope that you will be able to ensure that any changes in the Consensus will not hinder British efforts to continue winning major contracts.

The CBI has traditionally supported the maintenance of the Consensus Agreement as a valuable means of avoiding wasteful and unnecessary competition in export credit terms and this continues to be our policy. However, as in the national context, we are sure that the key to a lasting and truly effective reduction of subsidies, as opposed to merely containing them, must lie in the reduction of national interest rates. To substantially increase agreed minimum rates of interest under the Consensus in the way the US negotiators are currently demanding would fail to deal with the roots of the problem while seriously diminishing our exporters' competitiveness in world markets. Another drawback would be that the international market for capital goods, on which many jobs in Britain depend, would be diminished.

/ ...



For these reasons I would urge that any increases which are agreed should be moderate and carefully staged. I also trust that it will prove possible for you to oppose any further enhancement of special privileges granted under the Agreement. Those that exist already place our companies at a disadvantage vis-à-vis many of their most important overseas competitors. There should be a single standard for all OECD Member States without exception.

The CBI will be grateful for whatever you can do to safeguard our national trading prospects in this way.

*Yours sincerely,  
Campbell Fraser*

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister,  
10 Downing Street,  
London, SW 1.



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*(Handwritten initials)*

FROM: A BOTTRILL  
DATE: 3 June 1982

PS/CHANCELLOR

cc Sir K Couzens

MEETING WITH MR SHINTARO ABE AT VERSAILLES

Mr Abe, Japanese Minister for Trade and Industry, has asked to meet the Chancellor at Versailles. The attached telegram from the Tokyo embassy describes Mr Abe's background. The Chancellor will be particularly interested in Mr Abe's support for Mr Komoto's policies to expand Japan's domestic economy. His request to see the Chancellor may be evidence that our macroeconomic arguments are finding at least some sympathetic hearers in Tokyo.

2. The Chancellor is familiar with the arguments both on Japan's macro-economic policies and the need to open up the Japanese economy. He may be interested, however, to see the attached cutting from the Financial Times correspondent in Tokyo about the intensity of internal debate over economic policy in Japan. The Chancellor's meeting with Mr Abe could be a further chance to push this in a helpful direction.

3. Mr Abe may also seek credit for Japan's latest import relaxations. Analysis of this is not yet complete but the effects seem likely to be small. The Chancellor has already seen a copy of Miss Sinclair's note on them, but I attach another for ease of reference.

*in Reading folder,  
with full list, which  
I'm sure you needn't  
take to Paris!*

*A Bottrill*

A BOTTRILL

CONFIDENTIAL



A3

→ Mr Bottrell cc PS/Sir K Couzens  
We spoke. You agreed to follow  
up with FCO.

Miss Rutter,  
PS/Chancellor of the  
Exchequer,  
HM Treasury.

JKR  
3/6

GRS 220

UNCLASSIFIED

FM TOKYO 010830Z JUN 82

TO PRIORITY F C O

TELEGRAM NUMBER 270 OF 01/6/82

FEJ 090/2  
- 2 JUN 1982

MEETING WITH CHANCELLOR OF THE EXCHEQUER.

1. SEKI, DIRECTOR OF THE WEST EUROPE OFFICE IN MITI, TELLS US THAT HIS MINISTER, SHINTARO ABE, WHO WILL BE ACCOMPANYING PRIME MINISTER SUZUKI TO THE VERSAILLES SUMMIT MEETING WOULD LIKE TO HAVE A BILATERAL MEETING WITH THE CHANCELLOR OF THE EXCHEQUER. SEKI WILL BE GETTING IN TOUCH WITH THE CHANCELLOR'S PRIVATE SECRETARY AT THE SUMMIT TO SEE IF THERE IS A CONVENIENT TIME.

2. I RECOMMEND THAT, IF IT CAN BE FITTED INTO HIS PROGRAMME, THE CHANCELLOR SHOULD AGREE TO SEE ABE WHO HOLDS ONE OF THE MOST IMPORTANT ECONOMIC PORTFOLIOS IN THE GOVERNMENT. AS THE NO 2 POLITICIAN IN THE FUKUDA FACTION, HE IS ALSO A CONSIDERABLE POLITICAL FIGURE INSIDE THE LDP. HIS INFLUENCE IN THE CURRENT INTERNAL LDP DEBATE ON MACROECONOMIC POLICY HAS GENERALLY BEEN IN SUPPORT OF THE EXPANSIONIST VIEWS OF KOMOTO, DIRECTOR OF THE ECONOMIC PLANNING AGENCY, WHO FAVOURS A STIMULATORY PACKAGE LATER IN THE YEAR TO BOOST DOMESTIC DEMAND. THESE VIEWS ARE MEETING CONSIDERABLE OPPOSITION FROM THE MINISTRY OF FINANCE, BANK OF JAPAN AND KEIDANREN.

3. PLEASE ADVANCE TO PS/CHANCELLOR OF EXCHEQUER.

CORTAZZI  
MINIMAL  
FED  
ERD  
TRED





# Japan fears Versailles criticism over weak yen

BY CHARLES SMITH, FAR EAST EDITOR IN TOKYO

JAPANESE officials are afraid that the sudden weakening of the yen during the past few days could result in Japan finding itself the centre of critical attention at the Versailles economic summit this week, despite the Government's efforts to defuse criticism with its recent trade liberalisation measures.

The yen has lost more than 10 points against the dollar during the past two weeks and would almost certainly have fallen further but for heavy intervention by the Bank of Japan.

In Tokyo yesterday the closing rate against the dollar was

Y244.65—a drop of three points on the day. Market turnover has been at record, or near record, levels for the past two days and intervention by the Bank of Japan may have totalled around \$200m a day.

The governor of the Bank of Japan, Mr Haruo Maekawa, told foreign journalists early this week that the yen's weakness was due entirely to the external factor of U.S. interest rates (which have begun rising again following the failure of talks between the Administration and Congress on ways to eliminate the U.S. budget deficit).

Japanese officials, however, are well aware that there are

two sides to the interest rate argument. Japan's rates are the lowest for any major country and arguably deserve a share of the blame for the outflow of long-term capital which has been the immediate cause of the falling exchange rate.

Officials in Tokyo have repeatedly said that they will take no action to widen the present gap between Japanese and U.S. interest rates, but they have also argued that in the country's present economic situation any rise in interest rates is unthinkable. The reason for this is that while interest rates have been static for some time, real interest rates (the difference

between nominal rates and inflation) have risen sharply with the fading of inflationary pressures.

Long-term real interest rates which rose from 1.5 per cent in March last year to 4.8 per cent early this year are said to have added to the financial burdens of industry at a time of domestic recession and to have become a difficult problem for small companies.

Because of the burden of real interest rates—and because Japan believes it is obliged to follow a rigid fiscal policy to restructure the budget, the Bank of Japan sees no option but to keep interest rates where

they are for the time being.

Some private critics of the Government's policies believe, however, that the central bank could be forced to raise interest rates even without pressure from outside. This could happen if the Japanese capital market proves unable to support the very heavy burden of Government bond issues that will be made necessary by recent short-falls in national tax revenue.

Higher interest rates together with continuing—or even increased—amounts of deficit financing in the form of bonds issues would represent a radical change from the economic policy the Government is try-

ing to follow at present, but it could conceivably become unavoidable.

Japanese officials refer to a shift away from the current low interest rates and tight fiscal strategy as a change of Japan's economic "policy mix." They fear that pressures for such a change might be repeated at Versailles and that they could become increasingly hard to resist.

A radical change of policy might have political as well as economic consequences for Japan, since several key figures in the Government are deeply committed to the current strategy.



4/3

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FROM: MISS C SINCLAIR  
DATE: 2 JUNE 1982

- 1. MR SLATER
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Sir K Couzens
- Mr Littler
- Mr Carey
- Mr Bottrill
- Mr Mortimer
- 1. Mr Ellie
- 2. ERD-X

JAPANESE IMPORT MEASURES

- 1. You wished to see the list of Japanese import measures announced on 27 May, and asked for analysis of their likely impact on UK exports to Japan.
- 2. I attach the list, together with the accompanying statements made by the Japanese Government. A quick glance will show you that they are detailed and lengthy. There are some welcome features eg the offer to examine problems encountered in the distribution system, including the strict application of the anti-trust law to practices that restrict competition.
- 3. On the other hand, the proposed tariff reductions are not likely to be of much help to the UK. They do not include whisky or footwear. Although they do include confectionery and biscuits, the actual reductions proposed are minimal (this is not evident from the attached list, but we have subsequently had details from Tokyo). All the Japanese are proposing to do is to accelerate the MPN tariff reductions a little more (you will recall that the first acceleration came into effect on 1 April 1982.) The effect is to bring forward to 1 April 1983 the rates which would otherwise have been reached only on 1 April 1985;

	<u>1982</u>	<u>1983</u>
<u>Chocolate</u>		
<u>Import tariff</u>	31.9%	30%
<u>Sweetened biscuits</u>		
<u>Import tariff</u>	36.3%	34%

- 4. The Department of Trade's initial reaction is set out in the attached additional brief prepared for Versailles (copy attached for ease of reference). This says that



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package has been warmly welcomed by the US Trade Representative. It has clearly been designed to placate the US eg the references to wild rice, metal baseball bats and negotiations between the Japan Bar Association and its US counterpart on the activities of foreign lawyers in Japan.

5. We would agree with the Department of Trade that it is impossible to say at this stage how much effect the package is likely to have on UK exports to Japan. This is not so much because the measures are detailed, and need time to analyse, as because the non-tariff measures may prove more significant. But here everything depends on the way in which they are implemented. You will be aware that the Japanese themselves consider that the most important element in their last package of import measures was the establishment of an "ombudsman" committee for foreign trade. To date no UK company has brought a complaint to the "ombudsman". That is not to say that in time UK companies may not benefit from the action taken as a result of complaints brought by others.

6. The package represents official Japanese acknowledgment that they must be seen to be doing something to encourage imports. It looks more promising than its predecessor. But we would advise you to give it no more than a guarded, low key welcome, emphasizing that the proof of the pudding will lie in the subsequent statistics for UK exports to Japan.



CAROLYN SINCLAIR

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UNCLASSIFIED  
 FM UKDEL VERSAILLES 05 18 10Z JUNE  
 TO IMMEDIATE FCO  
 TELEGRAM NUMBER 11 OF 6 JUNE  
 INFO IMMEDIATE BONN (FOR PS/MINISTER OF TRADE).

(pmp)

SECOND PERM SEC'S OFFICE  
 OVERSEAS FINANCE SECTION

VERSAILLES ECONOMIC SUMMIT.  
 1. FOLLOWING IS TEXT OF SUMMIT DECLARATION  
 BEGINS:

DECLARATION OF THE SEVEN HEADS OF STATE AND GOVERNMENT  
 AND REPRESENTATIVES OF THE EUROPEAN COMMUNITIES.  
 IN THE COURSE OF OUR MEETING AT VERSAILLES WE HAVE DEEPEENED  
 OUR MUTUAL UNDERSTANDING OF THE GRAVITY OF THE WORLD ECONOMIC  
 SITUATION, AND WE HAVE AGREED ON A NUMBER OF OBJECTIVES FOR URGENT  
 ACTION WITH A VIEW TO IMPROVING IT.

WE AFFIRM THAT THE IMPROVEMENT OF THE PRESENT SITUATION, BY A  
 FURTHER REDUCTION OF INFLATION AND BY A RETURN TO STEADY GROWTH AND  
 HIGHER LEVELS OF EMPLOYMENT, WILL STRENGTHEN OUR JOINT CAPACITY TO  
 SAFEGUARD OUR SECURITY TO MAINTAIN CONFIDENCE IN THE DEMOCRATIC  
 VALUES THAT WE SHARE, AND TO PRESERVE THE CULTURAL HERITAGE OF OUR  
 PEOPLES IN ALL THEIR DIVERSITY. FULL EMPLOYMENT PRICE STABILITY AND  
 BALANCED GROWTH ARE AMBITIOUS OBJECTIVES. THEY ARE ATTAINABLE  
 IN THE COMING YEARS ONLY IF WE PURSUE POLICIES WHICH ENCOURAGE  
 PRODUCTIVE INVESTMENT AND TECHNOLOGICAL PROGRESS, IF, IN ADDITION  
 TO OUR OWN INDIVIDUAL EFFORTS, WE ARE WILLING TO JOIN FORCES,  
 IF EACH COUNTRY IS SENSITIVE TO THE EFFECTS OF ITS POLICIES ON  
 OTHERS AND IF WE COLLABORATE IN PROMOTING WORLD DEVELOPMENT.

IN THE SPIRIT WE HAVE DECIDED TO IMPLEMENT THE FOLLOWING LINES  
 OF ACTION:

- GROWTH AND EMPLOYMENT MUST BE INCREASED. THIS WILL BE  
 ATTAINED ON A DURABLE BASIS ONLY IF WE ARE SUCCESSFUL IN OUR  
 CONTINUING FIGHT AGAINST INFLATION. THAT WILL ALSO HELP TO BRING  
 DOWN INTEREST RATES, WHICH ARE NOW UNACCEPTABLY HIGH, AND TO BRING  
 ABOUT MORE STABLE EXCHANGE RATES. IN ORDER TO ACHIEVE THIS ESSENTIAL  
 REDUCTION OF REAL MONETARY POLICIES AND ACHIEVE GREATER CONTROL OF  
 BUDGETARY DEFICITS IT IS ESSENTIAL TO INTENSIFY OUR ECONOMIC AND  
 MONETARY COOPERATION. IN THIS REGARD WE WILL WORK TOWARDS A CONSTRUCTIVE  
 AND ORDERLY EVOLUTION OF THE INTERNATIONAL MONETARY SYSTEM BY  
 A CLOSER COOPERATION AMONG THE AUTHORITIES REPRESENTING THE  
 CURRENCIES OF NORTH AMERICA, JAPAN AND OF THE EUROPEAN COMMUNITY  
 IN PURSUING MEDIUM-TERM ECONOMIC AND MONETARY OBJECTIVES. IN THIS  
 RESPECT WE HAVE COMMITTED OURSELVES TO THE UNDERTAKINGS CONTAINED  
 IN THE ATTACHED STATEMENT.
- THE GROWTH OF WORLD TRADE IN ALL ITS FACETS IS BOTH A NECESSARY  
 ELEMENT FOR THE GROWTH OF EACH COUNTRY AND A CONSEQUENCE OF THAT  
 GROWTH. WE REAFFIRM OUR COMMITMENT TO STRENGTHENING THE OPEN  
 MULTILATERAL TRADING SYSTEM AS EMBODIED IN THE GATT AND TO  
 MAINTAINING ITS EFFECTIVE OPERATION. IN ORDER TO PROMOTE STABILITY  
 AND EMPLOYMENT THROUGH TRADE AND GROWTH, WE WILL RESIST  
 PROTECTIONIST PRESSURES AND TRADE-DISTORTING PRACTICES. WE ARE  
 RESOLVED TO COMPLETE THE WORK OF THE TOKYO ROUND AND TO IMPROVE  
 THE CAPACITY OF THE GATT TO SOLVE CURRENT AND FUTURE TRADE PROBLEMS.  
 WE WILL ALSO WORK TOWARDS THE FURTHER OPENING OF OUR MARKETS.  
 WE WILL COOPERATE WITH THE DEVELOPING COUNTRIES TO STRENGTHEN AND  
 IMPROVE THE MULTILATERAL SYSTEM AND TO EXPAND TRADING OPPORTUNITIES  
 IN PARTICULAR WITH THE NEWLY INDUSTRIALIZED COUNTRIES. WE SHALL  
 PARTICIPATE FULLY IN THE FORTH-COMING GATT MINISTERIAL CONFERENCE  
 IN ORDER TO TAKE CONCRETE STEPS TOWARDS THESE ENDS. WE SHALL WORK  
 FOR EARLY AGREEMENT ON THE RENEWAL OF THE OECD EXPORT CREDIT  
 CONSENSUS.
- WE AGREE TO PURSUE A PRUDENT AND DIVERSIFIED ECONOMIC APPROACH  
 TO THE USSR AND EASTERN EUROPE, CONSISTENT WITH OUR POLITICAL AND  
 SECURITY INTERESTS. THIS INCLUDES ACTIONS IN THREE KEY AREAS. FIRST  
 FOLLOWING INTERNATIONAL DISCUSSIONS IN JANUARY OUR REPRESENTATIVES  
 WILL WORK TOGETHER TO IMPROVE THE INTERNATIONAL SYSTEM FOR  
 CONTROLLING EXPORTS OF STRATEGIC GOODS TO THESE COUNTRIES AND  
 NATIONAL ARRANGEMENTS FOR THE ENFORCEMENT OF SECURITY CONTROLS.  
 SECOND WE WILL EXCHANGE INFORMATION IN THE OECD ON ALL ASPECTS  
 OF OUR ECONOMIC, COMMERCIAL AND FINANCIAL RELATIONS WITH THE SOVIET  
 UNION AND EASTERN EUROPE. THIRD, TAKING INTO ACCOUNT EXISTING  
 ECONOMIC AND FINANCIAL CONSIDERATIONS WE HAVE AGREED TO HANDLE  
 CAUTIOUSLY FINANCIAL RELATIONS WITH THE USSR AND OTHER EASTERN  
 EUROPEAN COUNTRIES, IN SUCH A WAY AS TO ENSURE THAT THEY ARE  
 CONDUCTED ON A SOUND ECONOMIC BASIS, INCLUDING ALSO THE NEED FOR  
 COMMERCIAL PRUDENCE IN LIMITING EXPORT CREDITS. THE DEVELOPMENT OF  
 ECONOMIC AND FINANCIAL RELATIONS WILL BE SUBJECT TO PERIODIC  
 EX-POST REVIEW.

ACTION	
COPIES TO	✓ Mrs Ruttis
	Mr Ruttis
	Mr Colman
	Mrs Hedley-Phillips
	Mr Lavalle
	Mr Carey
	Mr Britton
	Mr Bahill
	Mr Percy
	Mr Slater
Mr Beestall	
Miss Court	
Mr Sedgwick	
Mr Edwards	
Mr Hall (OT)	





- THE PROGRESS WE HAVE ALREADY MADE DOES NOT DIMINISH THE NEED FOR CONTINUING EFFORTS TO ECONOMISE ON ENERGY, PARTICULARLY THROUGH THE PRICE MECHANISM, AND TO PROMOTE ALTERNATIVE SOURCES INCLUDING NUCLEAR ENERGY AND COAL, IN A LONG-TERM PERSPECTIVE. THESE EFFORTS WILL ENABLE US FURTHER TO REDUCE OUR VULNERABILITY TO INTERRUPTIONS IN THE SUPPLY OF ENERGY AND INSTABILITY OF PRICES. COOPERATION TO DEVELOP NEW ENERGY TECHNOLOGIES AND TO STRENGTHEN OUR CAPACITY TO DEAL WITH DISRUPTIONS CAN CONTRIBUTE TO OUR COMMON ENERGY SECURITY. WE SHALL ALSO WORK TO STRENGTHEN OUR COOPERATION WITH BOTH OIL-EXPORTING AND OIL-IMPORTING DEVELOPING COUNTRIES.

- THE GROWTH OF THE DEVELOPING COUNTRIES AND THE DEEPENING OF A CONSTRUCTIVE RELATIONSHIP WITH THEM ARE VITAL FOR THE POLITICAL AND ECONOMIC WELL-BEING OF THE WHOLE WORLD. IT IS THEREFORE IMPORTANT THAT A HIGH LEVEL OF FINANCIAL FLOWS AND OFFICIAL ASSISTANCE SHOULD BE MAINTAINED AND THAT THEIR AMOUNT AND THEIR EFFECTIVENESS SHOULD BE INCREASED AS FAR AS POSSIBLE WITH RESPONSIBILITIES SHARED BROADLY AMONG ALL COUNTRIES CAPABLE OF MAKING A CONTRIBUTION. THE LAUNCHING OF GLOBAL NEGOTIATIONS IS A MAJOR POLITICAL OBJECTIVE APPROVED BY ALL PARTICIPANTS IN THE SUMMIT. THE LATEST DRAFT RESOLUTION CIRCULATED BY THE GROUP OF THE 77 IS HELPFUL AND THE DISCUSSION AT VERSAILLES SHOWED GENERAL ACCEPTANCE OF THE VIEW THAT IT WOULD SERVE AS A BASIS FOR CONSULTATIONS WITH THE COUNTRIES CONCERNED. WE BELIEVE THAT THERE IS NOW A GOOD PROSPECT FOR THE EARLY LAUNCHING AND SUCCESS OF THE GLOBAL NEGOTIATIONS, PROVIDED THAT THE INDEPENDENCE OF THE SPECIALISED AGENCIES IS GUARANTEED. AT THE SAME TIME WE ARE PREPARED TO CONTINUE AND DEVELOP PRACTICAL COOPERATION WITH THE DEVELOPING COUNTRIES THROUGH INNOVATIONS WITHIN THE WORLD BANK, THROUGH PROGRESS IN COUNTERING INSTABILITY OF COMMODITY EXPORT EARNINGS, THROUGH THE ENCOURAGEMENT OF PRIVATE CAPITAL FLOWS, INCLUDING INTERNATIONAL ARRANGEMENTS TO IMPROVE THE CONDITIONS FOR PRIVATE INVESTMENT, AND THROUGH A FURTHER CONCENTRATION OF OFFICIAL ASSISTANCE ON THE POORER COUNTRIES. THIS IS WHY WE SEE A NEED FOR SPECIAL TEMPORARY ARRANGEMENTS TO OVERCOME FUNDING PROBLEMS FOR IDA VI, AND FOR AN EARLY START TO CONSIDERATION OF IDA VII. WE WILL GIVE SPECIAL ENCOURAGEMENT TO PROGRAMMES OR ARRANGEMENTS DESIGNED TO INCREASE FOOD AND ENERGY PRODUCTION IN DEVELOPING COUNTRIES WHICH HAVE TO IMPORT THESE ESSENTIALS, AND TO PROGRAMMES TO ADDRESS THE IMPLICATIONS OF POPULATION GROWTH.

IN THE FIELD OF BALANCE OF PAYMENTS SUPPORT, WE LOOK FORWARD TO PROGRESS AT THE SEPTEMBER IMF ANNUAL MEETING TOWARDS SETTLING THE INCREASE IN THE SIZE OF THE FUND APPROPRIATE TO THE COMING EIGHTH QUOTA REVIEW.

- REVITALIZATION AND GROWTH OF THE WORLD ECONOMY WILL DEPEND NOT ONLY ON OUR OWN EFFORT BUT ALSO TO A LARGE EXTENT UPON COOPERATION AMONG OUR COUNTRIES AND WITH OTHER COUNTRIES IN THE EXPLOITATION OF SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENT. WE HAVE TO EXPLOIT THE IMMENSE OPPORTUNITIES PRESENTED BY THE NEW TECHNOLOGIES, PARTICULARLY FOR CREATING NEW EMPLOYMENT. WE NEED TO REMOVE BARRIERS TO, AND TO PROMOTE, THE DEVELOPMENT OF AND TRADE IN NEW TECHNOLOGIES BOTH IN THE PUBLIC SECTOR AND IN THE PRIVATE SECTOR. OUR COUNTRIES WILL NEED TO TRAIN MEN AND WOMEN IN THE NEW TECHNOLOGIES AND TO CREATE THE ECONOMIC, SOCIAL AND CULTURAL CONDITIONS WHICH ALLOW THESE TECHNOLOGIES TO DEVELOP AND FLOURISH. WE HAVE CONSIDERED THE REPORT PRESENTED TO US ON THESE ISSUES BY THE PRESIDENT OF THE FRENCH REPUBLIC. IN THIS CONTEXT WE HAVE DECIDED TO SET UP PROMPTLY A WORKING GROUP OF REPRESENTATIVES OF OUR GOVERNMENTS AND OF THE EUROPEAN COMMUNITY TO DEVELOP, IN CLOSE CONSULTATION WITH THE APPROPRIATE INTERNATIONAL INSTITUTIONS, ESPECIALLY THE OECD, PROPOSALS TO GIVE HELP TO ATTAIN THESE OBJECTIVES. THIS GROUP WILL BE ASKED TO SUBMIT ITS REPORT TO US BY 31 DECEMBER 1982. THE CONCLUSION OF THE REPORT AND THE RESULTING ACTION WILL BE CONSIDERED AT THE NEXT ECONOMIC SUMMIT TO BE HELD IN 1983 IN THE UNITED STATES OF AMERICA.



STATEMENT OF INTERNATIONAL MONETARY UNDERTAKINGS.

1. WE ACCEPT A JOINT RESPONSIBILITY TO WORK FOR GREATER STABILITY OF THE WORLD MONETARY SYSTEM. WE RECOGNISE THAT THIS RESTS PRIMARILY ON CONVERGENCE OF POLICIES DESIGNED TO ACHIEVE LOWER INFLATION, HIGHER EMPLOYMENT AND RENEWED ECONOMIC GROWTH, AND THUS TO MAINTAIN THE INTERNAL AND EXTERNAL VALUES OF OUR CURRENCIES. WE ARE DETERMINED TO DISCHARGE THIS OBLIGATION IN CLOSE COLLABORATION WITH ALL INTERESTED COUNTRIES AND MONETARY INSTITUTIONS.
  2. WE ATTACH MAJOR IMPORTANCE TO THE ROLE OF THE IMF AS A MONETARY AUTHORITY AND WE WILL GIVE IT OUR FULL SUPPORT IN ITS EFFORTS TO FOSTER STABILITY.
  3. WE ARE READY TO STRENGTHEN OUR COOPERATION WITH THE IMF IN ITS WORK OF SURVEILLANCE; AND TO DEVELOP THIS ON A MULTILATERAL BASIS TAKING INTO ACCOUNT PARTICULARLY THE CURRENCIES CONSTITUTING THE SDR.
  4. WE RULE OUT THE USE OF OUR EXCHANGE RATES TO GAIN UNFAIR COMPETITIVE ADVANTAGES.
  5. WE ARE READY IF NECESSARY TO USE INTERVENTION IN EXCHANGE MARKETS TO COUNTER DISORDERLY CONDITIONS AS PROVIDED FOR UNDER ARTICLE IV OF THE IMF ARTICLES OF AGREEMENT.
  6. THOSE OF US WHO ARE MEMBERS OF THE EMS CONSIDER THAT THESE UNDERTAKINGS ARE COMPLEMENTARY TO THE OBLIGATIONS OF STABILITY WHICH THEY HAVE ALREADY UNDERTAKEN IN THAT FRAMEWORK.
  7. WE ARE ALL CONVINCED THAT GREATER MONETARY STABILITY WILL ASSIST FREER FLOWS OF GOODS SERVICES AND CAPITAL. WE ARE DETERMINED TO SEE THAT GREATER MONETARY STABILITY AND FREER FLOWS OF TRADE AND CAPITAL REINFORCE ONE ANOTHER IN THE INTEREST OF ECONOMIC GROWTH AND EMPLOYMENT.
- ENDS.

2. FCO PLEASE COPY FURTHER AS NECESSARY.

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CHIEF CLERK	
REC	11 JUN 1982
ACTION	Mr Carey 11.6.
COPIES TO	CST, FST, KST, Sir D Wass, Sir K Conens, Mr Little, Mr Slater, Mr Ridley

Foreign and Commonwealth Office

London SW1A 2AH

10 June, 1982

Dear John,

Versailles Summit: Global Negotiations

My letter of yesterday on this subject suggested that our representatives should be prepared to accept the Bedjaoui text, as amended, provided that the other Community members and the United States could do so. It is worth adding that it is quite clear from reports which have reached us since I wrote that those of our partners who were at Versailles regard the issue as settled by the discussion in plenary there. I understand that Secretary Haig said that he wanted it clearly understood that the amendments to the Bedjaoui declaration were accepted, as long as our discussions in New York were based on unanimity. M. Thorn, for the Commission, supported this; and M. Mitterrand noted the point as agreed.

The State Department have confirmed this (Washington telegram number 2073 attached) and have told us that their understanding is that all 7 Summit countries will now stick firmly by the amendments to the Bedjaoui text agreed at Versailles. The President had agreed to the changes: this was a new position compared with the President's previous attitude, but the issue had been settled in Paris. We have heard that the French and the Belgian Presidency also believe that the amendments to the Bedjaoui text were endorsed at the table by Heads of State and Governments in Versailles.

I am copying this to John Kerr (Treasury) and David Wright (Cabinet Office), the latter with a copy of my letter of 9 June.

Yours ever  
John Holmes

(J E Holmes)  
Private Secretary

A J Coles Esq  
Private Secretary  
10 Downing Street



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TELNO 2097 OF 11 JUNE 82

INFO BONN PARIS UKDEL OECD UKREP BRUSSELS

VERSAILLES SUMMIT : EXPORT CREDITS AND EXISTING CONTRACTS

1. THE MINISTER HAD A WORD WITH EAGLEBURGER THIS MORNING ABOUT THE RESULTS OF THE VERSAILLES SUMMIT. THOMAS SAID THAT HE HAD BEEN GLAD TO SEE THAT SECRETARY REGAN HAD BEEN SPEAKING SO POSITIVELY IN PUBLIC ABOUT THE RESULTS WHICH HAD BEEN OBTAINED ON EXPORT CREDITS BEFORE THOMAS COULD GET ANY FURTHER, EAGLEBURGER SAID THAT HE TOO HAD SEEN THESE REPORTS AND HAD BEEN SOMEWHAT SURPRISED. WHAT HE HAD HEARD IN PRIVATE INDICATED A GREAT DEAL LESS ENTHUSIASM ON THE AMERICAN SIDE THAN WHAT SECRETARY REGAN HAD SUGGESTED. HIS UNDERSTANDING WAS THAT SOMETHING HAD BEEN ACHIEVED BUT IT MIGHT NOT BE ENOUGH TO SATISFY THOSE WHO HAD BEEN PRESSING FOR TOUGHER ACTION. AN AWFUL NEGOTIATING PROCESS WOULD NOW BEGIN IN WASHINGTON TO TRY TO DETERMINE PRECISELY WHAT THE RESULTS ADDED UP TO. HE WAS AFRAID THEY WOULD NOT BE IMMEDIATELY PERCEIVED TO BE ENOUGH TO DEAL WITH THE PROBLEM OF THE GE ROTORS. A

2. THOMAS MADE IT CLEAR TO EAGLEBURGER THAT THIS WOULD CAUSE THE GRAVEST DISAPPOINTMENT IN LONDON AND WOULD PREJUDICE THE PROSPECTS FOR MAKING FURTHER PROGRESS ON EXPORT CREDITS. EAGLEBURGER HAD HIMSELF TOLD THOMAS EARLIER THAT THERE HAD BEEN A CONSENSUS IN WASHINGTON THAT IF AGREEMENT WAS REACHED ON EXPORT CREDITS, AT LEAST THE ROTORS WHICH HAD ALREADY BEEN SUPPLIED TO EUROPEAN FIRMS SHOULD BE ALLOWED TO GO. THIS WAS BY NO MEANS ALL WE WERE SEEKING, BUT IF THE AMERICANS COULD NOT AT LEAST DELIVER ON THIS, THOMAS THOUGHT THE PROSPECTS FOR ANYTHING FURTHER WOULD BE BLEAK. EAGLEBURGER FULLY UNDERSTOOD THE POINT THOMAS WAS MAKING, AND SAID IT WAS ONE OF THE THINGS HE WOULD HAVE TO TAKE UP WITH SECRETARY HAIG ON HIS RETURN.

THIS TELEGRAM  
WAS NOT  
ADVANCED

THOMAS

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EXCHEQUER	
REC.	14 JUN 1982
ACTION	Mr Carey M1416
COPIES TO	DOWNING STREET
From the	Private Secretary Sir J. Wals
	Sir K. Conzen, Mr Little,
	Mr Lavelle, Mr Slater, Mr Ridley

11 June, 1982

Versailles Summit: Global Negotiations

Thank you for your letters to John Coles of 9 and 10 June. The Prime Minister agrees that we should not press for further amendments to the Bedjaoui text, as amended at Versailles.

I am copying this letter to John Kerr (Treasury) and David Wright (Cabinet Office).

**W. F. S. RICKETT**

John Holmes, Esq.,  
Foreign and Commonwealth Office



prop



10 DOWNING STREET

THE PRIME MINISTER

EXCHEQUER	
REC	15 JUN 1982
COPIES TO	Mr Lavelle
	CAT, FST, EST,
	MSTC, 14 June 1982
	MSTR,
	Sir J Wall,
	Sir K Conzen, Mr Rynie,
	Mr Litter, Mr Quinlan,
	Mr Carey, Mr Dixon,

MIS/6

*Dear Mr Hawley,*

*Mr Hawley, Mr Ridley*

I write to thank you for the letters of 28 May which you sent to the Chancellor and myself about the Versailles Summit.

I enclose copies of the Declaration issued at the end of the Summit and of the statement I made to the House of Commons on 8 June. As you will see, there was agreement among the Versailles Summit participants on what was needed for sound economic management and the well-based recovery from world recession which we all wish to see.

The essential element in this agreement was that growth and employment would be increased on a lasting basis only if we were successful in our continuing fight against inflation. This would help to bring down interest rates and lead to more stable exchange rates.

The Summit countries all agreed to pursue prudent monetary policies and to reduce budgetary deficits. They also recognised a joint responsibility to work for greater stability in the world monetary system, and issued a statement of international monetary undertakings, which is attached to the Declaration.

The Summit discussed many of the other concerns expressed in the statement of the Trade Union Advisory Committee, such as new technologies, relations with the developing world and the strengthening of the open trading system. You will note that we have set up a Working Group to prepare a report on technology by the end of the year,

/which



which could be considered at the 1983 summit. The launching of Global Negotiations in the United Nations is described in the Declaration as a major political objective approved by all participants in the Summit.

One of the principal benefits of Economic Summits is the opportunity they provide to co-ordinate policies among the seven major industrial democracies. At Versailles, all were agreed on the need to pursue rigorously the resolution of national problems without adopting policies harmful of others. I believe that the Versailles Summit will help ensure that the world economy achieves a sound recovery.

Yours sincerely  
Jacques Delors

---

The Rt Hon Lionel Murray, O.B.E..



(FUP)

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Foreign and Commonwealth Office

London SW1A 2AH



EXCHEQUER	
REC	24 JUN 1982
ACTION	Mr Lawrence M 24/6
COPIES TO	CST, FST, EST, MSTC, MSTR, Sir D Wass, Sir K Conzen

24 June 1982

Mr Cargill, Mr Littler,  
Mr Baker, Mr Ridley

Dear John,

Versailles Summit: Global Negotiations

As Rodric Braithwaite mentioned to you in Washington yesterday, the Americans are seeking urgent confirmation from the other Versailles Summit participants on what was agreed at the Summit on Global Negotiations.

Henry Nau of the US National Security Council has told the French that the Americans can only give their formal agreement to the Bedjaoui text as amended at Versailles, including the lifting of their reserve on the word 'recalling' to refer to Resolution 34/138 in the preamble, if they have a solid assurance that no further amendments would be accepted unless they were agreed by all Heads of State and Government present at Versailles. To be certain of this, the Americans are insisting that all leaders present at Versailles should confirm their acceptance of the paper by officials worked out at Versailles on this subject and should agree that it should have the same status as the Summit Declaration.

The French have given this assurance to the Americans and have asked all other Summit participants if they can do the same. I attach a copy of a message from M Paye to Lord Bridges, as well as a copy of the officials' paper in question.

In the Prime Minister's absence yesterday, we told Henry Nau that we accepted the Bedjaoui text with the four agreed amendments and agreed that any further changes must be endorsed by the Summit participants at Heads of Government level. But, although we had no difficulties with the officials' paper, we did not think that it had been given the same status as the formal published Declaration. The Americans were not satisfied with this and are pressing for the full assurance. They are threatening to represent us as the sole obstacle to the lifting of their reserves.

I should be grateful to know urgently if the Prime Minister agrees that we can give the Americans the assurance they seek. It is, in fact, to our advantage to confirm, without any doubt, that further amendments to the Bedjaoui text could not be accepted

/unless

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EXERCISES	DATE
1	10/10/19
2	10/11/19
3	10/12/19
4	10/13/19

10/10

10/10/19  
10/11/19  
10/12/19  
10/13/19

10/10/19

### EXERCISES

1. The first exercise is to find the area of a rectangle. The length is 5 cm and the width is 3 cm. The area is calculated as length multiplied by width, which is 5 times 3, equaling 15 square centimeters.

2. The second exercise involves finding the perimeter of a square. Each side of the square is 4 cm. The perimeter is the sum of all four sides, so 4 plus 4 plus 4 plus 4, which equals 16 centimeters.

3. The third exercise is to calculate the area of a circle. The radius is 2 cm. The area of a circle is given by the formula pi times the radius squared. So, pi times 2 squared, which is pi times 4, or approximately 12.57 square centimeters.

4. The fourth exercise is to find the volume of a rectangular prism. The length is 6 cm, the width is 3 cm, and the height is 4 cm. The volume is length times width times height, which is 6 times 3 times 4, equaling 72 cubic centimeters.

5. The fifth exercise is to calculate the area of a triangle. The base is 8 cm and the height is 5 cm. The area of a triangle is half the base times the height, so half of 8 times 5, which is 4 times 5, equaling 20 square centimeters.





unless all Summit Heads of Government are agreed on them. This will reduce the risk that we will be asked to accept further changes which would weaken the references to respecting the competence and functions of the specialised fora, which is so important for us.

If you are able to give me your agreement by telephone, we propose to send to Washington and New York the draft telegram enclosed.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer and Sir Robert Armstrong.

*Yours ever*  
*J E Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street



PERSONAL MESSAGE FROM M. PAYE (FRENCH FOREIGN MINISTRY)  
TO LORD BRIDGES

(TRANSLATION)

After the circulation of the Report of the Group on North/South Questions, which I chaired at Versailles on 5 June to the participants, there was an exchange of communications between Mr Nau and myself. Mr Nau hoped that it could be confirmed that the text of this Report had been approved by the Heads of State and Government and that the Report should be considered as having the same status as the Summit Communiqué. Mr Nau also wished that the words 'the participants in the Summit' should be replaced by the expression 'Summit leaders' in paragraph 1(c) of the Report as in paragraph 1(a).

After checking with M. Attali who was present in the Summit meeting room when this matter was discussed, I indicated to Mr Nau that our interpretation was the same. I thus confirmed to him that, in the eyes of the French Presidency, the text of the Report should be considered as accepted by the Heads of State and Government. The Commitments which it contains have in consequence the same force as those reflected in the final Declaration. Furthermore, I was convinced that there would be no objection to have the expression 'Summit leaders' appear in paragraph 1(c).

I should be grateful if you would inform me as soon as possible if this interpretation has your agreement as well.

I would also be obliged if you would communicate your agreement directly to Henry Nau. Larry Smith insists strongly that everything should be done in order to obtain the lifting of the American reserves before this meeting. Henry Hau has just confirmed to me by telephone that these reserves will be lifted as soon as he is certain that all the Versailles participants were agreed on the status of the Report, in the precise terms set out above, and on the amendment to paragraph 1(c) also noted above.



DEBUT DE CITATION :

"1. The working assumptions retained by the group were the following :

A) The summit leaders would agree on a series of amendments to the 77 group's draft resolution (Bedjaoui draft); these amendments would be drafted in such a way as to have a fair chance to be acceptable to the 77 group.

B) The Canadian Government would be asked to assume responsibility, after due consultation with OECD partners, of putting these amendments forward in New-York in a suitable way.

C) It would be agreed, among the participants in the summit that if some flexibility on wording appeared necessary later, their delegations would not depart from the so amended text except by unanimous agreement.

2. The group proposes the following amendments :

A) In the preamble, replace :

"in accordance with resolution 34/138"

by "recalling its resolution 34/138" (1)

Commentary : the US delegation cannot accept that resolution 34/138 be considered as the sole basis for the global negotiations. Given the strong 77 request for a confirmation of this resolution, the proposal is to resort to the word "recalling", which is very often used in UNO (for instance in the preamble of resolution 34/138 itself).

B) Add a new sentence at the end of paragraphe 3 :

"As soon as a consensus is reached, the conference will enter the substantive phase".

Commentary : this phrase means acceptance of the convening of the conference, which would itself decide, in a preliminary phase, upon its agenda and procedures. As a consequence the necessity of a consensus being reached before moving from the procedural phase to the substantive one should be recalled.

---

(1) US delegate has reserved his position, in the absence of relevant instruction.



C) Add to the end paragraphe 4.

"... Will be respected by the conference"

Commentary : This amendment should not raise difficulties with the 77, because it is obvious that the obligation of respecting the competences of the specialized institutions applies above all to the conference itself.

D) Insert in the middle of the first sentence of paragraphe 5 :

"... The ad hoc groups it may create without duplication of existing appropriate fora ..."

Commentary : In order to prevent the creation of ad hoc groups, as envisaged in paragraphe 5, from infringing on the principle established by paragraphe 4 (ie independance of the specialised fora), this phrase should be added.

3. The groupe mentioned the desirability of modifying the North South part of the draft declaration of the summit, in the case the heads of state and Government could reach a consensus on the points mentioned hereabove". FIN DE CITATION.





OUT TELEGRAM

	Classification and Caveats <b>CONFIDENTIAL</b>	Precedence/Deskby <b>FLASH</b>
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10 REPEATED FOR INFO PRIORITY TO BONN, PARIS, TOKYO, OTTAWA AND  
11 ROME  
12 YOUR TELNO 2222: GLOBAL NEGOTIATIONS  
13 1. We have consulted No 10. You can now confirm to the  
14 Americans that we <sup>consider</sup> ~~regard~~ the text of the officials' report to  
15 have been approved by the Heads of State and Government at  
16 Versailles and <sup>that it</sup> can be regarded as having the same status as  
17 the final Declaration. We also agree that <sup>any</sup> possible later  
18 changes in wordings <sup>in the Bedjaoui text</sup> requires common agreement among the  
19 Summit leaders and that para 1(c) of the report should be  
20 amended ~~accordingly~~ <sup>as the Americans wish.</sup>  
21  
22 PYM  
23 NNNN  
24  
25

NNNN ends telegram	BLANK	Catchword
File number	Dept ERD	Distribution NORTH/SOUTH ADDITIONAL DISTRIBUTION: NORTH/SOUTH
Drafted by (Block capitals) N P BAYNE		
Telephone number 233 4114		
Authorised for despatch		
Comcen reference	Time of despatch	



Hopes for a wider view of monetary policies suffer a setback, our foreign staff reports

## U.S. holds up move towards intervention

EUROPEAN governments' hopes of securing a more active U.S. currency intervention policy this year through the work of a special seven-nation study group appear to be crumbling. The U.S. is insisting on a highly detailed examination of intervention policies and is prepared to wait until next April for a ministerial-level discussion of the group's conclusions.

The study was launched at the Versailles economic summit at the beginning of June as one means of cementing the pact made there "to work for greater stability of the world monetary system."

When they took up the U.S. suggestion of the study, France, Italy, West Germany and the UK hoped to use it as a vehicle for persuading a very doubtful Reagan Administration of the need for more systematic intervention to curb volatility in foreign exchange markets.

After three meetings of the group—the most recent in Brussels last Friday—its work also looks likely to touch on monetary policies and the need for a more global approach in developing them. European monetary experts see the exercise as an opportunity to urge the U.S. to widen its view of

domestic monetary policy to take into account its impact, through very high real interest rates, on other Western economies.

In the meantime, the study group has been saddled with a large and highly technical work programme which officials have been unable to summarise in less than five pages.

It looks unlikely, therefore, to satisfy European wishes for speedy conclusions which could contribute to an easing of some of the acute tensions in European-U.S. relations. At Versailles, for example, M Jacques Delors, the French Finance Minister, spoke optimistically of using the study's conclusions at a meeting of the seven's finance ministers in the autumn to help build "a new international monetary order."

A summary of the group's discussions at its meeting in Washington early this month shows little sense of such urgency. Prepared by Mr Beryl Sprinkel, the U.S. Under Secretary for Monetary Affairs, who is a member of the group and a strong believer in minimal intervention, the summary says that the group may only be able to present an interim report for discussion by Ministers next January.

"Should the Ministers decide not to meet in January, they could review the report at the interim committee meeting," (of the IMF, in April) says Mr Sprinkel.

The study, which also involves Canada, Japan and Denmark — representing the EEC Presidency—as well as the European Commission, is being conducted at two levels. The top group, which includes Mr Sprinkel and other very senior officials from the seven major industrialised nations' Treasuries, is known as "the deputies" and is responsible for conducting and co-ordinating the study. The deputies have had only one meeting so far.

The detailed work is being carried out by another group of middle-ranking officials. They have been asked to prepare a written outline of their "expected report" to be looked at by the deputies and possibly Ministers at the IMF annual meeting in Toronto at the beginning of September.

France and the U.S., plus "a third person," are to act as secretariat for the group. The Bank for International Settlements and the International Monetary Fund are to be asked to supply existing studies and possibly some specially com-

missioned work.

As well as having secured a very thorough study of intervention, Mr Sprinkel also appears to have been successful in heading off European pressure for an examination of possible future intervention policies. It has been agreed that the work will be a retrospective focus on the past decade of floating exchange rates.

"The implications of the study for current and future intervention policies would be considered and discussed by those who have the responsibility for setting intervention policy," says Mr Sprinkel's summary of the group's Washington discussions.

The working group seems likely to be confronted with several questions:

- Has intervention reduced short-term exchange rate variability?
- Has intervention moderated longer-term swings in exchange rates?
- Have "bandwagon" or overshooting effects been present in the exchange markets, and has intervention served to moderate or prevent them?
- Over what time scale have the effects of intervention persisted?

● How has intervention affected economic variables other than the exchange rate, eg. the monetary base, interest rates?

● Has intervention affected the structure, size and functioning of exchange and other financial markets?

● How has intervention affected the profits of monetary authorities?

● What effects have intervention had on other economic policies?

● Have the effects of intervention depended on the techniques of intervention?

The working group may also examine whether a specific exchange rate can be maintained and for how long, and what lessons can be drawn from the experience of the European Monetary System.

Each country taking part in the study has been asked to supply a factual summary of its exchange policy since 1976 with details of the conditions, methods and objectives of interventions. They will also provide a statistical table giving monthly intervention amounts between 1976 and 1981, as defined by Central Banks and, separately, the amount of customers orders.

*Financial Times  
19-7-82*



*mp*

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*1. Spoke to KEC, who will include  
2. Article for FT  
below.*

FROM: R G LAVELLE ✓

DATE: 26 July 1982

CHANCELLOR

*Skinner who  
§ 9 is wrong  
(+ attached  
7(csc))*

cc: Economic Secretary  
Sir D Wass  
Sir K Couzens  
Mr Littler  
Mr Peretz  
Mr Bottrill o/r

INTERVENTION STUDY

*Any views for KEC?*

On present plans the main subject for discussion at the G-7 dinner in Toronto on 4 September will be the shape and scope of the intervention study commissioned by the Versailles Summit. Briefing will be provided nearer the time but you may like to have a brief account at this stage of the work of the Jurgensen Group and the sort of issues which may come up at the dinner.

Method of work

2. The Group has so far met three times. Each of the seven countries has a representative from its Treasury and Central Bank. There is also one representative each of the Commission and the Presidency. Since the Group was established by the Versailles Summit, the French chaired the first meeting and by common consent have remained there. Although the Summit left open how the study should be commissioned and in principle it might have been given eg to the IMF, the view was formed during the first meeting of the Group that almost certainly the right approach was for participants to pool experience ie do the report themselves. This seems likely to prove a quite formidable undertaking. Fortunately it has recently been agreed that the BIS should supply (at their expense) a highly regarded German economist to help with the process of writing the work up as we go along.

National attitudes

3. I am not sure that we have ever had enormously high expectations for the outcome of this study. But we have felt

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that it offered at least some hope of modifying extremes of attitude, both undue recourse to intervention and equally, or more so, the reverse. I would judge that the unstated objective of most participants is of a similar kind. Left to themselves, I think the French would represent one extreme of the interventionist school: but the fact that they are in the chair in practice tends to contain their expression of such a view. The Americans undoubtedly maintain the motivation which led them to propose the study in the first place ie they believe that the evidence will tend to support their current posture of non-intervention, but in principle they are prepared to see what the study throws up. As not infrequently is the case, the Germans and ourselves are probably closest in general outlook.

Coverage of studies

4. It is not yet clear what piece of paper may be purveyed at the September dinner. But it is likely to bear some resemblance to the outline of a possible report attached (though hopefully a rather crisper version might be produced). This list of contents tends rather to mask some underlying differences of view about how the study should proceed. The Americans have all along sought a very thorough-going exercise I think on the view, roughly speaking, that the more sticks to beat intervention the better. Their formal position is that their present policies derive from detailed examination of intervention both by themselves and by numbers of academics plus an understanding of the views of those affected in the market. They could only be shifted from the conclusion they had reached by hard evidence on the efficacy of intervention. So in addition to the provision of evidence of national practice and experience, they have seen merit in further so-called empiric work on such questions as the efficiency of the market, together with investigation of the effects of intervention on other policies. In practice the Americans can go some way to exact their own price for this study. But most other participants have sought to place a limit on the by-ways into which this work could reasonably







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proceed. In practice it is difficult to believe that the nucleus of the work could be other than a comparison of national experience of different episodes of intervention, both sizeable and modest.

Sharing of information

5. On present plans each country will provide a "country report" setting its approach to intervention in recent years within the context of its general economic policies. There would be a statistical annex containing monthly figures of intervention, split between straight market and customer transactions. In addition the Americans have asked for daily figures for use in empiric studies. We have been assured that all this information will not be caught under American Freedom of Information legislation. Within reason, this is again a price I think we will need to pay for this exercise. However it could well cause certain awkwardnesses with the Treasury Committee who can be virtually relied on to claim that they should be given no less than the beastly foreigners. The whole question of information raises wider issues touched on below.

Work programme

6. At the last meeting of the Group in Brussels we agreed that we should bring to Toronto copies of <sup>our</sup> / country report, with statistical annex, such more detailed information as proved necessary <sup>and</sup> / one "case study" illustrating an intervention experience of potential general interest. (We also are planning to circulate a paper on the relevance of profitability as a criterion of effective intervention.) These would be discussed at a meeting later in the month and we have arranged a timetable of monthly meetings from then until the turn of the year when it is expected we should be in a position to produce some form of report.

Prognosis

7. Until we have actually carried through the work programme, as opposed to outlining and talking about it, it is of course



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not clear how this exercise will come out. There is no avoiding the suspicion, however, that in large measure participants may be reinforced, by whatever emerges, in their current practices. (The Americans are clearly fearful that the case studies may produce pious, self-congratulatory accounts.) Indeed there must be a sense in which no firm conclusions can be reached since it will never be possible to demonstrate, in any particular instance, what would have happened without the intervention being described. So the upshot, and certainly the public upshot, may not be very enlivening. But even if the public front is such as to make the IMF Articles racey by comparison, it cannot and should not yet be ruled out that there will be some shift of climate in US opinions. It is also the case that this will be the first time a study of this kind has been done and there cannot fail to be some intrinsic interest in how it comes out.

Issues in September

8. The formal task of the discussion in September will be to endorse or qualify the work programme suggested by officials and the timetable envisaged. There are of course potential issues here, but I doubt if you will wish to dwell on them at this stage.

9. Perhaps the most serious point to be established, certainly as things seem at the moment, is that there will be no more leaking while the work goes forward. In the run up to the Versailles Summit, Mr Sprinkel seemed to be giving about one press conference a day. It is difficult to avoid the conclusion that the very full and circumstantial leak in the Financial Times last week was his responsibility. Unless we can be quite clear that confidentiality will be preserved, there seems little merit in this exercise going forward. This bears on the provision of sensitive figures and frank accounts of our attitudes. Until this has been aired, I would be disinclined to hand over any sensitive figures. We are also choosing for our first of two case studies the relatively uncontroversial (in the sense of already public) account of the experience of capping the rate in 1977.

Can't see?



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10. A somewhat related issue which might usefully be aired is what form any eventual publication might take. Some form of publication seems inevitable if only given the origins of the exercise in a need to achieve some shift in US attitudes. In practical terms a report of readable length (say 15-20 pages), might be a sensible objective as a basis for Ministerial discussion of the substance. This could pave the way to some shorter publication, partly as a way to pass on the fruits of the experience to the Interim Committee but also for wider use. This might perform a useful function in relation to the Treasury Committee. If, however, the prospect of agreeing any such document proves too ambitious, we might need to make do with some rather generalised communique accompanied by publication of some documentation accrued en route - the Americans, for example, might wish to publish some of their empiric studies if they get anywhere. Although these matters could usefully be aired, it is however doubtful if any conclusion could be reached at Toronto.



R G LAVELLE



## OUTLINE OF INTERVENTION STUDY

Introduction: Setting for the Study

This section of the report will discuss:

the motivation of this study of experience with foreign exchange market intervention under a floating exchange rate system;

variability of major exchange rates in the context of today's global exchange rate arrangements;

contribution to stability of exchange rates from greater convergence of economic policies and considerations relating to the possible role of intervention in this context;

objectives of intervention operations of the participating countries. (This material will be drawn primarily from the fact sheets and case studies, and will seek to summarize and classify the different objectives across countries and over time, of monetary authorities in their exchange market operations. Since some of the participants have EMS obligations, these will be included in the brief discussion.)

Definition of intervention

This section of the report will summarize the Working Group's discussions of various issues concerning the definition of intervention:

- The distinction between pure exchange market operations and exchange market operations which also have a monetary effect will be summarized on the basis of the Working Group's discussions of this topic.





- Conventional definitions of exchange market operations. (This subsection of the report will illustrate some of the conceptual problems involved in a normal central banker's definition of intervention, eg customer transactions, transactions that may not be motivated by a desire to affect exchange rates, interest payments and receipts, IMF transactions. It will also illustrate the broader concepts of intervention, eg external borrowing in foreign currencies by the Government or motivated by the Government, directives to commercial banks.)
- The intervention data used by the Working Group.

Exchange market intervention as an instrument of economic policy:  
effects of exchange rates

This section of the report will summarize, on the basis of the case studies and statistical analyses, the Working Group's findings concerning the effects on exchange rates of exchange market intervention. The following topics will be covered:

(a) The effectiveness of intervention in reducing exchange rate variability. Day-to-day, week-to-week, and month-to-month time intervals will be considered separately, along with the questions relating to experience with intervention in holding an exchange rate or influencing longer-term swings in exchange rates. A related question is whether attempts to influence exchange rates over short time intervals affected variability over longer periods. One important aspect of this discussion will be whether the effects of intervention persist for an extended period of time or tend to die out rapidly. Issues relating to the efficiency and dynamic behaviour of exchange markets and their possible links to intervention operations will be discussed, eg bandwagons, overshooting.

(b) The influence of accompanying economic policies on the impact of exchange market intervention.



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(c) The effects on exchange rates of different methods of co-ordinated intervention, including the lessons to be drawn from EMS intervention experience.

(d) The effects on exchange rates of different techniques of intervention, eg spot, forward, active, passive, announced and unannounced.

Exchange market intervention as an instrument of economic policy:  
other effects

This section of the report will summarize, on the basis of the case studies and statistical analyses, the Working Group's findings concerning the effects of exchange market intervention on other aspects of economic policy and performance.

(a) The nature and magnitude of effects of intervention on monetary policy, eg monetary bases, interest rates.

(b) Effects of exchange market intervention on the formulation and execution of other economic policies.

(c) Effects of intervention on the structure, size, and functioning of exchange and other financial markets as well as on capital and investment flows.

(d) The profitability of intervention: whether this is a useful criterion for judging the effectiveness of intervention, and whether this concept can be measured.

Summary and conclusions

Appendices

- (a) Country reports (format).
- (b) Case studies (list of proposed cases with dates and countries).
- (c) Reviews of the literature and analytical studies (list).

