

~~SECRET~~
Part A.

SECRET

(Circulate under cover and
notify REGISTRY of movement)

Begins: 3/12/82
Ends: 31/12/82


 PO -CH /GH/0077

 PART A

Chancellor's (Howe) Papers:

CHANCELLORS VISIT TO
SAUDI ARABIA DECEMBER
1982

PO -CH /GH/0077
PART A

Disposal Directions: 25 Year

[Signature]
26/7/95

File No. Chancellor/Exchequer

OUTWARD

Security Classification UNCLASSIFIED	
Priority	Precedence IMMEDIATE
DESKBYZ	

Department

TELEGRAM

Drafted by (Block Capitals) J.O. KERR

3/12/82

Tel. Extn. 5728

FOR COMMS. DEPT. USE	Despatched	(Date)	POSTBY.....Z
		(Time)Z	

PREAMBLE

(Time of Origin)Z(G.M.T.) (Restrictive Prefix).....

(Security Class.) (Caveat/ Privacy Marking).....

(Codeword) (Deskby).....Z

TO IMMEDIATE Priority RYADH (precedence) (post) Tel. No. of

AND TO (precedence/post).....

AND SAVING TO.....

REPEATED TO (for info) Routine UKDEL IMF/IBRD WASHINGTON, Jeddah

SAVING TO (for info).....

Distribution:-

- Limikel
- P.S.
- PS/PUS
- Mr Thomas
- Mr Egerton
- Head of ERA
- Head of RCI

[TEXT]

Your tel No 96 and Jeddah tel No 612 : IMF

Please pass following reply to ~~Abalhai~~ Aba al Khail

Message begins:

"Very many thanks for your kind message of congratulations on my election as Chairman of the Interim Committee. I greatly valued your early indication of support, and what your Executive Director said in Washington.

2. I was delighted to hear from our Ambassador that you will be able to receive me and the IMF Managing Director on 8 January for discussions on current IMF issues. I have thought it right that my first task as Chairman should be to hear your views at first hand, and I greatly look forward to my visit.

3. Best wishes,

GEOFFREY HOWE"

Message ends

[Handwritten signature]

Copies to:-

- PPS/Chancellor
- Sir K. Cuzens
- Mr Kitter
- Mr Lavelle
- Mr Roffel

NOTHING TO BE WRITTEN IN THIS MARGIN

File No.

Department PPS/Chancellor, HMT

Drafted by

(Block Capitals)

Tel. Extn.

OUTWARD

TELEGRAM

3/12/82

Security Classification CONFIDENTIAL
Precedence IMMEDIATE
DESKBYZ

FOR COMMS. DEPT. USE	Despatched (Date) (Time)Z	POSTBYZ
----------------------	---------------------------------------	---------------

PREAMBLE

(Time of Origin)Z(G.M.T.) (Restrictive Prefix).....

(Security Class.) Confidential (Caveat/Privacy Marking).....

(Codeword) (Deskby).....Z

TO Immediate UKdel IMF/IBRD Washington Tel. No. of (precedence) (post)

AND TO (precedence/post).....

AND SAVING TO.....

REPEATED TO (for info) Routine Riyadh, Jadda

SAVING TO (for info).....

- Distribution:-
 Limited
 Private Secretary
 Mr Evans
 Mr J C Thomas
 Mr Egerton
 ERD
 MED
- Copies to:-
 PPS/Chancellor
 Sir K Couzens
 Mr Littler
 Mr Lavelle
 Mr Bottrill
- H.M. Treasury

[TEXT]

Following for onward transmission to Carter (Larosiere's Office) from Kerr (PPS/Chancellor)

As you know (our conversation on 21 December) we now have confirmation that the Saudis agree to talks on 8 January. The Chancellor looks forward to meeting the Managing Director here on 7 January and flying out together - our bookings are on SV 3026 and SV 36. (Return flight SV 37 on 9 January).

2. We spoke about the following points on which the Chancellor, in preparing for the visit, would very much welcome the Managing Director's views.

(i) Interim Committee meeting

The Chancellor would be grateful for the Managing Director's general assessment of the case and prospects for advancing the Interim Committee meeting following the latest discussions in ^{The} Executive Board. In particular:-

- a. Is there now a reasonable prospect of agreement on the size of the quota increase?
- b. Has sufficient progress been made in resolving differences over quota distribution? And are developing countries likely to accept some reduction in their share?
- c. Are access limits likely to be a sticking point, or will a broad statement at the Interim Committee, with details to be agreed later, suffice?

(ii) Saudi Arabia and the Fund

On Saudi attitudes to the Quota Review and any enhanced GAB borrowing arrangements, the Chancellor would welcome the Managing Director's assessment of:-

- a. The Saudi general approach to the size of ^{The} quota increase and its distribution.
- b. The Saudi attitude to parallel lending to the Fund alongside an enlarged GAB. (The Chancellor would particularly appreciate the Managing Director's views on the form such a parallel arrangement should take, and the amounts envisaged.)
- c. Any further Saudi sensitivities, and tactical considerations.

(iii) Saudi Loan

Finally, the Chancellor would be grateful to know whether the Managing Director's plans to discuss on this visit the separate issue of the third SDR 4 billion tranche of the Saudi loan to the Fund. Or will this be handled separately?

3. The Chancellor recognises that it will be necessary to make an up to date assessment of the likely support for an early Interim Committee with a view to a decision immediately after the visit to Saudi Arabia. He will himself try to obtain the latest views of his G5 colleagues, just before the visit, in the light of their own contacts with developing countries.

NOTHING TO BE WRITTEN IN THIS MARGIN

gde.

JK

CONFIDENTIAL

40207 - 1

OO JEDDA
GRS 263
CONFIDENTIAL

FM FCO 031700Z DEC 82
TO IMMEDIATE JEDDA
TELEGRAM NUMBER 387 OF 3 DECEMBER
YOUR TELEGRAM NUMBER 572

VISIT OF THE CHANCELLOR OF THE EXCHEQUER

1. PLEASE NOWTELL QURAIISHI AND ABA AL KHAIL THAT THE CHANCELLOR WOULD BE GRATEFUL IF THEY COULD RESERVE DATES SOME TIME BETWEEN 19/20 AND 22/23 DECEMBER. ONLY FORMALITIES REMAIN BEFORE HIS ELECTION AS CHAIRMAN OF THE IMF INTERIM COMMITTEE, THE IMF'S EFFECTIVE DECISION MAKING BODY, AND HE IS ANXIOUS TO VISIT SAUDI ARABIA AS SOON AS THESE ARE COMPLETED. THIS WILL NOT BE BEFORE 18/19 DECEMBER (FOR YOUR OWN INFORMATION THERE IS ALSO AN EC FINANCE MINISTERS' MEETING WHICH WOULD MAKE A VISIT BEFORE THEN IMPOSSIBLE). THE CHANCELLOR WOULD BE GRATEFUL IF THE SAUDIS COULD KEEP THE PROPOSED VISIT SECRET UNTIL ELECTION FORMALITIES ARE COMPLETE.

2. THE PURPOSE OF THE CHANCELLOR'S VISIT IS TO DISCUSS THE QUOTA REVIEW (VID.UKDEL IMF'S TEL NO 270 OF 2 DECEMBER: QUOTAS ARE IN EFFECT SUBSCRIPTIONS TO THE IMF: THEY ARE IN THEORY, BUT NOT IN PACTICE, PROPORTIONAL TO A COUNTRY'S ECONOMIC STRENGTH, AND DETERMINE HOW MUCH CAN BE BORROWED). FOR YOUR OWN INFORMATION, IT IS HOPED THAT THE VISIT WILL HELP PERSUADE SAUDI ARABIA TO AGREE PROPOSALS FOR INCREASED QUOTAS AND TO COOPERATE WITH ARRANGEMENTS FOR A NEW BORROWING FACILITY.

3. THE VISIT OF SENIOR CABINET MINISTER COULD CLEARLY BE SEEN AS SENSITIVE IN THE LIGHT OF MISUNDERSTANDINGS WHICH HAVE ARISEN FROM OUR STAND ON THE FEZ FOLLOW-UP COMMITTEE. HOWEVER, SINCE SIR G HOWE'S VISIT IS TO BE AN INFORMAL ONE AND IN HIS IMF NOT REPEAT NOT HIS NATIONAL CAPACITY, WE HOPE THIS WILL NOT CAUSE PROBLEMS.

PYM

DISTRIBUTION
LIMITED
H'D/MED
MR EGERTON

COPIES TO
SIR K COUZENS: TREASURY
PS/CHANCELLOR OF THE EXCHEQUER



CONFIDENTIAL

GR 100
CONFIDENTIAL
DESKBY 060900Z
FM UKDEL THE/ISRD WASHINGTON 042027Z DEC 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 276 OF 4 DECEMBER

JP
[Signature]

C

PERSONAL FOR PS CHANCELLOR OF THE EXCHEQUER AND SIR K COUZENS
(TREASURY)

CHANCELLOR'S POSSIBLE VISIT TO SAUDI ARABIA

NY TELNO 274

1. NINATALLAH CAME BACK TO ME TODAY TO SAY THAT HE HAD BEEN IN CONTACT WITH HIS MINISTER, WHO HAD SAID THAT HE WOULD WELCOME A VISIT BY THE CHANCELLOR AND LAROSIERE. HOWEVER, THE PROPOSED TIMING WAS NOT CONVENIENT. INSTEAD, HIS MINISTER PROPOSED ANY DAY WITHIN THE FIRST TEN DAYS OF JANUARY, ALTHOUGH PREFERABLY AROUND JANUARY 5 OR 6. I UNDERTOOK TO PASS THIS MESSAGE TO THE CHANCELLOR AND SAID THAT I WOULD GET BACK TO NINATALLAH AS SOON AS POSSIBLE.

TAYLOR

MINIMAL
HD/MED

COPIES TO

~~PS/CHANCELLOR~~
SIR K COUZENS
MR J G LITLER
MR R. G. LAVETTE

TREASURY

Let's wait for the telegram from Tedcla.

[Signature]

CONFIDENTIAL

GRS 240

CONFIDENTIAL

C

CONFIDENTIAL

FM PARIS 071943Z DEC 82

TO PRIORITY FCO

TELEGRAM NUMBER 1175 OF 7 DECEMBER 1982

INFO PRIORITY JEDDA, WASHINGTON, UKREP BRUSSELS, UKDEL IMF/IBRD
WASHINGTON

SAUDI ARABIAN LOAN TO FRANCE

1. TWO FRENCH NEWSPAPERS HAVE TODAY (7 DECEMBER) PUBLISHED REPORTS THAT SAUDI ARABIA HAS AGREED TO LEND FRANCE OVER TWO BILLION US DOLLARS, BY MEANS OF A DEPOSIT IN A PARIS BANK. THE FIRST REPORT APPEARED IN QUOTIDIEN DE PARIS, WHICH A RATHER SENSATIONALIST RIGHT-WING DAILY, BUT THE SECOND APPEARED IN AN ARTICLE IN LE MONDE SIGNED BY PAUL FABRA, A HIGHLY RESPECTED ECONOMIC CORRESPONDENT. NO SOURCES ARE GIVEN BUT CONSIDERABLE CIRCUMSTANTIAL EVIDENCE IS PRESENTED. THE TRESOR HAS MET JOURNALISTS' QUESTIONS TODAY WITH QUOTE NO COMMENT UNQUOTE.

2. IF THE REPORTS PROVE WELL FOUNDED AS INDEED THEY MAY, THIS NEWS WOULD SUGGEST A BELIEF IN GOVERNMENT THAT THE US 4 BILLION DOLLARS CREDIT CONTRACTED IN OCTOBER WILL PROVE INSUFFICIENT TO MEET THE PRESSURE ON THE FRANC WHICH CAN BE EXPECTED TO CONTINUE OVER THE COMING MONTHS. WE HAVE IT ON GOOD AUTHORITY THAT OVER HALF THE 4 BILLION DOLLARS HAS BEEN DRAWN DOWN SINCE THE CREDIT WAS SIGNED IN LATE OCTOBER, AND THE GOVERNMENT IS APPARENTLY DETERMINED TO AVOID ANOTHER REALIGNMENT OF THE FRANC WITHIN THE EMS (OR AN EXIT FROM ITS EXCHANGE RATE SYSTEM) BEFORE THE MUNICIPAL ELECTIONS IN MARCH.

FRETWELL

MONETARY D

WED

NAD

MED

THIS TELEGRAM
WAS NOT
ADVANCED

CONFIDENTIAL

OO JEDDA (ACTIONED)

X 0900/8

OP UKDEL IMF/IBRD WASHINGTON

RR PARIS

GRS 95

RESTRICTED

FROM RIYADH 080700Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 79 OF 8 DECEMBER

INFO IMMEDIATE JEDDA, UKDEL IMF/IBRD WASHINGTON

INFO ROUTINE PARIS

M. Appleyard

ERD

OUR TELNO 76 : VISIT OF CHANCELLOR OF THE EXCHEQUER

1. MINISTER OF FINANCE'S PRIVATE SECRETARY HAS INFORMED US THAT THE MINISTER WILL BE RECEIVING THE FRENCH MINISTER OF FINANCE IN RIYADH BETWEEN 20 AND 23 DECEMBER. ABA ALKHAIL HAS TO LEAVE FOR THE GCC FINANCE MINISTERS' MEETING IN BAHRAIN ON 24 DECEMBER. HE THEREFORE REGRETS THAT IT WILL NOT BE POSSIBLE FOR HIM TO RECEIVE THE CHANCELLOR OF THE EXCHEQUER IN DECEMBER.

2. THE PRIVATE SECRETARY CONFIRMED HOWEVER THAT THE MINISTER WILL BE DELIGHTED TO RECEIVE THE CHANCELLOR IN RIYADH AT ANY TIME BETWEEN 1 AND 10 JANUARY.

MUIR

Scumby
1-2 January

NNNN

cc. Mrs. Alison MEO
 + Mrs. Kerr, PS / Chancellor
 Mrs. Spivey-Thompson, PS / Sir
 K. Cozens.

Ha! I think that means the December plan collapses.

Theoretically, there's still the 18th-19th, but the exact coincidence with the GPEC meeting presumably explains x

- 2. So we look for January date?
- 3. And you tomorrow encourage Delors to play Jean le Baptiste? (Tho' we know what he's really up to: see below.) JPL.

CONFIDENTIAL

40905 - 1

OO JEDDA DESKBY 081130Z

RR AMMAN

RR DAMASCUS

GRS 454

CONFIDENTIAL

DESKBY 081130Z

FM FCO 081010Z DEC 82

TO IMMEDIATE JEDDA

TELEGRAM NUMBER 400 OF 8 DECEMBER

INFO AMMAN RABAT DAMASCUS WASHINGTON TUNIS ALGIERS

ARAB LEAGUE DELEGATION

PLEASE NOW PASS THE FOLLOWING MESSAGE FROM THE PRIME MINISTER
TO KING FAHD

BEGINS: I THOUGHT I SHOULD LET YOU KNOW HOW DISAPPOINTED I AM
THAT IT DID NOT PROVE POSSIBLE FOR THE ARAB LEAGUE DELEGATION
TO VISIT LONDON LAST WEEK. LORD CARRINGTON HAS TOLD ME OF HIS
CONVERSATIONS WITH CROWN PRINCE ABDULLAH AND PRINCE SULTAN
DURING HIS RECENT VISIT AND I KNOW HOW DISAPPOINTED YOU WERE TOO.
THE BRITISH POSITION IS NOT MEANT TO BE RESTRICTIVE OR
NEGATIVE. OVER THE PAST FIFTEEN YEARS WE HAVE CONTRIBUTED AS
MUCH AS ANY WESTERN COUNTRY TO THE NOW ALMOST UNIVERSAL
RECOGNITION THAT THE PALESTINIAN PEOPLE HAVE A RIGHT TO SELF-
DETERMINATION. THE SOONER ALL THE PARTIES TO THE ARAB-ISRAEL
DISPUTE, AND THOSE WHO WISH TO HELP THEM, CAN SIT DOWN TOGETHER
AND DISCUSS THE NEXT STEPS WITHIN A REALISTIC AND POSITIVE
FRAMEWORK, THE SOONER THE PALESTINIAN PEOPLE WILL BE PUT IN A
POSITION TO EXERCISE THAT RIGHT. I DO NOT BELIEVE A CHANGE
IN BRITISH POLICY OR MINISTERIAL CONTACTS WITH THE PLO, IN THE
ABSENCE OF STEPS BY THE PLO WHICH WE BELIEVE WOULD GREATLY
STRENGTHEN THEIR DIPLOMATIC POSITION, ARE LIKELY TO HELP TO
BRING THIS ABOUT. OUR POSITION ON CONTACTS WITH THE PLO IS
BASED ON OUR CONVICTION THAT PLO ACCEPTANCE IN PRINCIPLE OF
ISRAEL'S RIGHT TO EXIST IN PEACE AND SECURITY, IF ISRAEL IS
PREPARED TO ACCEPT LEGITIMATE PALESTINIAN RIGHTS, AND OF THE
NEED FOR A SETTLEMENT TO BE REACHED BY PEACEFUL MEANS, IS

1

CONFIDENTIAL

/A NECESSARY

CONFIDENTIAL

40905 - 1

A NECESSARY STEP IF THERE ARE TO BE REALISTIC NEGOTIATIONS ON THE FUTURE OF THE PALESTINIANS. IT IS VITAL FOR BOTH SIDES TO TAKE ADVANTAGE OF THE PRESENT OPPORTUNITIES FOR MAKING PROGRESS TOWARDS A PEACEFUL SETTLEMENT THROUGH NEGOTIATIONS.

I BELIEVE THAT THERE IS BROAD AGREEMENT BETWEEN US ON MANY ASPECTS OF THE PALESTINIAN PROBLEM: AND I AM SADDENED THAT THIS PRESENT DISAGREEMENT SHOULD HAVE ARISEN WHEN I WAS SO MUCH LOOKING FORWARD TO DISCUSSING THESE ISSUES WITH KING HASSAN AND HIS DELEGATION. I HOPE A WAY CAN BE FOUND, CONSISTENT WITH THE PRINCIPLES AND POLICIES OF OURSELVES AND THE ARAB PEOPLES, FOR THE ARAB LEAGUE DELEGATION TO COME TO LONDON AND FOR US TO HAVE THE PLEASURE OF RECEIVING THEM. I SHOULD LIKE TO ASSURE YOU IN ANY EVENT THAT WE SHALL CONTINUE TO PLAY AS ACTIVE A PART AS WE CAN IN THE SEARCH FOR A JUST AND LASTING PEACE. WE HAVE FOR EXAMPLE BEEN PRESSING THE AMERICANS HARD ON THE URGENT NEED FOR ISRAEL TO IMPLEMENT THE SETTLEMENTS FREEZE PROPOSED BY PRESIDENT REAGAN. IT GOES WITHOUT SAYING THAT I ATTACH THE GREATEST POSSIBLE IMPORTANCE TO HAVING THE VIEWS OF YOUR MAJESTY ON THIS AND OTHER MATTERS OF SUCH CONCERN TO BOTH OUR COUNTRIES. ENDS

PYM

STANDARD

NENAD	SECURITY D
MED	MAED
NAD	ES & SD
SAD	ERD
UND	ESID
EESD	CONS D
ECD	CONS EM UNIT
WED	CABINET OFFICE
RIID	

ADDITIONAL DISTRIBUTION

ARAB/ISRAEL DISPUTE

CONFIDENTIAL

FROM: J.O. KERR
10 December 1982

CHANCELLOR

S. Arabia

You agreed that I should look for dates in early January. I have not been able to get very far, in the absence of Sir K Couzens, and I suspect that I need your authority to have a word with Mr. Hancock (this is a point which might conveniently come up at your 3.45 p.m. meeting on Monday with Sir R Armstrong and Sir D Wass.) Larosière cannot do 1 - 4 January, and would prefer to avoid 5 January. 6 and 7 January are dies non, being the Moslem weekend (Thursday/Friday). Mr. Pym plans a Gulf/Saudi Arabia/Oman tour - to mend fences after the fracas over the frustrated King Hassan visit - which, on present plans, would mean that he does business on Saudi Arabia on 9/10 January. This seems to me to point to our going out on 7 January, with a view to doing business on 8 January.

2. These are also Larosière's preferred dates. Mr. Anson also likes them - though he is not bidding to travel with us - because they would mean that you and Larosière would be together at exactly the moment when it will be necessary to take the decision on whether or not to advance the Interim Committee meeting.

3. The casualties, diary-wise, seem to be only the Boat Show lunch and Wakeham constituency speaking engagement on 7 January.

4. The Ambassador in Jedda is being consulted now, and will make another sounding, without commitment, over this weekend. Subject to a green light from him, to our finding suitable flights, and to my contacts with Sir K Couzens [and Mr. Hancock] on Monday, shall I proceed on this basis?

5. If you think I should, it would be a kindness to warn Mr. Wakeham at prayers on Monday.

J.O. Kerr
J.O. KERR

*2nd year
hunting
L. J. Jones?
Fulham, with
Wass., it
messes*

1. 19. copy to

PS/ Sir K. Cuzens

Mr havelle

Mr Bottill.

41739 - 1

2. + reubmit.

JDE.

12/xii

M. L. L.

CONFIDENTIAL

OO JEDDAH DESKBY 110630Z

OO RIYADH DESKBY 110630Z

GRS 196

CONFIDENTIAL

DESKBY 110630Z JEDDAH AND RIYADH

FM FCO 102030Z DEC 82

TO IMMEDIATE JEDDAH

TELEGRAM NUMBER 406 OF 10 DECEMBER

INFO IMMEDIATE RIYADH

FOLLOWING FROM PRIVATE SECRETARY

RIYADH TELNO 79 : CHANCELLOR'S VISIT TO SAUDI ARABIA

1. THE CHANCELLOR IS ANXIOUS THAT HIS VISIT SHOULD HAVE TAKEN PLACE BY 11 JANUARY AT THE LATEST. LAROSIERE CANNOT MANAGE 1 - 6 JANUARY. BUT THE PERIOD 7 - 10 JANUARY POSES AN OBVIOUS PROBLEM IN THAT IT CLASHES WITH THE PROPOSED DATES FOR THE SECRETARY OF STATE'S VISIT. SEEN FROM HERE, IT WOULD OBVIOUSLY BE PREFERABLE TO AVOID HAVING TWO BRITISH CABINET MINISTERS IN SAUDI ARABIA AT THE SAME TIME, EVEN THOUGH THE CHANCELLOR WOULD NOT BE THERE IN HIS BRITISH CAPACITY. IF YOU AGREE THAT A DIRECT CLASH SHOULD BE AVOIDED, ONE POSSIBILITY WOULD BE FOR THE CHANCELLOR TO ARRIVE ON 7 JANUARY AND MEET HIS SAUDI OPPOSITE NUMBERS ON 8 JANUARY WHILE THE SECRETARY OF STATE'S IN DOHA.

2. YOU WILL WISH TO HAVE THIS IN MIND IN THE DISCUSSIONS WITH THE SAUDIS ON DATES FOR THE SECRETARY OF STATE'S VISIT. YOU SHOULD NOT PUT ANY DATES TO THEM FOR THE CHANCELLOR'S VISIT UNTIL WE HAVE SEEN HOW THE SAUDIS REACT TO THESE. GRATEFUL IN ANY CASE FOR YOUR VIEWS.

PYM

NNNN

DISTRIBUTION

LIMITED

MED

NENAD

PCD

ERD

PS

PS/MR HURD

SIR J LEAHY

MR EGERTON

MR THOMAS

COPIES

PS/CHANCELLOR OF THE EXCHEQUER

CONFIDENTIAL



Mr. [Name]

of [Address]

[City]

[State]

[Date]

[Handwritten notes]

[Faint, illegible text]

[Faint, illegible text]

[Faint, illegible text]

[Faint, illegible text]

[Faint, illegible text]

[Faint, illegible text]

[Faint, illegible text]

[Faint, illegible text]

GR 460

CONFIDENTIAL

CONFIDENTIAL

FM UKDEL IMF/IBRD WASHINGTON 132300Z

TO PRIORITY FCO

TELEGRAM NUMBER 286 OF 13 DECEMBER 1982

JK Keep with on Saudi mps
[Handwritten signature]

IMF: EXPANDED GAB

1. AT THE END OF A CONVERSATION BETWEEN THE MANAGING DIRECTOR AND MYSELF ON 9 DECEMBER, HE MENTIONED THAT A COPY OF THE AMERICAN OUTLINE PAPER FOR LAST FRIDAY'S G10 DISCUSSION HAD BEEN GIVEN TO NIMATALLAH (SAUDI EXECUTIVE DIRECTOR) - HE DID NOT SAY BY WHOM, BUT IT WAS PRESUMABLY ERB. NIMATALLAH HAD TALKED TO THE MD ABOUT THE PROPOSALS IN THE OUTLINE. HE HAD BEEN CAUTIOUS ABOUT THE LIKELY SAUDI ATTITUDE, AS THE MD HAD EXPECTED. BUT THE MD DID GET THE IMPRESSION THAT THE SAUDIS WOULD BE OFFENDED IF THERE WERE NO SUGGESTION THAT SAUDI MEMBERSHIP OF AN EXPANDED GAB MIGHT BE CONSIDERED. REGARDLESS OF WHETHER THEY WISHED TO JOIN OR NOT, THEY WOULD PROBABLY LIKE TO BE ASKED AND COULD WELL BE UPSET IF THE QUESTION WERE NOT RAISED AT ALL. THE MD SUGGESTED THAT WE AND OTHER LEADING G10 MEMBERS SHOULD GIVE CAREFUL THOUGHT TO THIS QUESTION IN ADVANCE OF ANY APPROACH TO THE SAUDIS REGARDING NEW BORROWING ARRANGEMENTS.

[Handwritten checkmarks]

2. MY CASUAL CONVERSATIONS OVER THE LAST FEW DAYS WITH EXECUTIVE DIRECTORS REPRESENTING NON-G10 COUNTRIES SUGGEST A SOMEWHAT RELATED POINT, NAMELY THAT THEY WOULD HAVE LITTLE INCENTIVE TO PUT UP MONEY IN PARALLEL WITH AN EXPANDED GAB SCHEME UNLESS OFFERED SOME FORMAL MEMBERSHIP OR AT LEAST ASSOCIATION WITH G10. FOR EXAMPLE, SCHNEIDER (ALTERNATE EXECUTIVE DIRECTOR FOR THE BELGIUM CONSTITUENCY, AND HIMSELF AN AUSTRIAN) HAS MADE THE POINT WITH REFERENCE TO HIS AUSTRIAN AUTHORITIES AND SIGURDSSON (NORDIC EXECUTIVE DIRECTOR) HAS MADE A SIMILAR POINT WITH REFERENCE TO THE NON-G10 NORDIC COUNTRIES.

FORTHCOMING BOARD DISCUSSION

3. THE MANAGING DIRECTOR CIRCULATED TO THE EXECUTIVE BOARD THIS MORNING A COPY OF THE QUOTE CONCLUSIONS UNQUOTE REACHED BY G10 DEPUTIES AT THEIR 10 DECEMBER MEETING (I ASSUME THAT DINI WILL HAVE COPIED THIS SHORT DOCUMENT TO PARTICIPANTS). THE MANAGING DIRECTOR SAID THAT THIS WOULD CONSTITUTE THE SOLE DOCUMENTARY BACKGROUND FOR THE BOARD'S DISCUSSION OF THE ENLARGEMENT OF THE GAB, SCHEDULED FOR THIS FRIDAY, 17 DECEMBER.

4. AMONG QUESTIONS LIKELY TO BE RAISED ON FRIDAY, THAT OF LINKS BETWEEN AN EXPANDED GAB AND PARALLEL BORROWING ARRANGEMENTS WILL PROBABLY BE WELL TO THE FORE.

5. FCO PLEASE ADVANCE TO COUZENS AND LAVELLE (HMT), GILCHRIST (BANK OF ENGLAND) AND APPELYARD (ERD).

TAYLOR
MONETARY
ERD

(ADVANCED AS REQUESTED)

CONFIDENTIAL

CONFIDENTIAL

GR 700
CONFIDENTIAL
DESKBY 150900Z
FROM UKDEL IMF/IBRD WASHINGTON 141800Z DEC 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 287 OF 14 DECEMBER 1982

JK

NY TELNO 286

IMF: EXPANDED GAB

1. FOLLOWING IS TEXT OF QUOTE CONCLUSIONS UNQUOTE REFERRED TO IN
PARA. 3 OF MY TELEGRAM UNDER REFERENCE.

BEGINS

AT THEIR MEETING OF DECEMBER 10, 1982 IN PARIS, THE DEPUTIES OF
THE G-10 REACHED CERTAIN CONCLUSIONS IN PRINCIPLE REGARDING THE
MAIN ELEMENTS OF A REVISED AND EXPANDED GAB. IT WAS THEIR VIEW
THAT THE EXPANDED GAB WOULD CONTINUE TO PERFORM ITS PRESENT
FUNCTIONS FOR PARTICIPANTS, BUT PROVISION WOULD BE MADE FOR THE USE
OF THE GAB RESOURCES TO FINANCE PURCHASES FROM THE IMF BY NON-
PARTICIPANTS IN CERTAIN CIRCUMSTANCES.

THE MAIN CONCLUSIONS WERE AS FOLLOWS:

1. QUOTAS WOULD REMAIN THE PRINCIPAL SOURCE OF IMF RESOURCES TO
MEET THE ORDINARY BALANCE OF PAYMENTS FINANCING REQUIREMENTS
OF ITS MEMBERS. THE BROAD PURPOSE OF THE GAB WOULD REMAIN TO
SUPPLEMENT THE IMF'S RESOURCES, IF NEEDED TO FORESTALL OR COPE
WITH AN IMPAIRMENT OF THE INTERNATIONAL MONETARY SYSTEM.
2. THE SIZE OF THE GAB WOULD BE RAISED FROM THE EQUIVALENT OF ABOUT
SDR 6.4 BILLION TO SDR 15-20 BILLION. THE PARTICIPANTS' CREDIT
COMMITMENTS WILL BE DENOMINATED IN SDRS. ANY AGREEMENT WITH OTHER
COUNTRIES ON THE PROVISION OF FINANCING TO THE IMF IN PARALLEL WITH
THE GAB WOULD AUGMENT THE AMOUNTS AVAILABLE.
3. THE CREDIT COMMITMENTS OF INDIVIDUAL PARTICIPANTS SHOULD BE
BROADLY REFLECTIVE OF THEIR SIZE AND ROLES IN THE INTERNATIONAL
ECONOMY AND OF THEIR ABILITY TO PROVIDE FINANCING TO THE IMF.
IT WAS AGREED THAT PARTICIPANTS' SHARES IN THE ARRANGEMENT SHOULD
BE APPROPRIATELY ADJUSTED IN LIGHT OF THESE PRINCIPLES.
4. CONDITIONS AND PROCEDURES FOR ACTIVATION FOR PURCHASES FROM THE
IMF BY PARTICIPANTS WOULD REMAIN UNCHANGED. THE REVISED GAB COULD
BE ACTIVATED TO FINANCE PURCHASES BY OTHER MEMBERS IF THE
FOLLOWING CRITERIA WERE MET:
 - (I) THAT THE IMF WAS FACED WITH AN INADEQUACY OF RESOURCES TO MEET
APPROPRIATE REQUESTS FOR CONDITIONAL FINANCING;
 - (II) THAT THIS INADEQUACY OF RESOURCES AROSE FROM AN EXCEPTIONAL
SITUATION ASSOCIATED WITH REQUESTS FROM COUNTRIES WITH BALANCE

CONFIDENTIAL

/ OF PAYMENTS

OF PAYMENTS PROBLEMS OF A CHARACTER OR OF AGGREGATE SIZE THAT COULD POSE A THREAT TO THE STABILITY OF THE INTERNATIONAL MONETARY SYSTEM.

IN CONSIDERING PROPOSALS FOR ACTIVATION OF THE GAB FOR NON-PARTICIPANTS, THE PARTICIPANTS WOULD CONSULT AMONG THEMSELVES FOR THE PURPOSE OF ASCERTAINING WHETHER THE ABOVE CRITERIA WERE MET. SUCH CONSULTATION WOULD NOT EXTEND TO THE EXAMINATION OF SPECIFIC PROGRAMS FOR USE OF FUND RESOURCES, WHICH REMAINS THE RESPONSIBILITY OF THE EXECUTIVE BOARD.

ACTIVATION OF THE GAB FOR THE BENEFIT OF NON-PARTICIPANTS WOULD NEED TO PAY DUE REGARD TO POTENTIAL CALLS ON THE ARRANGEMENTS FOR THE PURPOSE OF FINANCING PURCHASES BY PARTICIPANTS.

5. CREDIT EXTENDED TO THE IMF UNDER THE GAB WOULD EARN INTEREST AT A RATE EQUAL TO 100 PER CENT OF THE COMBINED MARKET RATE USED TO DETERMINE THE SDR INTEREST RATE. THE 1/2 PER CENT TRANSFER CHARGE NOW LEVIED WOULD BE ABOLISHED.

6. THERE WAS SOME DISCUSSION REGARDING THE RELATIONSHIP WITH OTHER POTENTIAL LENDERS WILLING TO PROVIDE RESOURCES IN PARALLEL WITH THE GAB. IT WAS ASSUMED THAT LENDING UNDER SUCH PARALLEL ARRANGEMENTS WOULD BE AVAILABLE TO FINANCE PURCHASES BY GAB PARTICIPANTS AS WELL AS NON-PARTICIPANTS, AND THAT PARALLEL LENDERS WOULD HAVE THE SAME ACCESS TO GAB RESOURCES AS PARTICIPANTS.

7. THE REVISED AND EXPANDED GAB WILL BE REVIEWED AT THE TIME OF THE NINTH GENERAL REVIEW OF QUOTAS.

8. IT WAS RECOGNIZED THAT IMPLEMENTATION OF THE ABOVE CONCLUSIONS WOULD REQUIRE AMENDMENTS OF THE GAB DECISION: IT WAS CONSIDERED DESIRABLE THAT, IN THE INTEREST OF SPEED, THE AMENDMENTS SHOULD BE KEPT TO A MINIMUM. REGARDING THE CRITERIA FOR ACTIVATION FOR THE BENEFIT OF NON-PARTICIPANTS, IT WAS LEFT OPEN WHETHER THEY SHOULD BE INCLUDED IN THE DECISION OR WHETHER THEY SHOULD BE EXPRESSED IN SOME FORM OF UNDERSTANDING AMONG PARTICIPANTS.

9. IT WAS UNDERSTOOD THAT THE REVISION OF THE GAB ALONG THE LINES INDICATED ABOVE WAS CONTINGENT UPON REACHING SATISFACTORY AGREEMENT ON THE OTHER ISSUES RELATING TO THE EIGHTH QUOTA REVIEW.

ENDS

2. FCO PLEASE ADVANCE TO ATKINSON (TREASURY), BROWN (BANK OF ENGLAND) AND APPELYARD (ERD).

TAYLOR

ADVANCED AS REQUESTED

MONETARY
ERD

2
CONFIDENTIAL

CONFIDENTIAL

42260 - 1

OO JEDDA

OO RIYADH

GR 120

CONFIDENTIAL

FM FCO 141715Z DECEMBER 1982

TO IMMEDIATE JEDDA

TELEGRAM NUMBER 414 OF 14 DEC

INFO IMMEDIATE RIYADH

*Please copy to
Sir K. Cousins
R. Mitter
Mr. Lavelle
Mr. B. Hill*

*J.P.
15/12*

MY TELNO 406 AND YOUR TELNO 596 AND TELECON LAYDEN/PLUMBLY MED:
VISIT OF THE CHANCELLOR OF THE EXCHEQUER

1. THE CHANCELLOR AND THE IMF ARE ANXIOUS
TO GO FIRM ON ARRANGEMENTS FOR A VISIT. IN THE
LIGHT OF PARA 3 OF YOUR TUR, AND PROVIDING YOU SEE NO OBJECTION,
PLEASE NOW CONTACT OFFICES OF ABA AL KHAIL AND QURASHI AND
PROPOSE THAT THE CHANCELLOR SHOULD ARRIVE IN RIYADH ON 7 JANUARY
AND LEAVE EARLY ON THE MORNING OF 9 JANUARY.

PYM

NNNN

DISTR

LIMITED

MED

NENAD

PCD

ERD

PS

COPIES

PS/CHANCELLOR OF THE EXCHEQUER

PS/MR HURD

SIR J LEAHY

MR EGERTON

MR THOMAS

1

CONFIDENTIAL

Handwritten notes in the upper left quadrant, including the word "March" and other illegible scribbles.

Handwritten notes in the middle left area, including a circled number "4".

Faint, illegible text in the center of the page, possibly bleed-through from the reverse side.

Faint, illegible text in the lower right quadrant, possibly bleed-through from the reverse side.

UR
15/12

lower even means you have way
of Sunday left!

8 Jan in Riyadh
9 Jan Depart 08.00 (Riyadh) Am 12.20 (LHR)

7 Jan. Depart 15.40 (LHR) am. 01.05 (Riyadh)

Best best:
on 8/1 the following figures
Saudi Government takes place in
Riyadh. So with a view to take
FID tell me that in January the

Saudi Arabia.

Chancellor

Hand any letter
Dear Sir
I'm sorry to
hear of the
tragedy



Yours

CONFIDENTIAL

PWP

From: Sir Kenneth Couzens
Date: 16 December 1982

cc: Sir Douglas Wass
Mr Littler
Mr Lavelle
Mr Bottrill
Mr Hall

CHANCELLOR

Mr Anson - Washington

DELORS AND SAUDI ARABIA

You may have seen the report in the Financial Times of Tuesday, 14 December, that M. Delors was likely to discuss the possibility of associating Saudi Arabia with the GAB in the course of his visit to Riyadh next week.

2. In Frankfurt you urged that nothing be said to the Saudi Arabians which might put into their head the idea that they should become members of the Group of Ten. The Financial Times report, attributed to a French Treasury official, is not terribly helpful on that point. Moreover I have been a little worried that the activities of Dini as Chairman of the G10 Deputies might add to the possibility of confusion. At the meeting of the G10 Deputies in Paris on 10 December which he chaired, he was encouraging the idea that Delors should speak to the Saudis as G10 Chairman. He was also involving himself in complicated ideas about the relationship between the Saudis, the IMF and the GAB.

3. The attached note of conclusions of the 10 December meeting which Dini has circulated is, I think, perfectly acceptable, except for the muddle affecting Saudi Arabia in paragraph 6. Paragraph 6 is expressed very tentatively, as well as it might be, given that the point it covers was not really properly discussed in Paris. I think the suggestion it contains that the Saudis should have access to GAB resources in the same way as full GAB members, and that GAB members would be able to draw on Saudi lending under a "parallel arrangement" is very probably wrong, and is certainly provocative.

CONFIDENTIAL

4. My own view of "parallelism" by Saudi Arabia is as follows. We should encourage the Saudis to enter into a separate arrangement with the IMF for pre-arranged lending to the Fund. It would be for them to decide whether they should state that access by the IMF to this lending would be triggered on the same conditions as under the GAB "second window". They might also choose to say that they would only lend if the G10 were lending also; but again, that would be a matter for them. The IMF (and therefore yourself as Chairman of the Interim Committee) might choose to suggest an amount to which the Saudis should commit themselves. I can imagine Larosiere thinking in terms of say 4 billion SDRs since that is a familiar number to the Saudis; but I am doing no more than making a guess. At all events, it would not be for the G10 to propose a number to the Saudis. That would be between the IMF and the Saudis. The principle of all this would be a quite separate agreement, even if an understanding emerged that they would be triggered at the same time. And I don't think that the G10 could stipulate that there had to be Saudi lending before the two would agree to lend. The G10 might say at the time of an application that they would look more favourably on activating the agreement if the Saudis were playing also, but I don't think I would go for anything more formal than that.

5. It follows from this that it is a mistake to think of a Saudi agreement with the IMF as like the present Swiss agreement with the IMF, which is much more closely under the shadow of the GAB. Saudi Arabia is not Switzerland. We have to remember that they are a member of the Group of 77 and respect their links with the LDCs.

6. So I think that Dini's paragraph 6 goes too far in muddling up the Saudis and the rich man's club, and is anyway too mechanistic in its approach. I propose to write him a letter expressing my reservations about this paragraph.

7. I also took the opportunity of yesterday's Monetary Committee meeting in Brussels (at which I negotiated Camdessus' succession to the chairmanship for one year) to explain to him (Camdessus) my thoughts about the relationship between the Saudis and the IMF. I spoke as in the earlier paragraphs of this minute, and he accepted my

line. He assured me that any discussions between Delors and himself on the one hand and the Saudis on the other in this IMF/GAB area would be very tentative and that the point about avoiding putting into their head the idea of joining the G10 was taken. I urged that Delors should make the first objective to assure the Saudis that the Group of Five and the Group of Ten had every intention of consulting them on the general IMF resources package at the earliest moment at which any clarity about it began to emerge. The important point was not to go into details of the GAB, but to engage their sympathy in the whole operation. Camdessus assured me that he saw their visit as simply a forerunner of your own. I was also reassured to hear from him that the French agreement with the Saudis on credit and on oil purchases was more or less complete and that the visit was more an act of registration and courtesy than a negotiation. If this is true, the French will not be discussing IMF matters in a situation where they are under negotiating pressure, though there is the risk that they will simply be looking for something to talk about.

8. Camdessus also agreed to have a word with Larosiere before he and the Minister departed for Riyadh. I attempted to speak to Larosiere myself on Tuesday, 14 December, to suggest that he speak to the French on the basis of the Financial Times report. In fact I was obliged to give this message to Bill Dale, Larosiere's deputy, since Larosiere was in New York. I hope that one way or another Larosiere's own views will be conveyed to the French. There is to be a discussion in the IMF Board on Friday, 17 December, on the basis of Dini's conclusions.

9. I am inclined to conclude that M. Delors and M. Camdessus will do us no harm during this visit, although the publicity they will seek and get is not exactly what we would prefer. Delors does have the locus of being the Chairman for the time being of the Group of Ten. But I think it may be helpful to try to steer matters a little more in the course of tomorrow's Ecofin in Brussels. You could give to Delors a copy of my letter to Dini, which will set out the philosophy rehearsed above. I gather too that the Danes want to organise some discussion of the IMF package during the Ministerial lunch and there might be an opportunity to give a further steer then or during private conversation with Delors.

K E C

K E COUZENS

EUROPEAN NEWS

Delors to discuss possible Saudi IMF role

BY DAVID MARSH IN PARIS

M JACQUES DELORS, the French Finance Minister, will discuss possible Saudi Arabian participation in increasing the resources of the International Monetary Fund during a visit to Riyadh next week, a finance ministry official said in Paris yesterday.

M Delors, chairman of the Group of 10 industrial countries which traditionally steer the policies of the IMF, will hold talks with Saudi officials on a range of bilateral and international issues.

He is also likely to discuss a plan to associate the Saudi Arabians with the General Arrangements to Borrow. This is the lending mechanism set up by the Group of 10 to channel extra money to the IMF in times of need.

Under a plan discussed by finance ministers from the big five industrial nations at a meeting near Frankfurt last week, the GAB is expected both to be boosted in size and to be expanded so that funds could be lent outside the range of the

present contributing countries.

Officials have spoken of increasing the amount which can be mobilised from about \$7bn (£4.4bn) to between \$15 and \$20bn.

Saudi Arabia will be asked to make a significant contribution, although it is not yet sure in what way it will be linked to the Group of 10.

Officials in Paris say that for political reasons Riyadh might prefer not to be too closely associated with the industrial

country grouping.

The Saudis have already agreed to lend directly SDR 4bn (£2.7bn) a year to the IMF to boost its lending resources, under an arrangement due to run out next April. Monetary officials hope that Riyadh might be prepared to contribute an even larger amount to the GAB under a more formal, permanent operation which would confirm the Saudis' key role in the international monetary system.

M Delors will present his own ideas for bringing Saudi Arabia more closely into an international financial and trade framework. He would also like to increase the involvement of the Saudis in discussions with the West on oil pricing.

He is a keen supporter of expanding the number of countries which contribute to the Group of 10 arrangements by involving nations such as Saudi Arabia and Kuwait and also other industrial countries.

Lamberto Dini
Chairman of the Deputies
of the Group of Ten

Paris, December 11, 1982

Dear Colleague,

I am enclosing a memorandum containing my understanding of the principal conclusions reached at the G-10 Deputies meeting of December 10, 1982. As agreed, I have sent a copy of this memorandum to the Managing Director of the IMF, indicating that it could be used in connection with the Executive Board's discussion on the GAB.

Kind regards.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'L. Dini', written in a cursive style.

L. Dini

Encl.

Conclusions

At their meeting of December 10, 1982 in Paris, the Deputies of the G-10 reached certain conclusions in principle regarding the main elements of a revised and expanded GAB. It was their view that the expanded GAB would continue to perform its present functions for participants, but provision would be made for the use of the GAB resources to finance purchases from the IMF by non-participants in certain circumstances.

The main conclusions were as follows:

1. Quotas would remain the principal source of IMF resources to meet the ordinary balance of payments financing requirements of its members. The broad purpose of the GAB would remain to supplement the IMF's resources, if needed to forestall or cope with an impairment of the international monetary system.

2. The size of the GAB would be raised from the equivalent of about SDR 6.4 billion to SDR 15-20 billion. The participants' credit commitments will be denominated in SDRs. Any agreement with other countries on the provision of financing to the IMF in parallel with the GAB would augment the amounts available.

3. The credit commitments of individual participants should be broadly reflective of their size and roles in the international economy and of their ability to provide financing to the IMF. It was agreed that participants' shares in the arrangement should be appropriately adjusted in light of these principles.

4. Conditions and procedures for activation for purchases from the IMF by participants would remain unchanged. The revised GAB could be activated to finance purchases by other members if the following criteria were met:

- (i) that the IMF was faced with an inadequacy of resources to meet appropriate requests for conditional financing;
- (ii) that this inadequacy of resources arose from an exceptional situation associated with requests from countries with balance of payments problems of a character or of aggregate size that could pose a threat to the stability of the international monetary system.

In considering proposals for activation of the GAB for non-participants, the participants would consult among themselves for the purpose of ascertaining whether the above criteria were met. Such consultation would not extend to the examination of specific programs for use of Fund resources, which remains the responsibility of the Executive Board.

Activation of the GAB for the benefit of non-participants would need to pay due regard to potential calls on the arrangements for the purpose of financing purchases by participants.

5. Credit extended to the IMF under the GAB would earn interest at a rate equal to 100 per cent of the combined market rate used to determine the SDR interest rate. The 1/2 per cent transfer charge now levied would be abolished.

6. There was some discussion regarding the relationship with other potential lenders willing to provide resources in parallel with the GAB. It was assumed that lending under such parallel arrangements would be available to finance purchases by GAB participants as well as non-participants, and that parallel lenders would have the same access to GAB resources as participants.

7. The revised and expanded GAB will be reviewed at the time of the Ninth General Review of Quotas.

8. It was recognized that implementation of the above conclusions would require amendments of the GAB decision; it was considered desirable that, in the interest of speed, the amendments should be kept to a minimum. Regarding the criteria for activation for the benefit of non-participants, it was left open whether they should be included in the decision or whether they should be expressed in some form of understanding among participants.

9. It was understood that the revision of the GAB along the lines indicated above was contingent upon reaching satisfactory agreement on the other issues relating to the Eighth Quota Review.

ENLARGED GAB

16/12/82.

Points to make: general

1. Outline proposal for an enlarged GAB has emerged from discussions in the G-10 and there has been some initial discussion of it in the Fund's Executive Board. Process of evolution from original US proposal already described to you by M Delors.
2. Emergence of proposal reflected perhaps three elements:
 - recognition that there was likelihood of continuing sudden strains on the world monetary system and hence possible need to supplement Fund's resources at short notice in prearranged sums beyond what could reasonably be expected from further bilateral or market borrowing. The BIS offers some help in terms of crisis management but only in a temporary way and without tackling the problem of conditionality. Desirable to avoid creation of the new institution;
 - desirable to update the GAB itself, since resources not replenished since it was founded;
 - a new arrangement may help the US to get Congressional approval for a sizeable increase in resources available to Fund.
3. When US first produced the proposal at Toronto, the concept of emergency financing was predominant but the proposal was not fleshed out and hence led to some concern that the funds might only be available for large countries, that the donors might act as effectively a second IMF Board imposing their own conditionality. Also concern that new institution might in effect displace quota increase of adequate size.
4. Discussion of the original proposal has dealt with these points:



has been evolving and not surprising if people need a little time to digest it and assure themselves that its earlier defects have been removed. But our own conclusion is that there will be a role for this new arrangement even though it will be right to review it at the time of the Ninth Quota Review. Welcome indications of your own views about it.

JK.
—

DWF G 006

ADVANCE COPY

LEB 495/18

IMMEDIATE

OO FCO

GRS 40

CONFIDENTIAL

FM RIYADH 160900Z

TO IMMEDIATE FCO

TELEGRAM NUMBER 92 OF 16 DECEMBER

INFO IMMEDIATE JEDDA

[Ltd]
15
X

Hd's MES, NENAD, PCD
ERT, RC
Ps (6), Ps/Ms. Hurd,
Sir J. Leahy, Mr Thomas
Ms. Egerton

~~Ps~~ Chancellor of The Exchequer

YOUR TELNO 414: VISIT OF CHANCELLOR OF THE EXCHEQUER.

1. MINISTER OF FINANCE'S PRIVATE SECRETARY HAS TOLD US THAT HE FORSEES NO DIFFICULTIES WITH THE DATES PROPOSED, BUT HE NEEDS TO CHECK WITH THE MINISTER. HE WILL PROBABLY BE ABLE TO GIVE A FIRM ANSWER ON 19 DECEMBER.

MUIR

NNNN

Y

TOP COPY

1300/19

171

H.M. Treasury
(for Chancellor)

DWF G-51/19

EB 533/19

RR FCO

NO DISTRIBUTION

THIS TELEGRAM WAS NOT ADVANCED Chancellor.

GRS 70
UNCLASSIFIED
FM JEDDA 191100Z DEC 82
TO ROUTINE FCO
TELNO 612 OF 19 DEC

✓ So we'll make a reply saying my thanks - look forward to seeing you.
JW.

IMF: MESSAGE FOR THE CHANCELLOR OF THE EXCHEQUER
1. I HAVE BEEN ASKED TO CONVEY THE FOLLOWING MESSAGE DATED 18 DECEMBER TO THE CHANCELLOR FROM THE MINISTER OF FINANCE AND NATIONAL ECONOMY:

BEGINS - I WOULD LIKE TO CONGRATULATE YOUR EXCELLENCY ON THE CONFIDENCE PLACED IN YOU BY THE MEMBERS OF THE INTERIM COMMITTEE TO SERVE AS THE CHAIRMAN OF THE INTERIM COMMITTEE. I WISH YOU ALL SUCCESS AND A HAPPY NEW YEAR.
(SIGNED) MOHAMMED ABALKHAIL. - ENDS.

CRAIG

NNNN

TOP COPY 1300/19

M. M. Tamm
(for [unclear])

DATE 12-19-88

BY [unclear]

RR FCO

NO DISTRIBUTION

THIS TELEGRAM WAS NOT ADVANCED

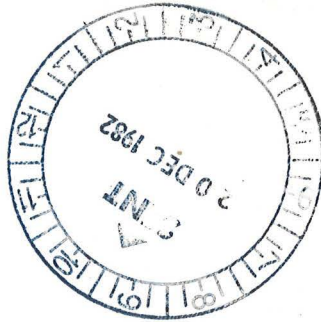
GRS TO UNCLASSIFIED FM JEDBA 191100Z DEC 88 TO ROUTINE FCO TELAD 612 OF 19 DEC

[Handwritten notes]

THE MESSAGE FOR THE CHANCELLOR OF THE EXCHEQUER
I. I HAVE BEEN ASKED TO CONVEY THE FOLLOWING MESSAGE DATED 19
DECEMBER TO THE CHANCELLOR FROM THE MINISTER OF FINANCE AND
NATIONAL ECONOMY:
BEGIN - I WOULD LIKE TO CONGRATULATE YOUR EXCELLENCY ON
THE CONFIDENCE PLACED IN YOU BY THE MEMBERS OF THE INTERIM
COMMITTEE TO SERVE AS THE CHAIRMAN OF THE INTERIM COMMITTEE.
I WISH YOU ALL SUCCESS AND A HAPPY NEW YEAR.
(SIGNED) MOHAMMED ABALKHALIL - ENDS.

CRAIG

WBB



DESKBY CK

DWF G 006/20

LEB 534/20

OO FCO DESKBY 201000Z

ADVANCE COPY

Hd/MED

X8

Hd/NEVAD

OO JEDDA (ACTIONED)

DBY 201000Z

Hd/RED

Hd/ERD

IMMEDIATE

PS

PS/Mr. Lewis

GRS 65

CONFIDENTIAL

SRTJ LEAHY

FROM RIYADH 191300Z DEC 82

MCTHOMAS

TO IMMEDIATE FCO (DESKBY 201000Z)

~~PS/CHANCELLOR OF THE EXCHEQUER~~

TELEGRAM NUMBER 93 OF 19 DECEMBER

AND TO IMMEDIATE JEDDA

YOUR TELNO 424 TO JEDDA: VISIT OF CHANCELLOR OF THE EXCHEQUER

1. QURAISHI'S OFFICE TELL US THAT HE HAS PROPOSED TO ABA AL KHAIL A JOINT MEETING WITH THE CHANCELLOR. BOTH KNOW OF THE DATES WE HAVE PUT FORWARD, AND WILL WANT TO CONSULT BEFORE AGREEING. BUT THERE IS SO FAR NO (NO) REASON TO BELIEVE THAT THEY WILL NOT DO SO.

2. FCO PLEASE ADVANCE TO PS/CHANCELLOR OF THE EXCHEQUER.

[ADVANCED AS REQUESTED]

MUIR



NNNN

This looks pretty firm.
Flyout 7 Jan; back 9 Jan.

JW

CONFIDENTIAL

FROM: A R H BOTTRILL
DATE: 21 DECEMBER 1982

MISS RUTTER

Mr Kaw ✓

C. I have revised the telegram
v. slightly following
Cynthia's for Riyadh,
and a word with Larosiere's
Office. I think ~~this~~ it
will be well received, and

cc Sir K Couzens
Mr Littler
Mr Lavelle
Mr Peretz
Mr Atkinson (O/R)
Mr McIntyre

useful.
JAC.

VISIT TO SAUDI ARABIA

You asked in your minute to Mr Lavelle today for advice on how the Chancellor should respond to the offer from Larosiere's office of briefing for the visit to Saudi Arabia.

2. After discussion with Mr Lavelle, I have spoken to Mr Anson, and we have agreed that it might be useful to seek the Managing Director's views on a short list of key points covering both the prospects for an early Interim Committee and the visit to Saudi Arabia itself. I attach a draft telex that could be sent to Nigel Carter. In view of the Managing Director's holiday plans, this would need to be sent as soon as possible if a reply is to be drafted before Christmas.
3. We have also been giving thought to what further preparation needs to be made. The Chancellor will no doubt wish to have Mr Anson's own assessment of the prospects for an early Interim Committee. He will send us an up to date telegram on 6 January to take account of the 5 January Executive Board meeting.
4. We have also considered whether the Chancellor might usefully make some political soundings, particularly with a view to assessing LDC reactions. The scope for this is severely limited by the time constraint. The only indirect approach which might be worthwhile would be to take G5 opinions from their own contacts with the LDCs. Mr Regan's assessment of the Latin Americans' attitude and possibly M. Delors' assessment of Francophone African and Algerian positions could be useful. If the Chancellor agrees, we could provide a draft letter.

? Yes?

CONFIDENTIAL

CONFIDENTIAL

The only candidates for the Chancellor's own attentions might be the Indians and Anglophone Africans. We would advise against any direct contact with the Indian Finance Minister, Mr Mukherjee. The Indians are apparently playing hard to get, and might well view an approach from the Chancellor as an opportunity to up their claim. We might, however, at an official level either in London or Delhi try to discover at least whether the Indians favour bringing forward the Interim Committee. Contact with Mr Chidzero, the Zimbabwe Governor and representative of the Anglophone African constituency, would probably not be helpful at this stage since he would find it difficult to collect the views of all his constituents rapidly.

6. In the event of a decision to bring forward the Interim Committee on the basis of the MD's and Mr Anson's advice and such G5 soundings as we are able to do, we might envisage a broader lobbying campaign at that stage with guidance telegrams to posts and political contacts to try to iron out potential difficulties.

7. We have commissioned our own briefing on Saudi relations with the Fund, the Saudi economy, OPEC issues and Saudi investment in the UK. We have also been promised copies of the FCO briefing for Mr Pym's visit which should cover political points, together with personality notes on Abel-Khail and Kureishi. If you see any gaps, please let us know.

Mr Pym will arrive in the evening of 9 Jan, and talks on 10 Jan.

A. Bottrill

A BOTTRILL

ENC

RESTRICTED



FROM: J O KERR
DATE: 21 December 1982

cc Sir K Couzens
Mr Littler
Mr Bottrill

MR LAVELLE

IMF: PROPOSED VISIT TO RIYADH

Please see the attached two telegrams from Riyadh. While we still await final confirmation, it looks as if the Saudis will be able to see the Chancellor on 8 January. If so, the plan will be to fly out on 7 January, leaving Heathrow at 1540 and arriving in Riyadh at 0105 local time. The best return flight leaves Riyadh at 0800 local time on 9 January, and arrives at Heathrow at 12.20.

A handwritten signature in black ink, appearing to be 'J O Kerr'.

J O KERR

21/12/82

File No.

Department PPS / Chancellors, HMT.

Drafted by
(Block Capitals)

Tel. Extn.

OUTWARD

TELEGRAM

Security Classification CONFIDENTIAL
Precedence IMMEDIATE
DESKBY Z

FOR
COMMS. DEPT.
USE

Despatched (Date)
(Time) Z

POSTBY Z

PREAMBLE

(Time of Origin) Z(G.M.T.) (Restrictive Prefix)
(Security Class.) Confidential (Caveat/Privacy Marking)
(Codeword) (Deskby) Z

TO Immediate UKdel IMF/IBRD Washington Tel. No. of
(precedence) (post)

AND TO (precedence/post)

AND SAVING TO

REPEATED TO (for info) Routine Riyadh, Jeddah

SAVING TO (for info)

Distribution :-

- limited
- Private Secretary
- Mr Evans
- Mr J.C. Thomas
- Mr Egerton
- ~~Mr [unclear]~~
- ERD
- MED

[TEXT]

Following for onward transmission to Carter (Harosiere's office) from Ken (PPS/Chancellors)

As you know (our conversation on 21 December) we now have confirmation that the Saudis agree to talks on 8 January. The Chancellor looks forward to meeting the Managing Director here on 7 January and flying out together — our bookings are on SV 3026 and SV 36 E. (Return flight SV 37 on 9 January).

Copies to :-

- PPS/Chancellors
 - Sis K. Cousins
 - Mr Little
 - Mr Havelle
 - Mr Birtwell
- H.M. Treasury

2. We spoke about the following points on which the Chancellor, ^{in preparing for the visit,} would ~~would~~ ^{very much} very much welcome the Managing Director's views

NOTHING TO BE WRITTEN IN THIS MARGIN

CONFIDENTIAL



FROM: JILL RUTTER
DATE: 21 December 1982

cc Sir Kenneth Couzens
Mr Littler
Mr Bottrill
Mr Anderson - UKDEL IMF/IBRD
Washington

MR LAVELLE

VISIT TO SAUDI ARABIA

I was rung this evening by Nigel Carter, Monsieur de ~~La Rosière~~'s Private Secretary. Much of the conversation focussed on logistical questions - it is the MD's intention to meet up with the Chancellor's party in London and travel to Riyadh.

2. But Mr Carter did also ask if there were any specific points on which the Chancellor would be grateful for the Managing Director's guidance. He asked if we could come back to the MDs office this week as Monsieur de ~~La Rosière~~ intends to be absent for the week between Christmas and the New Year.

3. I would be grateful if you could consider how we should respond to this request.

JLR

JILL RUTTER

CONFIDENTIAL



FROM: J O KERR
DATE: 22 December 1982

MR A R H BOTTRILL

cc Sir K Couzens
Mr Littler
Mr Lavelle
Mr Peretz
Mr Atkinson
Mr Mc Intyre

VISIT TO SAUDI ARABIA

... Thank you for your minute of 21 December, which the Chancellor saw last night. I attach a copy of the telegram which he approved, and which has been sent to Washington this morning. (I gave Larosiere's office a preview last night.)

The Chancellor agrees ^{to} your suggestion that he should send messages to his G5 colleagues ~~for~~ ^{before} Christmas to ask for their assessment of probable LDC reactions to the proposed package. It would be very helpful if you could let me have drafts tonight.

A handwritten signature in dark ink, appearing to be 'J O Kerr'.

J O KERR

CONFIDENTIAL

CONFIDENTIAL

~~DRAFT TELEGRAM TO MR ANSON~~

~~FROM PS/CHANCELLOR~~

~~Following for Carter in Larosiere's office John Kerr (APS/Chancellor)
Grateful if you would hand the attached telegram to Carter in
We spoke last night on 21 December about the following
Larosiere's office listing points on which the Chancellor
would welcome ^{the} Managing Director's views in preparation for
their joint visit to Saudi Arabia (We now have confirmation that
the Saudis agree to talks on 8 January.)~~

(i) Interim Committee meeting

The Chancellor would be grateful for ^{the} Managing Director's general assessment of the ^{case and} prospects for advancing the Interim Committee meeting following ^{the} latest discussions in Executive Board. In particular: -

a. Is there now a reasonable prospect of agreement on the size of ^{the quota} increase? ~~in quotas?~~

b. Has sufficient progress been made in resolving differences over ^{quota} the distribution? ~~of quotas?~~ In particular ^{And} are developing countries likely to accept some reduction in their share?

(c) Are access limits likely to be a sticking point, or will a broad statement at the Interim Committee ^{suffice?} suffice ^{to be} with details agreed later?

CONFIDENTIAL

DRAFT TELEGRAM TO MR. ANSON

FROM PS/CHANCELLOR

Reference to letter to Anson dated 11/11/52 (442/1000000)

Grateful if you would hand the attached telegram to Carter in
 his office. It is a copy of the letter to Carter in
 his office's office listing points on which the Chancellor
 would welcome Managing Director's views in preparation for
 their joint visit to Saudi Arabia. We would appreciate that
 to send copy to Carter on 11/11/52.

(1) Interim Committee meeting

The Chancellor would be grateful for Managing Director's general
 assessment of the prospects for advancing the Interim Committee
 meeting following latest discussions in Executive Board. In
 particular:

- a. Is there now a reasonable prospect of agreement on
 the size of increase in ^{the number} ~~the number~~ of members?
- b. Has sufficient progress been made in resolving
 differences over ^{the} ~~the~~ distribution of ^{equity} ~~equity~~ in paper ^{shares} ~~shares~~ and developing countries likely to accept some
 reduction in their shares?
- (c) Are access limits likely to be a sticking point,
 or will a broad statement at the Interim Committee
 suffice with details agreed later?

(ii) Saudi Arabia and the Fund

^{Finally} The Chancellor would ~~be~~ ^{to know whether} grateful ~~for~~ the Managing Director's plans to discuss on this visit ~~the separate~~ confirmation that he will be handling the issue of the third SDR 4 billion tranche of the Saudi loan to the Fund ^{Or will this be} ~~separately.~~ ^{handled separately?}

On ~~the specific issues of the~~ Saudi attitudes to the Quota Review and any enhanced GAB borrowing arrangements, the Chancellor ^{would welcome} ~~assumes~~ the Managing Director ^{'s assessment of: -} will wish to cover the following points:

a. ~~The~~ Saudi general approach to the size of quota increase and its distribution.

b. ~~The~~ Saudi attitude to parallel lending to the Fund alongside an enlarged GAB. (The Chancellor would ^{particularly} appreciate the Managing Director's views on the form such a parallel arrangement should take, and the amounts envisaged.)

c. Any further Saudi sensitivities ^{and} tactical considerations.

(iii) Saudi Loan

3. The Chancellor recognises that it will be necessary ^{to} make an up to date assessment of the likely support for an early Interim Committee with a view to a decision ^{immediately after} the visit to Saudi Arabia. He will himself try to ^{seek as the latest} ~~obtain~~ colleagues' latest views, ^{just before the visit,} in particular in the light of their own contacts with developing countries.

? include (p. 10)

views of his GS colleagues

(ii) Saudi Arabia and the Fund

The Chancellor would be grateful for the Managing Director's
confession that he will be handling the issue of the third
SDR 4 billion tranche of the Saudi loan to the Fund separately.
On sensitive issues of the Saudi attitudes to the Quota

Review and any enhanced GAB borrowing arrangements, the
Chancellor assumes the Managing Director will wish to cover
the following points:

a. Saudi general approach to the size of quota in-
crease and its distribution.

b. Saudi attitude to parallel lending to the Fund along-
side an enlarged GAB. (The Chancellor would appreciate
the Managing Director's views on the form such a parallel
arrangement should take and the amounts envisaged.)

c. Any further Saudi sensitivities/factual consider-

(iii) Saudi Reservations

The Chancellor recognises that it will be necessary to make
an up to date assessment of the likely support for an early
Interim Committee with a view to a decision immediately after
the visit to Saudi Arabia. He will himself try to seek as
colleagues' latest views, in particular in the light of their
own contacts with developing countries.

CONFIDENTIAL

FROM: A R H BOTTRILL
DATE: 22 DECEMBER 1982

MR KERR

cc Sir K Couzens
Mr Littler
Mr Lavelle
Mr Atkinson
Mr Anson (UKDEL/IMF)

VISIT TO SAUDI ARABIA

You said that the Chancellor had approved the suggestion of sending a letter to G5 colleagues sounding their views now on the prospects of bringing forward the Interim Committee meeting. I attach a draft.

A. Bottrill

A BOTTRILL

ENC

CONFIDENTIAL

FROM: A R H BOTTRILL
DATE: 22 DECEMBER 1982

MR KERR

Mr Kerr

There is a typing error
in paragraph 6. Please
amend your copy.

cc Sir K Couzens
Mr Littler
Mr Lavelle
Mr Atkinson
Mr Anson (UKDEL/IMF)

VISIT TO SAUDI ARABIA

You said that the Chancellor had approved the suggestion of sending a letter to G5 colleagues sounding their views now on the prospects of bringing forward the Interim Committee meeting. I attach a draft.

AR
22/12.

A. Bottrill.

A BOTTRILL

ENC

CONFIDENTIAL

FROM: A W H BOTTRILL
DATE: 22 DECEMBER 1982

Mr Kerr

MR KERR

cc Sir K Cousins
Mr Litter
Mr Lavelle
Mr Atkinson
Mr Anson (UKDEL/IME)

There is a typo error
in paragraph 2. Address
should read 271

AKR

20/12

VISIT TO SAUDI ARABIA

You said that the Chancellor had approved the suggestion of sending
a letter to OS colleagues sounding their views now on the prospects
of bringing forward the Interim Committee meeting. I attach a
draft.

A. Bottrill

A BOTTRILL

ENC

DRAFT LETTER FROM THE CHANCELLOR TO MR REGAN

It now seems likely that we shall have to decide early in the New Year whether to bring forward next spring's Interim Committee meeting to February as we discussed at Kronberg. I am writing to you, therefore, to ask how you now see the prospects for a successful outcome of an early meeting.

2. We seem to have moved towards a substantial, if not complete, measure of agreement among both the G5 and G10 countries on the broad shape of a package including an increase in quotas to SDR85-100 billion, together with an increase in the General Arrangements to borrow to SDR 15-20 billion with an extension to make resources available to the Fund in the case of major strains on the international system.

3. There are a number of important details still to be discussed but I would hope that we could make further progress at the G10 Ministers' meeting in January. I would hope, too, at that meeting that we could also make further progress on the distribution of the increase in quotas and relative shares in the GAB.

4. I am particularly concerned, however, to have your views on the attitude of developing countries. Their interests are diverse and we must expect reactions perhaps to differ considerably between countries. It will be

DRAFT LETTER FROM THE CHANCELLOR TO MR REDMAN

It now seems likely that we shall have to decide early in the New Year whether to bring forward next spring's Interim Committee meeting to February as we discussed at Kronberg. I am writing to you, therefore, to ask how you now see the prospects for a successful outcome of an early meeting.

2. We seem to have moved towards a substantial, if not complete, measure of agreement among both the G5 and G10 countries on the broad shape of a package including an increase in quotas to SDR85-100 billion, together with an increase in the General Arrangements to borrow to SDR 15-20 billion with an extension to make resources available to the Fund in the case of major strains on the international system.

3. There are a number of important details still to be discussed but I would hope that we could make further progress at the G10 Ministers' meeting in January. I would hope, too, at that meeting that we could also make further progress on the distribution of the increase in quotas and relative shares in the GAB.

4. I am particularly concerned, however, to have your views on the attitude of developing countries. Their interests are diverse and we must expect reactions perhaps to differ considerably between countries. It will be

important, however, that there is a broad measure of support among the generality of countries if an early Interim Committee meeting is to be successful.

5. The acceleration of the Quota Review and the availability of extra borrowed resources to the Fund should enhance its ability to help finance countries' adjustment programmes, and should be welcome to many developing countries. A number of countries, however, are concerned about the size of the quota increase, its distribution and their own access to Fund resources.

6. The US Administration has wide-ranging contracts among developing countries, perhaps particularly in Latin America. I should value therefore your views on whether the developing countries with whom you are in contact are likely to welcome an early Interim Committee meeting and feel able to contribute to a successful outcome.

7. I am copying this letter to other G5 colleagues who have their own special contacts and whose views I should value equally. It would be helpful to have your views before I go to Saudi Arabia with the Managing Director, probably on 7 January, since we shall probably need to discuss the timing of the Interim Committee then, taking into account the soundings that he too will have made.

important, however, that there is a broad measure of support among the majority of countries if an early Interim Committee meeting is to be successful.

5. The acceleration of the Quota Review and the availability of extra borrowed resources to the Fund should enhance its ability to help finance countries' adjustment programmes, and should be welcome to many developing countries. A number of countries, however, are concerned about the size of the quota increase, its distribution and their own access to Fund resources.

6. The US Administration has wide-ranging contacts among developing countries, perhaps particularly in Latin America. I should value therefore your views on whether the developing countries with whom you are in contact are likely to welcome an early Interim Committee meeting and feel able to contribute to a successful outcome.

7. I am copying this letter to other G5 colleagues who have their own special contacts and whose views I should value equally. It would be helpful to have your views before I go to Saudi Arabia with the Managing Director, probably on 7 January, since we shall probably need to discuss the timing of the Interim Committee then, taking into account the soundings that he too will have made.



For urgent type, as
a clear telegram,
please.

JW

File No.

Department **PEE HM Treasury**
Drafted by **PPS/Chancellor**
(Block Capitals)

OUTWARD

TELEGRAM

Security Classification

Confidential

Precedence

Immediate

High Priority

Tel. Extn.

DESKBY Z

FOR COMMS. DEPT. USE

Despatched

(Date)

(Time) Z

POSTBY Z

PREAMBLE

(Time of Origin) Z(G.M.T.) (Restrictive Prefix)

(Security Class.) (Caveat/Privacy Marking)

(Codeword) (Deskby) Z

TO **Immediate Priority** (precedence) **Washington** (post) Tel. No. of

AND TO **Immediate** (precedence/post) **Paris, Bonn, Tokyo** **Priority UKdel IMF/IBRD**

AND SAVING TO

REPEATED TO (for info) **Routine** **Algeria, New Delhi, Riyadh, UKdel IMF/IBRD**

SAVING TO (for info)

Distribution :-

limited
Private Secretary
PS/DUB
Mr Evans
Mr J.C. Thomas
ERD

[TEXT]

IMF Resources

Please pass following ~~new~~ personal message from the Chancellor to Secretary Regan / M. Delors / ~~Mr~~ Dr Stoltenberg / Minister Takeshita .

2. Begins :-

- " (i) . . .
- (ii) . . .
- (iii) . . .
- (iv) . . .
- (v) . . .
- (vi) . . .
- vii . . .
- (viii) . . . "

} all from the 2 pages below

3. Ends

3. For Washington only. ~~Attn~~ Please add at end of para (vi) . " Your advice on Latin American attitudes would be particularly valuable "

4. For Paris only ~~to~~ Please add at each of additional

Copies to :-

PPS/Chancellor
Sir K. Cousins
Mr Kitter
Mr Havelle
Mr Bottill } **HMT.**

~~of para (vii)~~ " In addition to your ~~general~~ assessment, particularly on the ~~positive~~ attitudes of Algeria and Francophone Africa, course also welcome your impressions, following your visit to Saudi Arabia, ~~of your~~ an account of ~~your~~ the impressions you form on how ~~it~~ should handle my talks

add/:- at
(a) end of first sentence of para (iii)
" which you will be chairing "

(b) at end of para (vii). " In addition to your assessment, particularly on the attitudes of Algeria and Francophone Africa, I would of course also welcome an account of the impressions you form on your own visit to Saudi Arabia "

5. For UKdel IMF/IBRD only. Please see Your tel No 298, para 2. Please pass copy of above message to Harosiene, for information.

NOTHING TO BE WRITTEN IN THIS MARGIN

~~DRAFT LETTER FROM THE CHANCELLOR TO MR REGAN~~

// " It now seems likely that we shall have to decide early in the New Year whether to bring forward next spring's Interim Committee meeting to February, as ~~we~~ ^{was} discussed at Kronberg. I ~~am~~ ^{would therefore be most grateful for your} writing to you, therefore, to ask how ~~you now see~~ ^{assessment of} the prospects for a successful outcome ~~of~~ ^{that a February} ~~of~~ ^{a February} ~~an~~ ^{earlier} meeting.

(ii) 2. As I see it, ^{have established} We ~~seem to have moved towards~~ a substantial, if not complete, measure of agreement ⁱⁿ among both the G5 and G10 countries on the broad shape of a package including an increase in quotas to SDR85-100 billion, ^{an acceleration of the increase, and a parallel} together with an increase in the General Arrangements to Borrow to SDR 15-20 billion, with an extension to make resources available to the Fund in the ^{event} ~~case~~ of major strains on the international system.

(iii) 3. There are a number of important details still to be discussed but I would hope that we could make further progress at the G10 ^{Ministerial meeting} ~~Ministers'~~ meeting in January. ^{I also hope} ~~I would~~ ~~hope~~ ^{that} ~~at that meeting that we could~~ ^{then} ~~also~~ make further progress on the distribution of the increase in quotas, and relative shares in the GAB.

(iv) 4. A key issue in relation to the proposed advancing of the ~~Interim Committee meeting is, however, the~~ ^{views on the} attitude of developing countries. Their interests are diverse, and we must expect reactions ~~perhaps~~ to differ considerably between countries. ^{But} It will be

to establish, ^{before advancing the meeting} ~~advance the~~
important, however, that there is a broad measure of
support ~~among the generality of countries if an early~~
^{exists.}
~~Interim Committee meeting is to be successful.~~

3(v) The acceleration of the Quota Review and the availability of extra borrowed resources to the Fund should enhance its ability to help finance countries' adjustment programmes, and should be welcome to many developing countries. A number of countries, however, are concerned about the size of the quota increase, its distribution and their own access to Fund resources.

~~8. The US Administration has wide-ranging contracts among developing countries, perhaps particularly in Latin America.~~
^{(vii) (vi)} I should value therefore your views on whether the developing countries with whom you are in contact are likely ^{to} welcome an early Interim Committee meeting and ^{be} able to contribute to a successful outcome.

^(viii) ~~7. (vii) I am copying this letter to other G5 colleagues, who have their own special contacts and whose views I should value equally.~~
^(viii) ~~It would be helpful to have your views by 6 January. I plan to visit Saudi Arabia with the IMF before I go to Saudi Arabia with the Managing Director, from 7 to 9 and will wish then to discuss the timing of the Interim Committee meeting, taking into account the soundings that he too will have made.~~

(ix) Best wishes for Christmas and the New Year.

Geoffrey Howe "

Important, however, that there is a broad measure of support among the generally of countries in an early Interim Committee meeting is to be successful.

The acceleration of the Quota Review and the availability of extra borrowed resources to the Fund should enhance its ability to help finance countries' adjustment programmes, and should be welcome to many developing countries. A number of countries, however, are concerned about the size of the quota increase, its distribution and their own access to Fund resources.

The US Administration has wide-ranging contacts among developing countries, perhaps particularly in Latin America. I should value therefore your views on whether the developing countries with whom you are in contact are likely to welcome an early Interim Committee meeting and feel able to contribute to a successful outcome.

I am copying this letter to other US colleagues who have their own special contacts and whose views I should value equally. It would be helpful to have your views on a meeting to discuss the timing of the Interim Committee, before I go to Saudi Arabia with the Managing Director, probably on 7 January, since we shall probably need to discuss the timing of the Interim Committee then, taking into account the soundings that he too will have made.

Best wishes for Christmas and the New Year
Geoffrey Howe

File No.
Department HM TREASURY
Drafted by PPS/CHANCELLOR
(Block Capitals)
Tel. Extn.

OUTWARD
TELEGRAM
22/xii

Security Classification
CONFIDENTIAL
Precedence
IMMEDIATE
DESKBYZ

FOR COMMS. DEPT. USE

Despatched (Date) (Time)Z

POSTBY (prp)Z

PREAMBLE

(Time of Origin)Z(G.M.T.) (Restrictive Prefix).....
(Security Class.) (Caveat/ Privacy Marking).....
(Codeword) (Deskby).....Z

TO IMMEDIATE WASHINGTON (precedence) (post) Tel. No. of

AND TO (precedence/post) PARIS, BONN, TOKYO PRIORITY UKdel IMF/IBRD

AND SAVING TO

REPEATED TO (for info) Routine ALGIERS, NEW DELHI, RIYADH

SAVING TO (for info)

Distribution:-

Limited
Private Secretary
PS/PUS
Mr Evans
Mr J C Thomas
ERD

[TEXT]
IMF RESOURCES
Please pass following personal message from the Chancellor to Secretary Regan/M. Delors/Dr. Stoltenberg/Minister Takeshita

Copies to:-
PPS/Chancellor)
Sir K Couzens)
Mr Littler) HMT
Mr Lavelle)
Mr Bottrill)

2. Begins:-
(i) ~~It now seems likely that we shall have to~~ decide early in the New Year whether to bring forward next spring's Interim Committee meeting to February, as was discussed at Kronberg. I would therefore be most grateful for your assessment of the prospects for a successful outcome from a February meeting.

(ii) As I see it, we have established a substantial, if not complete, measure of agreement in G5 and G10 on the broad shape of a package including an increase in quotas to SDR85-100 billion, an acceleration of the increase, and a parallel increase in the General Arrangements to Borrow to SDR 15-20 billion, with an extension to make /resources

resources available to the Fund in the event of major strains on the international system.

(iii) There are a number of important details still to be discussed but I would hope that we could make further progress at the G10 Ministerial meeting in January. I also hope that we could then make ~~further~~ progress on the distribution of the increase in quotas, and relative shares in the GAB.

(iv) A key issue in relation to the proposed advancing of the Interim Committee meeting is, however, the attitude of developing countries. Their interests are diverse, and we must expect reactions to differ considerably between countries. ~~But~~ ^{Even so, it} will be important ~~however~~ ^{that} to establish, ~~that~~ ^{before} advancing the meeting, a broad measure of support exists.

(v) The acceleration of the Quota Review and the availability of extra borrowed resources to the Fund should enhance its ability to help finance countries' adjustment programmes, and should be welcome to many developing countries. A number of countries, however, are concerned about the size of the quota increase, its distribution and their own access to Fund resources.

(vi) I should value therefore your views on whether the developing countries with whom you are in contact are likely both to welcome an early Interim Committee meeting and be able to contribute to a successful outcome.

(vii) It would be helpful to have this assessment by 6 January. I plan to visit Saudi Arabia with the IMF Managing Director from 7 - 9 January, and will wish then to discuss with him the timing of the Interim Committee meeting, taking into account the soundings that he too will have made.

/ (viii)

NOTHING TO BE WRITTEN IN THIS MARGIN

Handwritten signature and checkmark

NOTHING TO BE WRITTEN IN THIS MARGIN

(viii) I am sending similar messages to our other G5 colleagues.

(ix) Best wishes for Christmas and the New Year. GEOFFREY HOWE"

Ends

3. For Washington only. Please add at end of para (vi): "Your advice on Latin American attitudes would be particularly valuable."

4. For Paris only: Please add
(a) at end of first sentence of para (iii) "which you will be chairing";
(b) at end of para (vii): "In addition to to your assessment, particularly on the attitudes of Algeria and Francophone Africa, I would of course also welcome an account of the impressions you form on your own visit to Saudi Arabia."

5. For UKdel IMF/IBRD only. Your tel No. 298, para. 2. Please pass copy of above message to Larosiere, for information.



NOTHING TO BE WRITTEN IN THIS MARGIN

DWF 6 036/22

LEB 598/22

00 FCO

00 JEDDA (ACTIONED)

GRS 70

CONFIDENTIAL

FROM RIYADH 220530Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 96 OF 22 DECEMBER

INFO IMMEDIATE JEDDA

MY TELNO 93 AND TELECON OF 21 DEC WITH MED: VISIT OF CHANCELLOR OF THE EXCHEQUER

1. WHEN HM AMBASSADOR SAW THE MINISTER OF FINANCE IN RIYADH ON 21 DECEMBER, ABA AL KHAIL SAID THAT HE COULD CONFIRM THAT THE DATES THE CHANCELLOR HAD PROPOSED WERE CONVENIENT. HE AND QURAIISHI LOOKED FORWARD TO WORKING WITH THE CHANCELLOR QUOTE ALL DAY SATURDAY (8 JANUARY) UNQUOTE.

2. FCO PLEASE PASS TO PS/CHANCELLOR OF THE EXCHEQUER.

MUIR

NNNN

Pt. copy to Sir K. Cuzens Mr Katter. Mr Lavelle Mr BATTI.

J.M.

~~XX~~
ADVANCE COPY

IMMEDIATE

*R
B/me Hury
PS/PS.
P. J. Lealy.
Mr Thomas.
HO ME
HO NEWAD
HO P.D.
HO ERP*

PS/Chancellor of the Exchequer

(X10)

dup

CONFIDENTIAL

43803 - 1

OO UKDEL IMF/IBRD WASHINGTON

GRS 436

CONFIDENTIAL

FM FCO 221548Z DEC 82

TO IMMEDIATE UKDEL IMF/IBRD WASHINGTON

TELEGRAM NUMBER 253 OF 22 DECEMBER

INFO ROUTINE RIYADH, JEDDA

FOLLOWING FOR ONWARD TRANSMISSION TO CARTER (LAROSIERE'S OFFICE)
FROM KERR (PPS/CHANCELLOR)

1. AS YOU KNOW (OUR CONVERSATION ON 21 DECEMBER) WE NOW HAVE CONFIRMATION THAT THE SAUDIS AGREE TO TALKS ON 8 JANUARY. THE CHANCELLOR LOOKS FORWARD TO MEETING THE MANAGING DIRECTOR HERE ON 7 JANUARY AND FLYING OUT TOGETHER - OUR BOOKINGS ARE ON SV 3026 AND SV 36. (RETURN FLIGHT SV 37 ON 9 JANUARY).
2. WE SPOKE ABOUT THE FOLLOWING POINTS ON WHICH THE CHANCELLOR, IN PREPARING FOR THE VISIT, WOULD VERY MUCH WELCOME THE MANAGING DIRECTOR'S VIEWS.

(I) INTERIM COMMITTEE MEETING

THE CHANCELLOR WOULD BE GRATEFUL FOR THE MANAGING DIRECTOR'S GENERAL ASSESSMENT OF THE CASE AND PROSPECTS FOR ADVANCING THE INTERIM COMMITTEE MEETING FOLLOWING THE LATEST DISCUSSIONS IN THE EXECUTIVE BOARD. IN PARTICULAR:-

- A. IS THERE NOW A REASONABLE PROSPECT OF AGREEMENT ON THE SIZE OF THE QUOTA INCREASE?
- B. HAS SUFFICIENT PROGRESS BEEN MADE IN RESOLVING DIFFERENCES OVER QUOTA DISTRIBUTION? AND ARE DEVELOPING COUNTRIES LIKELY TO ACCEPT SOME REDUCTION IN THEIR SHARE?
- C. ARE ACCESS LIMITS LIKELY TO BE A STICKING POINT, OR WILL A BROAD STATEMENT AT THE INTERIM COMMITTEE, WITH DETAILS TO BE AGREED LATER, SUFFICE?

(II) SAUDI ARABIA AND THE FUND

ON SAUDI ATTITUDES TO THE QUOTA REVIEW AND ANY ENHANCED GAB BORROWING ARRANGEMENTS, THE CHANCELLOR WOULD WELCOME

CONFIDENTIAL

CONFIDENTIAL

43803 - 1

THE MANAGING DIRECTOR'S ASSESSMENT OF:-

A. THE SAUDI GENERAL APPROACH TO THE SIZE OF THE QUOTA INCREASE AND ITS DISTRIBUTION.

B. THE SAUDI ATTITUDE TO PARALLEL LENDING TO THE FUND ALONGSIDE AN ENLARGED GAB. (THE CHANCELLOR WOULD PARTICULARLY APPRECIATE THE MANAGING DIRECTOR'S VIEWS ON THE FORM SUCH A PARALLEL ARRANGEMENT SHOULD TAKE, AND THE AMOUNTS ENVISAGED).

C. ANY FURTHER SAUDI SENSITIVITIES, AND TACTICAL CONSIDERATIONS.

(III) SAUDI LOAN

FINALLY, THE CHANCELLOR WOULD BE GRATEFUL TO KNOW WHETHER THE MANAGING DIRECTOR'S PLANS TO DISCUSS ON THIS VISIT THE SEPARATE ISSUE OF THE THIRD SDR 4 BILLION TRANCHE OF THE SAUDI LOAN TO THE FUND. OR WILL THIS BE HANDLED SEPARATELY?

3. THE CHANCELLOR RECOGNISES THAT IT WILL BE NECESSARY TO MAKE AN UP-TO-DATE ASSESSMENT OF THE LIKELY SUPPORT FOR AN EARLY INTERIM COMMITTEE WITH A VIEW TO A DECISION IMMEDIATELY AFTER THE VISIT TO SAUDI ARABIA. HE WILL HIMSELF TRY TO OBTAIN THE LATEST VIEWS OF HIS G5 COLLEAGUES, JUST BEFORE THE VISIT, IN THE LIGHT OF THEIR OWN CONTACTS WITH DEVELOPING COUNTRIES.

PYM

NNNN

DISTRIBUTION:-

LIMITED

ERD

MED

PS

MR EVANS

MR THOMAS

MR EGERTON

COPIES TO:

PPS/CHANCELLOR)

SIR K COUZENS)

MR LITTLER)

MR POTTRILL)

MR LAVELLE

H.M.

TREASURY

CONFIDENTIAL

pur

GRS 70
CONFIDENTIAL
FROM RIYADH 220530Z DEC 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 96 OF 22 DECEMBER
INFO IMMEDIATE JEDDA

MY TELNO 93 AND TELECON OF 21 DEC WITH MED: VISIT OF CHANCELLOR
OF THE EXCHEQUER

1. WHEN HM AMBASSADOR SAW THE MINISTER OF FINANCE IN RIYADH
ON 21 DECEMBER, ABA AL KHAIL SAID THAT HE COULD CONFIRM
THAT THE DATES THE CHANCELLOR HAD PROPOSED WERE CONVENIENT. HE
AND QURAIISHI LOOKED FORWARD TO WORKING WITH THE CHANCELLOR
QUOTE ALL DAY SATURDAY (8 JANUARY) UNQUOTE.

2. FCO PLEASE PASS TO PS/CHANCELLOR OF THE EXCHEQUER.

MUIR

LIMITED
MED
NENAD
P&CD
ERD
PS
PS/MR HURD
PS/PUS
SIR J LEAHY
MR. EGERTON
MR. THOMAS

COPIES TO:
PS/CHANCELLOR OF THE
EXCHEQUER

CONFIDENTIAL

File No.

Department PPS/Chancellor, HMT

Drafted by

'Block Capitals)

Tel. Extn.....

OUTWARD

TELEGRAM

22/12/82

Security Classification CONFIDENTIAL
Precedence IMMEDIATE
DESKBYZ

FOR COMMS. DEPT. USE

Despatched

(Date)

(Time)Z

POSTBY.....Z

PREAMBLE

(Time of Origin)Z(G.M.T.)

(Restrictive Prefix).....

(Security Class.) Confidential

(Caveat/ Privacy Marking).....

(Codeword)

(Deskby).....Z

TO Immediate UKdel IMF/IBRD Washington
(precedence) (post)

Tel. No. of

AND TO (precedence/post).....

AND SAVING TO.....

REPEATED TO (for info) Routine Riyadh, Jadda

SAVING TO (for info).....

Distribution:-
 Limited
 Private Secretary
 Mr Evans
 Mr J C Thomas
 Mr Egerton
 ERD
 MED

Copies to:-
 PPS/Chancellor
 Sir K Couzens
 Mr Littler
 Mr Lavelle
 Mr Bottrill

H.M.
 Treasury

[TEXT]

Following for onward transmission to Carter (Larosiere's Office) from Kerr (PPS/Chancellor)

As you know (our conversation on 21 December) we now have confirmation that the Saudis agree to talks on 8 January. The Chancellor looks forward to meeting the Managing Director here on 7 January and flying out together - our bookings are on SV 3026 and SV 36. (Return flight SV 37 on 9 January).

2. We spoke about the following points on which the Chancellor, in preparing for the visit, would very much welcome the Managing Director's views.

(i) Interim Committee meeting

The Chancellor would be grateful for the Managing Director's general assessment of the case and prospects for advancing the Interim Committee meeting following the latest discussions in ^{The} Executive Board. In particular:-

- a. Is there now a reasonable prospect of agreement on the size of the quota increase?
- b. Has sufficient progress been made in resolving differences over quota distribution? And are developing countries likely to accept some reduction in their share?
- c. Are access limits likely to be a sticking point, or will a broad statement at the Interim Committee, with details to be agreed later, suffice?

(ii) Saudi Arabia and the Fund

On Saudi attitudes to the Quota Review and any enhanced GAB borrowing arrangements, the Chancellor would welcome the Managing Director's assessment of:-

- a. The Saudi general approach to the size of ^{The} quota increase and its distribution.
- b. The Saudi attitude to parallel lending to the Fund alongside an enlarged GAB. (The Chancellor would particularly appreciate the Managing Director's views on the form such a parallel arrangement should take, and the amounts envisaged.)
- c. Any further Saudi sensitivities, and tactical considerations.

(iii) Saudi Loan

Finally, the Chancellor would be grateful to know whether the Managing Director's plans to discuss on this visit the separate issue of the third SDR 4 billion tranche of the Saudi loan to the Fund. Or will this be handled separately?

3. The Chancellor recognises that it will be necessary to make an up to date assessment of the likely support for an early Interim Committee with a view to a decision immediately after the visit to Saudi Arabia. He will himself try to obtain the latest views of his G5 colleagues, just before the visit, in the light of their own contacts with developing countries.

NOTHING TO BE WRITTEN IN THIS MARGIN

gde.

GR 1200

CONFIDENTIAL

CONFIDENTIAL

DESKBY 230930Z

FM UKDEL IMF/IBRD WASHINGTON 222212Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 294 OF 22 DECEMBER

IMF: 8TH QUOTA REVIEW - DISTRIBUTION OF OVERALL INCREASE (EB/CQUOTA/82/13)

1. FOLLOWING ARE MAIN POINTS FROM MANAGING DIRECTOR'S SUMMING UP OF EXECUTIVE BOARD DISCUSSION ON 21 DECEMBER. THE SECRETARY'S TALLY OF THE VOTING STRENGTH IN FAVOUR OF THE VARIOUS OPTIONS, AND THE VIEWS OF INDIVIDUAL DIRECTORS ON THE MAIN ISSUES, ARE SET OUT IN MY TWO IMMEDIATELY FOLLOWING TELEGRAMS.

2. THE MANAGING DIRECTOR SAID HE WAS ENCOURAGED BY THE HELPFUL DISCUSSION WHICH HAD PRODUCED A SUBSTANTIAL NARROWING OF VIEWS ON A NUMBER OF KEY POINTS. THIS WAS CRITICAL FROM THE POINT OF VIEW OF ADVANCING THE DATE FOR THE INTERIM COMMITTEE MEETING. THERE WAS VERY LARGE AGREEMENT ON THE FOLLOWING PRINCIPLES:

(I) INCREASES IN QUOTAS SHOULD LEAD TO A BETTER REFLECTION OF RELATIVE ECONOMIC POSITIONS OF INDIVIDUAL COUNTRIES. THERE SHOULD BE ADJUSTMENT FROM PRESENT QUOTAS TOWARDS CALCULATED QUOTAS WHICH WAS IMPORTANT FOR THE STRENGTH OF THE FUND AND ITS FUTURE LIQUIDITY.

(II) INCREASES IN QUOTAS SHOULD BE WORKED OUT ON THE BASIS OF UNIFORM METHODS FOR ALL MEMBERS.

(III) EACH MEMBER SHOULD DERIVE A MEANINGFUL INCREASE IN ITS QUOTA FROM THE PRESENT EXERCISE.

(IV) THE PROPOSALS TO BE PUT TO GOVERNORS AND TO THE INTERIM COMMITTEE SHOULD BE AS SIMPLE AS POSSIBLE AND EXPRESSED IN THE MOST CLEAR LANGUAGE.

(V) THE PROPOSALS SHOULD BE CONDUCTIVE TO AN AGREEMENT AND A COMPROMISE IN THE INTERIM COMMITTEE AT THE EARLIEST POSSIBLE DATE.

METHOD

3. SUBSTANTIAL PROGRESS HAD BEEN MADE ON THE CHOICE OF BASIC METHOD. THERE HAD BEEN A CLEAR MOVE TOWARDS THE SO-CALLED METHOD 3. ON GROUNDS OF SIMPLICITY AND UNIFORMITY, METHOD 4 HAD NOT CARRIED THE DAY. THERE WAS STILL SOME SYMPATHY FOR METHOD 2A BUT AS POLAK (NETHERLANDS) HAD EXPLAINED (IN BUFF 82/233, CIRCULATED BEFORE THE DISCUSSION) IT WAS NOT BASICALLY DIFFERENT FROM METHOD 3 AND WAS PROBABLY MORE DIFFICULT TO FORMULATE AND TO EXPLAIN. THE MOVEMENT TOWARDS METHOD 3 HAD BEEN VERY STRONG AND METHOD 3 WAS PROBABLY THE BASIS FOR COMPROMISE.

CONFIDENTIAL

/MITIGATION

MITIGATION

CONFIDENTIAL

4. BUT AGREEMENT ON METHOD 3 WAS NOT THE END OF THE STORY. THERE WERE DIFFERENT VARIANTS WHICH COULD BE DISTINGUISHED BY THE METHOD OF MITIGATION AND THE AMOUNT OF THAT MITIGATION. ON THE AMOUNT OF MITIGATION, A NUMBER OF DIRECTORS PREFERRED NO MITIGATION, IE METHOD 3 WITH FULL ADJUSTMENT (COLUMN 2 IN TABLE 2 OF THE STAFF PAPER) WHICH YIELDED AN ADJUSTMENT COEFFICIENT OF 32 PERCENT. THAT WAS ONE POSSIBILITY. A SECOND GROUP OF DIRECTORS, VERY CLOSE TO THE FIRST GROUP, LIKED METHOD 3 COMBINED WITH A MINIMUM INCREASE OF 25 PERCENT FOR THE LEAST WELL EQUIPPED MEMBERS (COLUMN 3 IN TABLE 2). THE ADJUSTMENT COEFFICIENT UNDER THIS METHOD WAS 31.6 PERCENT WHICH WAS VERY SIMILAR TO THAT UNDER METHOD 3 WITHOUT MITIGATION. AT THE OTHER END OF THE SPECTRUM, A NUMBER OF DIRECTORS COULD GO ALONG WITH METHOD 3 ONLY IF THE MITIGATION ELEMENT WAS RATHER LARGE. A NUMBER OF THESE DIRECTORS PREFERRED THAT 75 PERCENT OF THE OVERALL INCREASE SHOULD BE EQUI-PROPORTIONAL WHICH IMPLIED AN ADJUSTMENT COEFFICIENT OF 8 PERCENT. BETWEEN THESE TWO POLES, A NUMBER OF DIRECTORS HAD EXPRESSED VIEWS POINTING TOWARDS AN ADJUSTMENT COEFFICIENT OF AROUND 24-25 PERCENT (WHICH WOULD PRODUCE AN EQUI-PROPORTIONAL INCREASE OF SOME 12.5 PERCENT). BUT THERE WERE MANY VARIANTS. THE ESSENTIAL THING WAS THAT THERE WAS NOW A ZONE FOR COMPROMISE AND RAPPROCHEMENT BETWEEN AN ADJUSTMENT COEFFICIENT OF 31-32 PERCENT AND AN ADJUSTMENT COEFFICIENT OF 8 PERCENT ON WHICH THE INTERIM COMMITTEE WOULD HAVE TO TAKE POLITICAL DECISIONS.

5. ON THE METHOD OF MITIGATION, THE MANAGING DIRECTOR SAID THERE WAS A STRONG MOVE TOWARDS THE EQUI-PROPORTIONAL METHOD, AS OPPOSED TO A MINIMUM PERCENTAGE INCREASE. THE EQUI-PROPORTIONAL METHOD WAS SUPERIOR IN TERMS OF THE UNIFORMITY PRINCIPLE. THE BOARD HAD THEREFORE CHOSEN A BASIC METHOD (METHOD 3) AND A METHOD OF MITIGATION (EQUI-PROPORTIONAL). THIS SHOULD BE CONVEYED TO MINISTERS. THERE WAS AND MUST BE GROUNDS FOR COMPROMISE BETWEEN A RELATIVELY STRONG AND A RELATIVELY LOW ADJUSTMENT COEFFICIENT. HE WAS CONFIDENT THAT ONE WOULD BE WORKED OUT. THE DIFFERENCES WERE SMALL IN TERMS OF INDIVIDUAL QUOTAS.

6. THE MANAGING DIRECTOR ADDED THAT THE BOARD'S CHOICES HAD BEEN MADE ON THE BASIS OF A FUND SIZE OF SDR 90 BN. BUT A NUMBER OF DIRECTORS HAD POINTED OUT THAT IT WOULD BE EASIER TO ACHIEVE THE APPARENTLY CONFLICTING OBJECTIVES OF A STRONGER ADJUSTMENT COEFFICIENT AND A MORE MEANINGFUL EQUI-PROPORTIONAL INCREASE IF THE OVERALL SIZE OF THE FUND WAS LARGER THAN SDR 90 BN. THE CHOICES WOULD HAVE TO BE LOOKED AT AGAIN ONCE THE OVERALL INCREASE HAD BEEN DECIDED. WHILE HE COULD NOT SAY YET THAT THE TEST OF SUCCESS WAS MET, HE WAS ENCOURAGED BY THE PROGRESS WHICH HAD BEEN MADE SO FAR.

CONFIDENTIAL

/ FUTURE

FUTURE WORK

CONFIDENTIAL

7. THE BOARD SHOULD START WORK ON A REPORT TO GOVERNORS AS HE DOUBTED IT WOULD BE POSSIBLE FOR DIRECTORS TO NARROW THEIR DIFFERENCES ANY FURTHER. THE BOARD SHOULD MAKE A CLEAR PRESENTATION TO MINISTERS EXPLAINING METHOD 3 IN SIMPLE LANGUAGE TOGETHER WITH POSSIBLE VARIANTS AND CONSTRAINTS WHICH WOULD BE NECESSARY TO ACHIEVE THE CONFLICTING OBJECTIVES OF THE EIGHT REVIEW. THE REPORT SHOULD HIGHLIGHT THE AREAS FOR COMPROMISE AT THE NEXT INTERIM COMMITTEE MEETING. IT WAS ESSENTIALLY UP TO MINISTERS TO RESOLVE THE DIFFERENCES BETWEEN THE TWO POLES ON THE SIZE OF THE ADJUSTMENT COEFFICIENT. THE REPORT COULD PAVE THE WAY FOR A SUCCESSFUL MEETING OF THE INTERIM COMMITTEE IN THE EARLY PART OF FEBRUARY. IT WOULD BE CIRCULATED ON 27-28 DECEMBER FOR INITIAL BOARD DISCUSSION ON 4 JANUARY.

8. AFTER THE SUMMING UP, WHICH WAS ENDORSED BY SEVERAL DIRECTORS, POLAK (NETHERLANDS) SUGGESTED THAT THE BOARD HAD NOT GIVEN SUFFICIENT THOUGHT TO THE CHOICE BETWEEN AN EQUI-PROPORTIONAL INCREASE AND A MINIMUM PERCENTAGE INCREASE. THE QUESTION COULD PERHAPS BE RE-OPENED AT THE DISCUSSION OF THE BOARD'S REPORT TO GOVERNORS IN EARLY JANUARY THE MANAGING DIRECTOR SAID THIS COULD BE DONE IF DIRECTORS HAD SECOND THOUGHTS BUT, IN HIS VIEW, THERE WERE STRONG ARGUMENTS AGAINST A MINIMUM PERCENTAGE INCREASE. IT WAS IMPORTANT TO HAVE MADE ENOUGH PROGRESS TO BE ABLE TO DECIDE WHETHER TO ISSUE INVITATIONS TO THE INTERIM COMMITTEE, WHICH HAD TO BE DONE A MONTH BEFORE THE MEETING COULD BE HELD. DALLARA (US), MALHOTRA (INDIA) AND KAFKA (BRAZIL) REAFFIRMED THEIR STRONG SUPPORT FOR THE EQUI-PROPORTIONAL APPROACH. THEY AND DE MAULDE (FRANCE) STRESSED THE IMPORTANCE OF MOVING AHEAD ON THE BASIS OF THE CHOICES MADE IN THIS DISCUSSION.

9. FCO PLEASE ADVANCE TO SIR K COUZENS AND LAVELLE (HMT), GILCHRIST (BANK OF ENGLAND) AND APPELYARD (ERD).

ANSON

MONETARY
ERD

(ADVANCED AS REQUESTED)

COPIES TO:-
ADVANCE ADDRESSEES

- 3 -
CONFIDENTIAL

GR 2500

CONFIDENTIAL

CONFIDENTIAL

DESKBY 230930Z

FM UKDEL IMF/IBRD WASHINGTON 222222Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 296 OF 22 DECEMBER

IMF: 8TH QUOTA REVIEW - DISTRIBUTION OF OVERALL INCREASE
(EB/CQUOTA/82/13)

1. MY TWO IPTS.

2. VIEWS OF INDIVIDUAL DIRECTORS ON THE MAIN ISSUES ARE SET OUT BELOW.

3. AT THE START OF THE DISCUSSION, THERE WAS A BRIEF EXCHANGE OF VIEWS ON TECHNICAL ISSUES PROMPTED BY POLAK'S (NETHERLANDS) BUFF 82/233 IN WHICH HE AGAIN CRITICISED THE STAFF'S METHODOLOGY. ALTHOUGH POLAK'S POINTS WERE ENDORSED BY SEVERAL DIRECTORS AND THE STAFF'S RESPONSE WAS NOT VERY CONVINCING, MOST DIRECTORS WERE ANXIOUS TO MAKE PROGRESS ON THE SUBSTANTIVE ISSUES. WILLIAMS (DEPUTY TREASURER) AGREED TO PRODUCE A MATHEMATICAL APPENDIX TO THE BOARD'S REPORT TO GOVERNORS EXPLAINING THE VARIOUS METHODS AND THE EXTENT TO WHICH THEY WERE INTRINSICALLY SIMILAR.

4. ON THE SUBSTANTIVE ISSUES, DIRECTORS FROM DEVELOPED COUNTRIES GENERALLY ENDORSED FOUR REQUIREMENTS WHICH I HAD OUTLINED AS ESSENTIAL IN APPROACHING THE QUESTION OF DISTRIBUTION, NAMELY THAT QUOTAS SHOULD BE ADJUSTED BETTER TO REFLECT MEMBERS' RELATIVE ECONOMIC POSITIONS, THE PRINCIPLE OF UNIFORMITY, THE NEED FOR SIMPLICITY AND THE NEED TO FIND A METHOD WHICH WAS CAPABLE OF BEING AGREED AND IMPLEMENTED QUICKLY. DIRECTORS IN THE GROUP REPEATED THEIR OPPOSITION TO PROPOSALS WHICH APPROACHED DISTRIBUTION ON THE BASIS OF COUNTRY GROUPS.

5. DIRECTORS FROM DEVELOPING COUNTRIES, ON THE OTHER HAND, AGAIN EMPHASISED THAT THE QUOTA SHARE OF NON-OIL LDCS AS A GROUP SHOULD BE PROTECTED AND ARGUED THAT A SUBSTANTIAL PART OF THE OVERALL INCREASE SHOULD BE EQUI-PROPORTIONAL. SOME OF THESE DIRECTORS REPEATED THEIR SUPPORT FOR A DOUBLING IN THE OVERALL SIZE OF THE FUND. SALEHKHOU (IRAN) SAID THE QUOTA INCREASE SHOULD BE ACCOMPANIED BY A NEW ALLOCATION OF SDRS.

6. NIMATALLAH (SAUDI ARABIA), WHO HAD REMAINED SILENT IN THE TWO PREVIOUS DISCUSSIONS ON QUOTAS, SAID HE HAD FRIENDS ON BOTH SIDES OF THE ARGUMENT AND WOULD THEREFORE TAKE A MIDDLE POSITION. HE SUPPORTED A DISTRIBUTION METHOD WHICH DID NOT EXAGGERATE THE ADJUSTMENT COEFFICIENT NOR THE SIZE OF THE GUARANTEED INCREASE FOR ALL MEMEBERS (SEE BELOW FOR DETAIL). THIS WAS NOT IN THE BEST INTERESTS OF SAUDI ARABIA BUT IT WAS MORE IMPORTANT TO FACILITATE THE WORK OF THE FUND. HE WAS OPEN TO ANY COMPROMISE IN THE INTERESTS OF REACHING A CONSENSUS.

CONFIDENTIAL

/ 7.

CONFIDENTIAL

7. INDIVIDUAL COUNTRY POSITIONS WERE AS FOLLOWS:

ERB (US) - CONTINUED TO PREFER METHOD 2A WITH AN EQUI-PROPORTIONAL ELEMENT OF CLOSE TO 50 PERCENT. IN THE INTERESTS OF CONSENSUS, WAS ALSO PREPARED TO SUPPORT METHOD 3 WITH AN EQUI-PROPORTIONAL ELEMENT AND AN ADJUSTMENT COEFFICIENT OF ABOUT 20 PERCENT OR SLIGHTLY ABOVE. OPPOSED THE CONCEPT OF A MINIMUM PERCENTAGE INCREASE WHICH INTRODUCED AN ELEMENT OF NON-UNIFORMITY INTO THE CALCULATIONS.

UK - I CONTINUED TO SUPPORT METHOD 3 IN ITS PURE FORM BUT AGREED THAT IT MIGHT HAVE TO BE DILUTED (PARA 7 OF YOUR TELNO 246). OF THE TWO WAYS OF DOING THIS, I PREFERRED THE EQUI-PROPORTIONAL APPROACH TO A MINIMUM PERCENTAGE INCREASE. IF A CONSENSUS WAS TO BE REACHED, THE EQUI-PROPORTIONAL ELEMENT WAS UNLIKELY TO ACCOUNT FOR LESS THAN 25 PERCENT OF THE OVERALL INCREASE IN THE SIZE OF THE FUND (EQUIVALENT TO AN ADJUSTMENT COEFFICIENT OF 24 PERCENT). THE BOARD SHOULD AGREE ON ONE METHOD AND ON ONE QUOTE SAFETY NET UNQUOTE. IT MIGHT BE NECESSARY TO ASK MINISTERS TO RESOLVE THE BALANCE BETWEEN THE SELECTIVE METHOD AND THE SAFETY NET. (I DID NOT POSE IN THE BOARD THE QUESTION AT THE END OF YOUR PARA. 8, SINCE THE STAFF HAD ALREADY TOLD ME THAT THE ANSWER WAS AN EQUI-PROPORTIONAL ELEMENT OF APPROXIMATELY 50 PERCENT OF THE TOTAL INCREASE, WHICH YOU PREFERRED--YOUR PARA. 2-- NOT TO MENTION IN DISCUSSION AT THIS STAGE.)

LASKE (GERMANY) - CONTINUED TO PREFER METHOD 3 IN ITS PURE FORM WITH AN ADJUSTMENT COEFFICIENT OF 32 PERCENT. BUT WAS PREPARED TO BE FLEXIBLE AND COMBINE METHOD 3 WITH A MINIMUM INCREASE OR AN EQUI-PROPORTIONAL ELEMENT PROVIDED THAT NEITHER WAS OVERLY LARGE. THE ADJUSTMENT COEFFICIENT SHOULD BE AT LEAST ABOUT 25 PERCENT. AN EQUI-PROPORTIONAL ELEMENT IN THE RANGE OF 50-75 PERCENT WOULD NOT BE ACCEPTABLE TO HIS AUTHORITIES. UNLESS THERE WAS A VISIBLE ADJUSTMENT OF QUOTA SHARES AT THIS REVIEW, HIS AUTHORITIES WOULD PRESS FOR ANOTHER ROUND OF SELECTIVE QUOTA ADJUSTMENTS AT THE 9TH REVIEW.

HIRAO (JAPAN) - REPEATED HIS SUPPORT FOR METHOD 4 AS A FIRST CHOICE. DESPITE GRAVE DOUBTS, COULD ALSO GO ALONG WITH METHOD 3 IN ITS PURE FORM AS AN ACCEPTABLE MINIMUM. HE STRONGLY OPPOSED THE INCLUSION OF AN EQUI-PROPORTIONAL ELEMENT UNDER METHOD 3. A MINIMUM PERCENTAGE INCREASE UNDER METHOD 3 WOULD BE A BETTER WAY OF ENSURING A MEANINGFUL INCREASE FOR ALL MEMBERS.

DE MAULDE (FRANCE) - HIS PREFERENCE FOR METHOD 3 HAD STRENGTHENED SINCE THE LAST DISCUSSION. IT SHOULD BE COMBINED WITH A SUBSTANTIAL EQUI-PROPORTIONAL ELEMENT OF AT LEAST 50 PERCENT OF THE OVERALL INCREASE. THIS WOULD GIVE ALL MEMBERS AN INCREASE OF AT LEAST 25 PERCENT OF THEIR PRESENT QUOTAS FOR A FUND SIZE OF SDR 90 BN.

CONFIDENTIAL -2- /POLAK

~~CONFIDENTIAL~~

POLAK (NETHERLANDS) - AGAIN CRITICAL OF THE STAFF'S METHODOLOGY (SEE HIS BUFF 82/233). BUT ACCEPTED THAT METHOD 4 WAS UNLIKELY TO PRODUCE A CONSENSUS. THE BEST COMPROMISE WOULD BE TO DISTRIBUTE QUOTA SHARES IN PROPORTION TO SHARES IN CALCULATED QUOTAS (IE METHOD 3) SUBJECT TO THE CONSTRAINT OF A MINIMUM PERCENTAGE INCREASE EQUAL TO HALF THE PERCENTAGE INCREASE IN THE OVERALL SIZE OF THE FUND IF TOTAL QUOTAS WERE INCREASED BY 50 PERCENT TO SDR90 BN, THE MINIMUM PERCENTAGE INCREASE SHOULD BE 25 PERCENT.

SIGURDSSON (ICELAND) - CLOSE TO POLAK. SUPPORTED METHOD 4 WITH AN ADJUSTMENT COEFFICIENT OF BETWEEN 40-50 PERCENT SUBJECT TO A MINIMUM GUARANTEED INCREASE EQUAL TO HALF THE PERCENTAGE INCREASE IN THE OVERALL SIZE OF THE FUND. BUT AGREED THAT METHOD 3 WITH AN ADJUSTMENT COEFFICIENT IN THE ORDER OF 30 PERCENT MIGHT BE AN ACCEPTABLE COMPROMISE. THE STAFF SHOULD PRODUCE TABLES OR GRAPHS SHOWING THE POSSIBLE COMBINATIONS OF ADJUSTMENT COEFFICIENTS AND MINIMUM GUARANTEED INCREASES SUBJECT TO FIVE CONSTRAINTS, NAMELY THE SIZE OF THE OVERALL INCREASE, THE EXISTING SETS OF ACTUAL AND CALCULATED QUOTAS, THE REQUIREMENT THAT NO MEMBER'S QUOTA SHOULD FALL IN ABSOLUTE TERMS, THE ELIMINATION OF OVERSHOOTING AND THE UNIFORM LINEAR ADJUSTMENT OF ACTUAL QUOTA SHARES IN THE DIRECTION OF CALCULATED QUOTA SHARES. (WILLIAMS (DEPUTY TREASURER) AGREED TO PROVIDE THIS.)

PROWSE (AUSTRALIA) - METHOD 3 WAS THE SIMPLEST METHOD TO EXPLAIN TO GOVERNORS. THE VARIANTS OF METHOD 3 IN TABLE 2 OF THE STAFF PAPER AND IN TABLE 3 OF EB/CQUOTA/82/10 SHOULD BE CLEARLY PRESENTED TO THE INTERIM COMMITTEE. HE COULD SUPPORT METHOD 3 SUBJECT TO A CONSTRAINT WHICH PRODUCED AN ADJUSTMENT COEFFICIENT IN THE AREA OF 20-25 PERCENT. THE CONSTRAINT SHOULD TAKE THE FORM OF AN EQUI-PROPORTIONAL ELEMENT RATHER THAN A MINIMUM PERCENTAGE INCREASE WHICH WAS ARBITRARY, NON-UNIFORM AND DIFFICULT TO EXPLAIN.

LOVATO (ITALY) - METHOD 3 WITH A 25PERCENT MINIMUM INCREASE SHOULD BE THE BASIS FOR A FINAL SOLUTION. WAS PREPARED TO CONSIDER METHOD 2A WITH A 50 PERCENT EQUI-PROPORTIONAL ELEMENT AS A SECOND BEST OPTION EVEN THOUGH IT WAS ARBITRARY AND ILLOGICAL. BUT METHOD 3 WITH AN EQUI-PROPORTIONAL ELEMENT AS HIGH AS 50-75 PERCENT OF THE OVERALL INCREASE WAS UNACCEPTABLE.

SCHNEIDER (AUSTRIA) - PREFERRED PURE METHOD 3 BUT PREPARED TO COMBINE THIS WITH A REASONABLE EQUI-PROPORTIONAL ELEMENT WHICH SHOULD NOT GO TOO FAR. THE ADJUSTMENT COEFFICIENT SHOULD BE BETWEEN 20-25 PERCENT FOR A FUND SIZE OF SDR90 BN. THE ADJUSTMENT COEFFICIENT COULD BE HIGHER IF THE OVERALL SIZE OF THE FUND WAS LARGER THAN SDR90 BN (WHICH HIS AUTHORITIES CONTINUED TO REGARD AS INSUFFICIENT).

~~CONFIDENTIAL~~

JOYCE (CANADA) - CLOSE TO MY POSITION. PREFERRED PURE METHOD 3 BUT RECOGNISED THAT SOME DILUTION WAS NECESSARY. THAT DILUTION SHOULD TAKE THE FORM OF AN EQUI-PROPORTIONAL ELEMENT RATHER THAN A MINIMUM PERCENTAGE INCREASE WHICH WAS NOT NECESSARY UNDER METHOD 3. HE COULD SUPPORT AN EQUI-PROPORTIONAL ELEMENT OF 25 PERCENT OF THE OVERALL INCREASE WHICH WOULD PRODUCE AN ADJUSTMENT COEFFICIENT OF 24 PERCENT. THE ADJUSTMENT COEFFICIENT SHOULD NOT GO BELOW THIS FIGURE. THE BOARD SHOULD AGREE ON METHOD 3 AND AN EQUI-PROPORTIONAL ELEMENT WITHIN AN AGREED RANGE AND GIVE MINISTERS A SIMPLE CHOICE ON THE AMOUNT OF THE EQUI-PROPORTIONAL ELEMENT.

NIMATALLAH (SAUDI ARABIA) - COULD GO ALONG WITH METHOD 2A OR METHOD 3 WITH A 50 PERCENT EQUI-PROPORTIONAL ELEMENT. THE ADJUSTMENT COEFFICIENT SHOULD BE WITHIN THE 20-25 PERCENT RANGE. THE BOARD SHOULD PRESENT THE INTERIM COMMITTEE WITH A PROPOSAL BASED ON METHOD 3 AND AN EQUI-PROPORTIONAL ELEMENT IN THE RANGE OF 25-75 PERCENT OF THE OVERALL INCREASE. HE CONTINUED TO HOPE THAT THE INTERIM COMMITTEE WOULD AGREE ON AN OVERALL QUOTA INCREASE TO SDR100 BN.

FINAISH (LIBYA) - SUPPORTED METHOD 4 AS A FIRST CHOICE BUT RECOGNISED IT HAD INSUFFICIENT SUPPORT. COULD ALSO SUPPORT METHOD 3 WITH A 25 PERCENT MINIMUM INCREASE AS A SECOND CHOICE OR METHOD 3 IN ITS PURE FORM AS A THIRD CHOICE.

SALEHKHOU (IRAN) - THE BOARD SHOULD DECIDE ON THE SIZE OF THE OVERALL INCREASE BEFORE DECIDING ON THE METHOD OF DISTRIBUTION. A DOUBLING OF QUOTAS WAS THE ONLY WAY TO ACCOMODATE THE CONFLICTING OBJECTIVES OF THE 8TH REVIEW. HE SUPPORTED METHOD 4 (COLUMN 7 OF TABLE 2 IN THE STAFF PAPER) AS A FIRST CHOICE BUT WAS ALSO PREPARED TO SUPPORT METHOD 3 WITH A 75 PERCENT EQUI-PROPORTIONAL ELEMENT AS A SECOND CHOICE IN ORDER TO PROTECT THE RELATIVE SHARE OF DEVELOPING COUNTRIES.

ZHANG (CHINA) - REPEATED HIS VIEW THAT QUOTA SHARES SHOULD BE READJUSTED WITHIN GROUPS OF COUNTRIES. THE RATE OF ADJUSTMENT SHOULD BE UNIFORM WITHIN THESE GROUPS. IF THE QUOTA SHARE OF NON-OIL LDCS AS A GROUP DECLINED IN RELATIVE TERMS, ACCESS LIMITS SHOULD BE RAISED COMMENSURATELY. METHOD 3 WITH AN EQUI-PROPORTIONAL ELEMENT OF AT LEAST 75 PERCENT WOULD BE THE LEAST OBJECTIONABLE METHOD.

MALHOTRA (INDIA) - SIMILAR TO ZHANG. NONE OF THE METHODS PROPOSED BY THE STAFF WERE ACCEPTABLE AS EACH INVOLVED A DECLINE IN THE RELATIVE SHARE OF NON-OIL LDCS. BUT COULD RELUCTANTLY ACQUIESCE IN METHOD 3 PROVIDED THAT AT LEAST 75 PERCENT OF THE OVERALL INCREASE WAS EQUI-PROPORTIONAL.

HABIB (INDONESIA) - ALSO SIMILAR TO ZHANG. SAW LITTLE DIFFERENCE BETWEEN METHOD 2A AND METHOD 3. METHOD 3 WITH A 75 PERCENT EQUI-PROPORTIONAL ELEMENT AND AN ADJUSTMENT COEFFICIENT OF 8 PERCENT WAS THE LEAST OBJECTIONABLE METHOD.

CONFIDENTIAL

ALFIDJA (NIGER) - COULD RELUCTANTLY ACCEPT METHOD 3 PROVIDED THAT AT LEAST 75 PERCENT OF THE OVERALL INCREASE WAS EQUI-PROPORTIONAL.

SANGARE (GUINEA) - NOT LESS THAN 75 PERCENT OF THE OVERALL INCREASE SHOULD BE EQUI-PROPORTIONAL. METHOD 3 WITH A 75 PERCENT EQUI-PROPORTIONAL ELEMENT WAS THE LEAST UNFAVOURABLE METHOD FOR NON-OIL LDCs. THE ADJUSTMENT COEFFICIENT SHOULD BE NOT MORE THAN 15 PERCENT.

KAFKA (BRAZIL) - PREPARED TO BE FLEXIBLE BUT COULD NOT ACCEPT METHOD 4 ON ANY ACCOUNT. ADJUSTMENT IN THE DIRECTION OF CALCULATED QUOTAS SHOULD NOT GO TOO FAST. SYMPATHISED WITH ZHANG THAT 75 PERCENT OF THE OVERALL INCREASE SHOULD BE EQUI-PROPORTIONAL. IT MIGHT BE NECESSARY TO HAVE A SECOND ROUND OF SELECTIVE ADJUSTMENTS AT THE 9TH REVIEW.

SENIOR (VENEZUELA) - AT LEAST TWO THIRDS OF THE OVERALL INCREASE SHOULD BE EQUI-PROPORTIONAL. AN EQUI-PROPORTIONAL INCREASE WAS PREFERABLE TO A MINIMUM PERCENTAGE INCREASE. HIS FIRST PREFERENCE WAS FOR METHOD 2A WITH A TWO-THIRDS EQUI-PROPORTIONAL ELEMENT BUT COULD GO ALONG WITH METHOD 3 COMBINED WITH A 50 PERCENT EQUI-PROPORTIONAL ELEMENT (COLUMN 4 OF TABLE 2 OF THE STAFF PAPER).

TEIJERO (ARGENTINA) - COULD ACCEPT METHOD 3 WITH AN EQUI-PROPORTIONAL ELEMENT OF AT LEAST 50 PERCENT.

8. FCO PLEASE ADVANCE TO SIR K COUZENS AND LAVELLE (HMT), GILCHRIST (BANK OF ENGLAND) AND APPELYARD (ERD).

ANSON

(ADVANCED AS REQUESTED)

MONETARY
ERD

COPIES TO:-
ADVANCEE ADDRESSEES

-5-
CONFIDENTIAL

GR 730

CONFIDENTIAL

CONFIDENTIAL

DESKBY 230930Z

FM UKDEL IMF/IBRD WASHINGTON 222220Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 295 OF 22 DECEMBER

IMF: 8TH QUOTA REVIEW - DISTRIBUTION OF OVERALL INCREASE (EB/CQUOTA/
82/13)

1. NIPT.

2. FOLLOWING IS VAN HOUTVEN'S (SECRETARY) RECORD OF THE VOTING STRENGTH IN FAVOUR OF THE VARIOUS OPTIONS WHICH HE OUTLINED TO THE BOARD AT THE CLOSE OF THE DISCUSSION ON DISTRIBUTION ON 21 DECEMBER.

METHOD

3. VAN HOUTVEN SAID THAT ALTHOUGH SEVERAL DIRECTORS HAD REPEATED THEIR PREFERENCE FOR METHOD 2A (US, SAUDI ARABIA AND VENEZUELA) OR FOR METHOD 4 (JAPAN, NETHERLANDS, ICELAND, LIBYA AND IRAN), ALL DIRECTORS HAD BEEN PREPARED TO ACCEPT METHOD 3 AS A COMPROMISE.

MITIGATION

4. ON THE QUESTION OF AN EQUI-PROPORTIONAL INCREASE VERSUS A MINIMUM PERCENTAGE INCREASE, THREE DIRECTORS (JAPAN, NETHERLANDS AND ITALY) PREFERRED A MINIMUM PERCENTAGE INCREASE AND ONE DIRECTOR (GERMANY) COULD ACCEPT EITHER. ALL OTHER DIRECTORS SUPPORTED THE EQUI-PROPORTIONAL APPROACH.

5. SEVERAL DIRECTORS (CHINA, INDIA, INDONESIA, VENEZUELA, GUINEA AND IRAN) REPEATED THEIR VIEW THAT THE RELATIVE QUOTA SHARE OF NON-OIL LDCS SHOULD AT LEAST BE MAINTAINED AT ITS PRESENT LEVEL. BUT THESE DIRECTORS WERE ALSO PREPARED, WITH VARYING DEGREES OF RELUCTANCE, TO SUPPORT A CERTAIN ADJUSTMENT COEFFICIENT.

ADJUSTMENT COEFFICIENT

6. WITH REGARD TO THE SIZE OF THE ADJUSTMENT COEFFICIENT, VAN HOUTVEN NOTED THE FOLLOWING POSITION:

(I) AT ONE EXTREME, SEVEN DIRECTORS - CHINA, INDIA, INDONESIA, GUINEA, NIGER, BRAZIL AND IRAN (AS ITS SECOND PREFERENCE) - ACCOUNTING FOR JUST OVER 20 PERCENT OF THE VOTING POWER, PREFERRED METHOD 3 WITH AN EQUI-PROPORTIONAL ELEMENT OF 75 PERCENT AND THUS AN ADJUSTMENT COEFFICIENT OF NOT MORE THAN 8 PERCENT.

(II) AT THE OTHER EXTREME, SEVEN DIRECTORS - JAPAN, GERMANY, NETHERLANDS, ITALY, ICELAND, LIBYA AND IRAN (AS A FIRST CHOICE) - ACCOUNTING FOR APPROXIMATELY 26.5 PERCENT OF THE VOTING POWER, PREFERRED AN ADJUSTMENT COEFFICIENT OF AT LEAST 25 PERCENT. IN THIS GROUP, GERMANY, NETHERLANDS AND ITALY SPECIFICALLY PREFERRED AN ADJUSTMENT COEFFICIENT OF ABOUT 32 PERCENT WHILE JAPAN, ICELAND, IRAN AND LIBYA, WHO HAD SUPPORTED METHOD 4, THOUGHT THE ADJUSTMENT COEFFICIENT SHOULD BE HIGHER.

CONFIDENTIAL

1 (iii)

CONFIDENTIAL

(III) IN BETWEEN THESE TWO EXTREMES, THERE WERE NINE DIRECTORS, ACCOUNTING FOR SOME 54 PERCENT OF THE VOTING POWER, WHO SUPPORTED AN ADJUSTMENT COEFFICIENT IN THE RANGE OF 15-25 PERCENT. OF THESE DIRECTORS, SIX - US, MYSELF, CANADA, AUSTRALIA, AUSTRIA AND SAUDI ARABIA - WITH APPROXIMATELY 42 PERCENT OF THE VOTING POWER, PREFERRED AN ADJUSTMENT COEFFICIENT WITHIN THE RANGE OF 20-25 PERCENT. THE OTHER THREE DIRECTORS - FRANCE, VENEZUELA AND ARGENTINA - PREFERRED AN ADJUSTMENT COEFFICIENT OF 16 PERCENT.

7. IN RESPONSE TO QUESTIONS FROM ZHANG (CHINA) AND OTHERS, VAN HOUTVEN AGREED THAT THE CAKE COULD ALSO BE SLICED IN THE FOLLOWING WAY:

(A) AT ONE EXTREME, THERE WERE TEN DIRECTORS - CHINA, INDIA, INDONESIA, GUINEA, NIGER, BRAZIL, IRAN (AS A SECOND PREFERENCE), FRANCE, VENEZUELA AND ARGENTINA - WITH A COMBINED VOTING POWER OF APPROXIMATELY 30 PERCENT WHO PREFERRED AN ADJUSTMENT COEFFICIENT IN THE RANGE OF 8-16 PERCENT.

(B) AT THE OTHER EXTREME, SEVEN DIRECTORS - JAPAN, GERMANY, NETHERLANDS, ITALY, ICELAND, LIBYA AND IRAN (AS A FIRST CHOICE) - WITH SOME 26.5 PERCENT OF THE VOTING POWER SUPPORTED AN ADJUSTMENT COEFFICIENT IN THE 25-32 PERCENT RANGE OR HIGHER.

(C) IN BETWEEN, SIX DIRECTORS - US, MYSELF, CANADA, AUSTRALIA, AUSTRIA AND SAUDI ARABIA - WITH APPROXIMATELY 42 PERCENT OF THE VOTING POWER PREFERRED AN ADJUSTMENT COEFFICIENT IN THE 20-25 PERCENT RANGE.

8. FCO PLEASE ADVANCE TO SIR K COUZENS AND LAVELLE (HNT), GILCHRIST (BANK OF ENGLAND) AND APPLEYARD (ERD).

ANSON

MONETARY
ERD

COPIES TO:-
ADVANCE ADDRESSES

(ADVANCED AS REQUESTED)

- 2 -
CONFIDENTIAL

GR 800

CONFIDENTIAL

C O N F I D E N T I A L

FM UKDEL IMF/IBRD WASHINGTON 222223Z DEC 82

TO PRIORITY F C O

TELEGRAM NUMBER 297 OF 22 DECEMBER

c *Li*

IMF: FUND POLICIES ON MINIMUM QUOTAS

1. ON 21 DECEMBER, EXECUTIVE BOARD CONSIDERED EB/CQUOTA/82/12. THE DISCUSSION WAS INCONCLUSIVE. SUMMING UP, THE MANAGING DIRECTOR SAID THAT 14 DIRECTORS (AUSTRALIA, CANADA, FRANCE, JAPAN, NIGER, TANZANIA, SAUDI ARABIA, LIBYA, IRAN, INDIA, CHINA, VENEZUELA, BRAZIL AND INDONESIA) WITH APPROXIMATELY 49 PERCENT OF THE VOTING POWER COULD SUPPORT SOME FORM OF ACTION TO RAISE THE QUOTAS OF MEMBERS WHOSE PRESENT QUOTAS WERE BELOW SDR10 MN. 6 DIRECTORS (US, MYSELF, GERMANY, NETHERLANDS, ITALY AND ARGENTINA) WITH 42 PERCENT OF THE VOTING POWER COULD NOT SUPPORT ACTION ON THIS QUESTION. ONE DIRECTOR (ICELAND) WAS SYMPATHETIC TO THE PROBLEMS OF COUNTRIES WITH VERY SMALL QUOTAS BUT COULD NOT SUPPORT ACTION AT THIS TIME. ONE DIRECTOR (AUSTRIA) DID NOT EXPRESS A VIEW. THE MANAGING DIRECTOR CONCLUDED THAT THE MOST SENSIBLE COURSE WOULD BE TO INCLUDE THE ESSENCE OF THE DISCUSSION IN A SEPARATE PARAGRAPH IN THE BOARD'S REPORT TO GOVERNORS ON THE 8TH QUOTA REVIEW (SCHEDULED FOR INITIAL BOARD DISCUSSION ON 4 JANUARY).

2. PROWSE (AUSTRALIA) MADE A STRONG OPENING STATEMENT IN FAVOUR OF INCREASING THE QUOTAS OF THOSE 17 COUNTRIES WHOSE PRESENT QUOTAS WERE BELOW SDR10 MN. THESE COUNTRIES WERE MAINLY SMALL ISLAND OR LAND-LOCKED DEVELOPING ECONOMIES SUFFERING FROM THE DISADVANTAGES OF GEOGRAPHICAL ISOLATION, TRANSPORTATION AND COMMUNICATION DIFFICULTIES, LIMITED OPPORTUNITIES FOR EXPORT DIVERSIFICATION AND LIMITED ACCESS TO INTERNATIONAL CAPITAL MARKETS. THE MAIN CONSIDERATION FOR THESE COUNTRIES WAS MEANINGFUL ACCESS TO FUND RESOURCES AS WELL AS TO FUND ADVICE AND TECHNICAL ASSISTANCE. THEIR OBJECTIVE WAS NOT TO HAVE GREATER ACCESS TO LOW CONDITIONALITY FUNDS. IF CONDITIONALITY WAS REGARDED AS A PROBLEM, THE FUND COULD REVIEW ITS ASSISTANCE TO THESE MEMBERS IN THE LIGHT OF EXPERIENCE. ANY UPWARD ADJUSTMENT IN THE QUOTAS OF THESE MEMBERS WOULD HAVE A NEGLIGIBLE EFFECT ON THE QUOTA AND VOTING SHARES OF OTHER MEMBERS. THERE WAS A CLEAR GAP BETWEEN THIS GROUP AND THE NEXT COUNTRY UP (LESOTHO). BUT AN UPWARD ADJUSTMENT WOULD HAVE A VERY POSITIVE EFFECT ON THE ATTITUDE OF THESE MEMBERS TO THE FUND. ANY DEPARTURE FROM THE UNIFORMITY PRINCIPLE WOULD BE VERY SMALL AND WAS CLEARLY JUSTIFIED ON ECONOMIC GROUNDS AS THE EXISTING QUOTA FORMULAE DID NOT TAKE ACCOUNT OF THE SPECIAL PROBLEMS OF THESE MEMBERS. THE UPWARD ADJUSTMENT COULD BE MADE AFTER THE MAIN DECISIONS HAD BEEN TAKEN UNDER THE 8TH REVIEW AND NEED NOT COMPLICATE THE PACKAGE.

3. PROWSE MENTIONED FOUR POSSIBLE METHODS OF RAISING THESE MEMBERS' QUOTAS:

(1) THE QUOTA OF EACH MEMBER COULD BE RAISED TO SDR10 MN AFTER

CONFIDENTIAL

/ THE GENERAL

THE GENERAL INCREASE UNDER THE 8TH REVIEW. THIS WOULD QUOTE COST UNQUOTE THE FUND (IN TERMS OF ADDITIONAL QUOTA ALLOCATIONS) AN AMOUNT OF SDR80 MN.

- (II) THE QUOTAS OF THESE MEMBERS COULD BE ROUNDED UP IN THREE CLASSES AFTER THE GENERAL INCREASE UNDER THE 8TH REVIEW. QUOTAS BELOW SDR5 MN COULD ROUNDED UP TO SDR5 MN: QUOTAS BETWEEN SDR5 MN AND SDR7.5 MN COULD BE ROUNDED UP TO SDR 7.5 MN: AND QUOTAS BETWEEN SDR7.5 MN AND SDR10 MN COULD BE ROUNDED UP TO SDR10 MN. THIS WOULD COST THE FUND SDR17 MN.
- (III) THE QUOTAS OF THOSE MEMBERS WHOSE RATIO OF PRESENT QUOTAS TO CALCULATED QUOTAS WAS BELOW THE AVERAGE RATIO FOR THE GROUP COULD BE RAISED TO THE AVERAGE RATIO. THIS WOULD COST SDR19 MN.
- (IV) THE FUND COULD GIVE THE 17 MEMBERS A SPECIAL PERCENTAGE INCREASE, OF, SAY, 25 PERCENT, ON TOP OF THEIR NEW QUOTAS AFTER THE 8TH REVIEW. THIS WOULD COST SOME SDR23 MN.

4. PROWSE WAS SUPPORTED BY 13 DIRECTORS, NOTABLY JOYCE (CANADA), ALFIDJA (NIGER) AND MTEI (TANZANIA). ALFIDJA, MALHOTRA (INDIA), HABIB (INDONESIA) AND FINAISH (LIBYA) COULD ACCEPT ANY OF THE FOUR METHODS OUTLINED BY PROWSE. ZHANG (CHINA) COULD ACCEPT METHOD (II) OR (III). LE LORIER (FRANCE), JOYCE, NIMATALLAH (SAUDI ARABIA) AND SALEHKHOU (IRAN) PREFERRED METHOD (II). MTEI, SENIOR (VENEZUELA) AND KAFKA (BRAZIL) PREFERRED OPTION (III) BUT LE LORIER SAID THIS METHOD WAS UNACCEPTABLE. HIRAO (JAPAN) SIMPLY SAID THAT THE QUESTION SHOULD BE RE-EXAMINED AFTER SATISFACTORY AGREEMENT HAD BEEN REACHED ON THE OVERALL SIZE OF THE QUOTA INCREASE AND THE METHOD OF DISTRIBUTION.

5. LE LORIER, SALEHKHOU AND MTEI ALSO UNDERLINED THE IMPORTANCE THEY ATTACHED TO A REVIEW OF BASIC VOTES IN THE CONTEXT OF THE 8TH REVIEW. PROWSE CONSIDERED THAT THE QUESTION OF BASIC VOTES WAS SEPARATE FROM THAT OF MINIMUM QUOTAS, BUT HE ACKNOWLEDGED THAT BASIC VOTES MIGHT HAVE TO BE EXAMINED SEPARATELY.

6. ON THE OTHER SIDE, I SAID THAT I COULD APPRECIATE THE CONCERNS RAISED BY PROWSE BUT DOUBTED WHETHER THIS WAS THE MOST APPROPRIATE WAY OF DEALING WITH THEM (YOUR TELNO 247). THE SMALL QUOTA POLICY HAD BEEN SUSPENDED BECAUSE THE QUOTA FORMULAE HAD BEEN MODIFIED IN 1963 TO TAKE CARE OF THE PROBLEMS OF SMALLER MEMBERS AT THAT TIME. NO STRONG ECONOMIC CASE HAD BEEN MADE FOR ROUNDING UP QUOTAS AT THE BOTTOM END OF THE SCALE AT THE PRESENT TIME. A MINIMUM QUOTA POLICY WAS A VERY CRUDE INSTRUMENT FOR DEALING WITH THE PROBLEMS OF SMALL MEMBERS. IF CLASSES OF ECONOMIES SUCH AS SMALL AND ISOLATED ISLANDS FACED DISTINCTIVE PROBLEMS, THE BOARD COULD PERHAPS EXAMINE, SEPARATELY, WHETHER FUND PROGRAMMES SHOULD TAKE ACCOUNT OF THESE SPECIAL PROBLEMS.

2
CONFIDENTIAL

/ 7. DALLARA

CONFIDENTIAL

7. DALLARA (US) MADE SIMILAR POINTS. EXISTING POLICIES HAD NOT WORKED TO THE DISADVANTAGE OF SMALLER COUNTRIES WHO HAD JOINED THE FUND SINCE THE MINIMUM QUOTA POLICY WAS SUSPENDED. THE COST OF PROWSE'S SUGGESTIONS MIGHT NOT BE LARGE BUT IT WOULD SET AN UNDESIRABLE PRECEDENT. LASKE (GERMANY) SAW NO REASON FOR GIVING SMALL MEMBERS SPECIAL TREATMENT. THIS WOULD BE TANTAMOUNT TO A REINTRODUCTION OF THE MINIMUM QUOTA POLICY WHICH WOULD RUN COUNTER TO THE PRINCIPLES OF UNIFORMITY. LOVATO (ITALY) SAW NO REASON TO COMPLICATE THE 8TH REVIEW WITH THIS NEW ELEMENT. POLAK (NETHERLANDS) THOUGHT IT WOULD BE A GREAT MISTAKE TO INTRODUCE POSSIBLE DISTORTIONS INTO THE QUOTA EXERCISE. TEIJEIRO (ARGENTINA) SAW NO REASON TO INTRODUCE NEW DISTORTIONS WHEN THE AIM OF THE 8TH REVIEW WAS TO REDUCE EXISITING ONES.

8. FCO PLEASE ADVANCE TO SIR K COUZENS AND LAVELLE (HMT), GILCHRIST (BANK OF ENGLAND) AND APPELYARD (ERD).

ANSON

ADVANCED AS REQUESTED

MONETARY

ERD

COPIES TO:

ADVANCE ADDRESSEES

5000

FROM: R G LAVELLE

DATE: 23 December 1982

CHANCELLOR

In. I shall need → detail - soon: possibly on \$5485 (#) 1/29/82

cc: Sir K Couzens
Mr Littler
Mr Bottrill o/r
Mr Atkinson
Mr Sheridan

INTERIM COMMITTEE/SAUDI ARABIA: WASHINGTON TEL NO 298

below. We've seen it, but not re 4 others of 5 below.

Perhaps I could offer a few rapid comments on the Managing Director's pre-Christmas message.

A meeting: soon, with cables + docs. Cd. be a good idea

Interim Committee Meeting

2. On balance the message here is encouraging.
3. In particular there has been a major advance on the question of distribution. It will much ease the handling of discussion if, as seems now to be the position, Ministerial attention can concentrate in this area solely on the extent of any equiproportional increase that should be allowed to dilute the effects of one basic distribution technique. The basic technique in question - 'Method 3' - is fortunately itself relatively intelligible viz (in its pure form) distribution of all the increase in quotas by reference to shares in calculated quotas. At a guess we might end up at a compromise involving 50% of the distribution being equiproportional. Our detailed briefing will illustrate the effects of this on shares and access.
4. If, as one may expect, the Managing Director invites the Committee on the day to express views on a limited essential group of issues, as narrowly defined as he can get away with, he might well, at least on a first round, suggest that access is left to the Executive Board. After a round of statements on the size of the Fund and distribution (even in the focussed form now possible) there may be little disposition for a wrangle on access. But if that is not acceptable to LDCs he may have to suggest a

SECRET

broad formula for the guidance of the Board eg maintenance of existing access in cash terms. Since there are different ways of achieving the latter - by a general formula which gives some an actual increase in access, or by some kind of reserved rights rule - a broad formula may be enough.

5. The Managing Director seems to retain a degree of concern on the saleability of the enlarged GAB plan. The point here, however, is that the Americans seem to have been a little upset that the proposal was not found acceptable on the spot by developing countries. But it is scarcely surprising that they need time to digest it. There is unlikely to be serious trouble once they have done so and realise the limited room for negotiation between the size of quotas and size of the GAB.

6. The idea of some formal handling of any renewed bids for SDR allocation seems promising.

The Saudi visit

7. Here it is helpful that the question of the third SAMA tranche is to be dealt with separately. A satisfactory outcome here, plus squaring an influential participant in the negotiation of the general package, are obviously two major objectives for the January visit.

8. The question of Saudi engagement in some parallel arrangement to the GAB proposal, a third objective, is rather different. From one point of view the absence of any such arrangements would not significantly undermine the total package. But an indication of Saudi willingness to contemplate a parallel arrangement would be a handsome plus, and a helpful signal to the markets.

9. Any direct Saudi involvement in the GAB arrangement itself via voting would seem something to be avoided. It would imply a closer relationship than would be wanted by G-10 members and a potential source of awkwardness when the immediate motives for

SECRET

enlargement have disappeared. All the benefits of association could be secured by a mild degree of parallelism which made participation by neither party, G-10 or the Saudis, a condition of participation by the other, but offered encouragement to it: so that on the day suitable ad hoc sharing of loans could be negotiated by the Managing Director.

10. This points to a fairly careful progression in which any initial strong Saudi interest in close participation might need to be played away by reference to the need ('from the Saudis' own point of view') for the G-10 to sort themselves out first. As noted above, it is not essential that this matter is brought to a precise conclusion by February: but some words for a communiqué would be welcome.



R G LAVELLE

WONFO 21/23

ADVANCE COPY

[LIMITED]

IMMEDIATE

Hd of ERD
Mr Evans
Mr Thomas

OO FCO (DESKBY (230900Z))

RR RIYADH

RR JEDDA

via HSM { PPS/Chancellor } HM
(DB230900Z) { Sir K Douglas } Treasurer
 { Mr Larrelle }
 { Mr Gilchrist - B/Eng }

RC

GR 1400

CONFIDENTIAL

DESKBY 230900Z

FM UKDEL IMF/IBRD WASHINGTON 230225Z

TO IMMEDIATE FCO

TELEGRAM NUMBER 298 OF 22 DECEMBER 1982

INFO RIYADH, JEDDA.

CHANCELLOR OF THE EXCHEQUER'S VISIT TO SAUDI ARABIA

1. I PASSED THE CONTENTS OF YOUR TELNO 253 TO THE MANAGING DIRECTOR TODAY. HE WAS VERY GRATEFUL FOR THIS EARLY INDICATION OF THE CHANCELLOR'S CONCERNS. I TALKED WITH HIM THIS EVENING, AND HE GAVE ME HIS PRESENT PRELIMINARY THINKING ON THE QUESTIONS IN YOUR PARA 2. IT WAS UNDERSTOOD, OF COURSE, THAT THESE VIEWS WOULD BE REFINED DURING THE PERIOD BETWEEN NOW AND WHEN A DECISION WOULD NEED TO BE TAKEN ON AN EARLY INTERIM COMMITTEE. HIS COMMENTS WERE AS FOLLOWS (RELATED TO THE SUBHEADINGS IN YOUR TELEGRAM).

1. INTERIM COMMITTEE MEETING

(A) YES. IT WOULD BE EASIER TO GET A MORE ENTHUSIASTIC RESPONSE IF WE COULD GET A RESULT SOMEWHAT HIGHER THAN SDR 90 BILLION. THIS FIGURE WAS A BIT ON THE TIGHT SIDE, BUT HE THOUGHT THAT EVEN SDR 90 BILLION WOULD DO IN THE LAST RESORT.

(B) HE THOUGHT THAT SIGNIFICANT PROGRESS HAD BEEN MADE IN THE EXECUTIVE BOARD ON DECEMBER 21. WE NOW HAD A DECISION ON THE BASIC METHOD AND ON AN EQUIPROPORTIONAL INCREASE AS THE METHOD OF QUOTE MITIGATION UNQUOTE. THIS SHOULD AVOID MESSING UP THE INTERIM COMMITTEE WITH METHODOLOGICAL QUESTIONS. HE THOUGHT THE DEVELOPING COUNTRIES WOULD BE PREPARED TO ACCEPT SOME REDUCTION IN THEIR SHARE. THEIR ARGUMENT FOR A 75 PER CENT EQUIPROPORTIONAL ELEMENT ALREADY IMPLIED THAT THEY HAD GOT THROUGH THIS QUESTION OF PRINCIPLE. THE MD HAD DISCUSSED THIS WITH MALHORTRA (INDIA) AND ZHANG (CHINA) WHO WOULD SEEK TO IMPRESS THE POINT ON THEIR CAPITALS. THEY WOULD, HOWEVER, OBVIOUSLY TRY TO KEEP THE SHIFT AS LIMITED AS POSSIBLE.

THE MD THOUGHT THAT HIS PLEA FOR A COMPROMISE AT THE END OF THE MEETING ON DECEMBER 21 HAD NOT BEEN TOO BADLY RECEIVED. THE

THE MD THOUGHT THAT HIS PLEA FOR A COMPROMISE AT THE END OF THE MEETING ON DECEMBER 21 HAD NOT BEEN TOO BADLY RECEIVED. THE LDC'S WOULD PROBABLY BE RESIGNED TO MAKE SOME FURTHER MOVE IN THEIR POSITION. SUFFICIENT PROGRESS HAD BEEN MADE ON THIS SUBJECT IN THE BOARD, AND IT SHOULD NOT BE TAKEN BACK TO THE BOARD EXCEPT IN THE CONTEXT OF DRAFTING THE DTOERD'S REPORT TO THE INTERIM COMMITTEE. WHEN DRAFTING WAS BEGUN, HE WOULD INSIST THAT THE BOARD SHOULD NOT REOPEN QUESTIONS WHICH HAD ALREADY BEEN SETTLED.

ON BALANCE, THEREFORE, HE THOUGHT THAT THE ANSWER TO QUESTIONS (B) WAS YES.

(C) THIS WAS MORE DIFFICULT TO ANSWER. THE UNITED STATES HAD RATHER REISED THE HOPES OF THE LDC'S BY THEIR EARLIER SUGGESTION THAT ACCESS LIMITS SHOULD BE CONSIDERED AS PART OF THE PACKAGE. HE DID NOT KNOW WHAT STRATEGY THE G24 WOULD ADOPT. THEY WOULD MEET IMMEDIATELY BEFORE THE INTERIM COMMITTEE AND WOULD UNDOUBTEDLY USE FAIRLY EXTREME LANGUAGE. BUT HE DID NOT KNOW WHETHER THEY WOULD GO AS FAR AS LINKING THEIR APPROVAL ON THE PACKAGE TO SOME DEAL ON THE ACCESS LIMITS. HE WAS THEREFORE RELUCTANT TO GIVE A FULL YES TO THIS QUESTION.

(D) THERE WERE TWO OTHER SUBJECTS WHICH HE THOUGHT SHOULD BE ADDED TO YOUR LIST. ON THE GAB, WE WOULD HAVE TO SEE HOW THE BOARD DISCUSSION WENT ON JANUARY 5. HE WOULD PREFER TO RESERVE HIS POSITION UNTIL THEN. THE UNITED STATES HAD BEEN VERY UPSET BY THE DISCUSSION ON DECEMBER 17 BUT HE THOUGHT UNNECESSARILY SO. MALHOTRA HAD TAKEN A VERY HARD POSITION BUT THE REACTION OF OTHER DIRECTORS HAD NOT BEEN TOO BAD. THE OTHER POINT WAS THE QUESTION OF SDR ALLOCATION, WHICH HAD COME UP IN THE BOARD MEETING EARLIER TODAY (WHICH I WILL REPORT SEPARATELY). HE THOUGHT THAT SOMETHING WOULD NEED TO BE SAID ON THIS IN THE BOARD REPORT AND IN THE INTERIM COMMITTEE COMMUNIQUE. HE HIMSELF WAS ATTRACTED BY THE IDEA OF JOYCE (CANADA) THAT THE INTERIM COMMITTEE SHOULD ASK FOR A SPECIFIC REPORT ON THE ALLOCATION QUESTION BEFORE THE NEXT MEETING OF THE INTERIM COMMITTEE OR THE ANNUAL MEETING. THIS MIGHT BE A WAY OF AVOIDING CONTENTION IN THE INTERIM COMMITTEE. HE DID NOT KNOW WHETHER THE LDC'S WOULD GO AS FAR AS TO SAY THAT THERE WOULD BE NO DEAL AT ALL UNLESS AN ALLOCATION WAS AGREED ON THE SPOT. THIS WOULD BE CUTTING OFF THEIR NOSE TO SPIKE THEIR FACE, AND HE DOUBTED WHETHER THE LATIN AMERICANS WOULD SUPPORT A BLOCKING STRATEGY OF THIS KIND. HIS ASSESSMENT ON THIS QUESTION WAS RATHER LIKE THAT ON ACCESS, BUT IN ANY CASE THE PROBLEM WOULD BE JUST THE SAME IN APRIL AS IT WOULD BE IN FEBRUARY. IT MIGHT BE EASIER TO FORM A BETTER JUDGMENT WHEN THE BOARD STARTED DISCUSSING THE DRAFT REPORT ON JANUARY 4.

11. SAUDI ARABIA AND THE FUND

(A) THE SAUDIS WOULD MUCH PREFER SDR 100 BILLION, BUT WOULD RELUCTANTLY ACCEPT SDR 90 BILLION. ABALKHAIL HAD ALREADY SAID TO THE MD THAT THE FUND NEEDED A STRONG INCREASE IN ITS CAPITAL BASE BECAUSE IT WAS A BIG BORROWER. ON DISTRIBUTION, THE SAUDIS HAD MADE IT CLEAR IN THE BOARD DISCUSSION ON DECEMBER 21 THAT THEY WOULD TAKE A CENTRAL POSITION.

(B) HE THOUGHT THAT THE SAUDIS HAD NOT YET MADE UP THEIR MINDS. IT WAS CLEAR THAT THEY WERE INTERESTED IN THE IDEA AND HAD BEEN ASKING PROBING QUESTIONS ABOUT THE GAB, E.G. WHETHER THE SWISS HAD A VOTE AND SO ON. HE SUSPECTED THAT THEY WOULD LIKE TO BE

IT WAS CLEAR THAT THEY WERE INTERESTED IN THE IDEA AND HAD BEEN ASKING PROBING QUESTIONS ABOUT THE GAB, E.G. WHETHER THE SWITT HAD A VOTE, AND SO ON. HE SUSPECTED THAT THEY WOULD LIKE TO BE A VOTING PARTY, BUT NOT A FULL PARTICIPANT. AS REGARDS AMOUNT, HE WAS CONVINCED THAT THEY WOULD WANT THEIR CONTRIBUTION TO A PARALLEL ARRANGEMENT TO BE BASED ON QUANTITATIVE CRITERIA AS FOR OTHER PARTICIPANTS. THE FUND HAD ALREADY DONE SOME CALCULATIONS (WHICH I WILL SEND BY BAG) WHICH SUGGESTED THAT QUANTITATIVE INDICATORS WOULD SUPPORT A SAUDI CONTRIBUTION IN THE RAGE OF SDR 1-2.3 BILLION, AND PERHAPS IN THE UPPER HALF OF THAT RANGE.

(C) ON TACTICS, THE MD HAD THOUGHT IT MIGHT BE A GOOD IDEA TO OFFER THE SAUDIS A CHOICE ON THE METHOD OF ASSOCIATION, BUT HE UNDERSTOOD THAT THE G10 HAD NOT FAVOURED THIS. IT WOULD BE IMPORTANT NOT TO PUT THEM IN A BOX, BUT TO EMPHASISE OUR IMPORTANT COMMON INTEREST, AND DISCUSS WHAT DIFFERENT TYPES OF ASSOCIATION MIGHT BE ACCEPTABLE. THIS WOULD HAVE TO BE DONE DELICATELY, AND HE ASSUMED THAT THE CHANCELLOR WOULD BE HAVING A WORD ON THE TELEPHONE WITH DELORS WHEN THE LATTER HAD RETURNED FROM RIYADH.

III. SAUDI LOAN

THE MANAGING DIRECTOR DOES PLAN TO DISCUSS THE THIRD SAMA TRANCHE DURING THE VISIT, BUT THINKS HE SHOULD DO THIS SEPARATELY. IT WOULD BE TACTLESS TO GIVE THE IMPRESSION THAT THE CHANCELLOR HAD COME AS CHAIRMAN OF THE INTERIM COMMITTEE TO PURSUE THIS SUBJECT. IT WAS, OF COURSE, POSSIBLE THAT IT WOULD COME UP INCIDENTALLY IN A DISCUSSION OF THE POSSIBLE SAUDI CONTRIBUTION TO AN EXTENDED GAB. IF THAT SHOULD HAPPEN, THE MD WOULD INDICATE THAT HE WOULD HIMSELF PURSUE THE THIRD TRANCHE IN HIS SEPARATE TALK.

2. ON THE LAST PARAGRAPH OF YOUR TELEGRAM THE MD AGREED THAT IT WOULD BE NECESSARY TO MAKE AN UP-TO-DATE ASSESSMENT WITH A VIEW TO A DECISION IMMEDIATELY AFTER THE SAUDI VISIT. HE WELCOMED THE IDEA THAT THE CHANCELLOR SHOULD SOUND HIS G5 COLLEAGUES JUST BEFORE THE VISIT IN THE LIGHT OF THEIR OWN CONTACTS WITH DEVELOPING COUNTRIES.

3. FCO PLEASE PASS DESKBY 230900Z TO PPS/CHANCELLOR OF THE EXCHEQUER AND TO COUZENS AND LAVELLE (TREASURY), GILCHRIST (BANK OF ENGLAND).

ANSON

NNNN

✓
on 5/6
Jan,

✓

CR 1400
CONFIDENTIAL
DESKBY 230900Z
FM UKDEL IMF/IBRD WASHINGTON 230225Z
TO IMMEDIATE FCO
TELEGRAM NUMBER 298 OF 22 DECEMBER 1982
INFO RIYADH, JEDDA.

CONFIDENTIAL

PWP

S. Amherst MS

CHANCELLOR OF THE EXCHEQUER'S VISIT TO SAUDI ARABIA

1. I PASSED THE CONTENTS OF YOUR TELNO 253 TO THE MANAGING DIRECTOR TODAY. HE WAS VERY GRATEFUL FOR THIS EARLY INDICATION OF THE CHANCELLOR'S CONCERNS. I TALKED WITH HIM THIS EVENING, AND HE GAVE ME HIS PRESENT PRELIMINARY THINKING ON THE QUESTIONS IN YOUR PARA 2. IT WAS UNDERSTOOD, OF COURSE, THAT THESE VIEWS WOULD BE REFINED DURING THE PERIOD BETWEEN NOW AND WHEN A DECISION WOULD NEED TO BE TAKEN ON AN EARLY INTERIM COMMITTEE. HIS COMMENTS WERE AS FOLLOWS (RELATED TO THE SUBHEADINGS IN YOUR TELEGRAM).

1. INTERIM COMMITTEE MEETING

(A) YES. IT WOULD BE EASIER TO GET A MORE ENTHUSIASTIC RESPONSE IF WE COULD GET A RESULT SOMEWHAT HIGHER THAN SDR 90 BILLION. THIS FIGURE WAS A BIT ON THE TIGHT SIDE, BUT HE THOUGHT THAT EVEN SDR 90 BILLION WOULD DO IN THE LAST RESORT.

(B) HE THOUGHT THAT SIGNIFICANT PROGRESS HAD BEEN MADE IN THE EXECUTIVE BOARD ON DECEMBER 21. WE NOW HAD A DECISION ON THE BASIC METHOD AND ON AN EQUIPROPORTIONAL INCREASE AS THE METHOD OF QUOTE MITIGATION UNQUOTE. THIS SHOULD AVOID MESSING UP THE INTERIM COMMITTEE WITH METHODOLOGICAL QUESTIONS. HE THOUGHT THE DEVELOPING COUNTRIES WOULD BE PREPARED TO ACCEPT SOME REDUCTION IN THEIR SHARE. THEIR ARGUMENT FOR A 75 PER CENT EQUIPROPORTIONAL ELEMENT ALREADY IMPLIED THAT THEY HAD GOT THROUGH THIS QUESTION OF PRINCIPLE. THE MD HAD DISCUSSED THIS WITH MALHORTRA (INDIA) AND ZHANG (CHINA) WHO WOULD SEEK TO IMPRESS THE POINT ON THEIR CAPITALS. THEY WOULD, HOWEVER, OBVIOUSLY TRY TO KEEP THE SHIFT AS LIMITED AS POSSIBLE.

THE MD THOUGHT THAT HIS PLEA FOR A COMPROMISE AT THE END OF THE MEETING ON DECEMBER 21 HAD NOT BEEN TOO BADLY RECEIVED. THE LIC'S WOULD PROBABLY BE RESIGNED TO MAKE SOME FURTHER MOVE IN THEIR POSITION. SUFFICIENT PROGRESS HAD BEEN MADE ON THIS SUBJECT IN THE BOARD, AND IT SHOULD NOT BE TAKEN BACK TO THE BOARD EXCEPT IN THE CONTEXT OF DRAFTING THE DTOERD'S REPORT TO THE INTERIM COMMITTEE. WHEN DRAFTING WAS BEGUN, HE WOULD INSIST THAT THE BOARD SHOULD NOT REOPEN QUESTIONS WHICH HAD ALREADY BEEN SETTLED.

ON BALANCE, THEREFORE, HE THOUGHT THAT THE ANSWER TO QUESTIONS (B) WAS YES.

CONFIDENTIAL

/ (4)

CONFIDENTIAL

(C) THIS WAS MORE DIFFICULT TO ANSWER. THE UNITED STATES HAD RATHER REISED THE HOPES OF THE LDC'S BY THEIR EARLIER SUGGESTION THAT ACCESS LIMITS SHOULD BE CONSIDERED AS PART OF THE PACKAGE. HE DID NOT KNOW WHAT STRATEGY THE G24 WOULD ADOPT. THEY WOULD MEET IMMEDIATELY BEFORE THE INTERIM COMMITTEE AND WOULD UNDOUBTEDLY USE FAIRLY EXTREME LANGUAGE. BUT HE DID NOT KNOW WHETHER THEY WOULD GO AS FAR AS LINKING THEIR APPROVAL ON THE PACKAGE TO SOME DEAL ON THE ACCESS LIMITS. HE WAS THEREFORE RELUCTANT TO GIVE A FULL YES TO THIS QUESTION.

(D) THERE WERE TWO OTHER SUBJECTS WHICH HE THOUGHT SHOULD BE ADDED TO YOUR LIST. ON THE GAB, WE WOULD HAVE TO SEE HOW THE BOARD DISCUSSION WENT ON JANUARY 5. HE WOULD PREFER TO RESERVE HIS POSITION UNTIL THEN. THE UNITED STATES HAD BEEN VERY UPSET BY THE DISCUSSION ON DECEMBER 17 BUT HE THOUGHT UNNECESSARILY SO. MALHOTRA HAD TAKEN A VERY HARD POSITION BUT THE REACTION OF OTHER DIRECTORS HAD NOT BEEN TOO BAD. THE OTHER POINT WAS THE QUESTION OF SDR ALLOCATION, WHICH HAD COME UP IN THE BOARD MEETING EARLIER TODAY (WHICH I WILL REPORT SEPARATELY). HE THOUGHT THAT SOMETHING WOULD NEED TO BE SAID ON THIS IN THE BOARD REPORT AND IN THE INTERIM COMMITTEE COMMUNIQUE. HE HIMSELF WAS ATTRACTED BY THE IDEA OF JOYCE (CANADA) THAT THE INTERIM COMMITTEE SHOULD ASK FOR A SPECIFIC REPORT ON THE ALLOCATION QUESTION BEFORE THE NEXT MEETING OF THE INTERIM COMMITTEE OR THE ANNUAL MEETING. THIS MIGHT BE A WAY OF AVOIDING CONTENTION IN THE INTERIM COMMITTEE. HE DID NOT KNOW WHETHER THE LDC'S WOULD GO AS FAR AS TO SAY THAT THERE WOULD BE NO DEAL AT ALL UNLESS AN ALLOCATION WAS AGREED ON THE SPOT. THIS WOULD BE CUTTING OFF THEIR NOSE TO SPITE THEIR FACE, AND HE DOUBTED WHETHER THE LATIN AMERICANS WOULD SUPPORT A BLOCKING STRATEGY OF THIS KIND. HIS ASSESSMENT ON THIS QUESTION WAS RATHER LIKE THAT ON ACCESS, BUT IN ANY CASE THE PROBLEM WOULD BE JUST THE SAME IN APRIL AS IT WOULD BE IN FEBRUARY. IT MIGHT BE EASIER TO FORM A BETTER JUDGMENT WHEN THE BOARD STARTED DISCUSSING THE DRAFT REPORT ON JANUARY 4.

II. SAUDI ARABIA AND THE FUND

(A) THE SAUDIS WOULD MUCH PREFER SDR 100 BILLION, BUT WOULD RELUCTANTLY ACCEPT SDR 90 BILLION. ABALKHAIL HAD ALREADY SAID TO THE MD THAT THE FUND NEEDED A STRONG INCREASE IN ITS CAPITAL BASE BECAUSE IT WAS A BIG BORROWER. ON DISTRIBUTION, THE SAUDIS HAD MADE IT CLEAR IN THE BOARD DISCUSSION ON DECEMBER 21 THAT THEY WOULD TAKE A CENTRAL POSITION.

(B) HE THOUGHT THAT THE SAUDIS HAD NOT YET MADE UP THEIR MINDS. IT WAS CLEAR THAT THEY WERE INTERESTED IN THE IDEA AND HAD BEEN ASKING PROBING QUESTIONS ABOUT THE GAB, E.G. WHETHER THE SWITT HAD A VOTE, AND SO ON. HE SUSPECTED THAT THEY WOULD LIKE TO BE A VOTING PARTY, BUT NOT A FULL PARTICIPANT. AS REGARDS AMOUNT, HE WAS CONVINCED THAT THEY WOULD WANT THEIR CONTRIBUTION TO A PARALLEL ARRANGEMENT TO BE BASED ON QUANTITATIVE CRITERIA AS FOR OTHER PARTICIPANTS. THE FUND HAD ALREADY DONE SOME CALCULATIONS (WHICH I WILL SEND BY BAG) WHICH SUGGESTED THAT QUANTITATIVE INDICATORS WOULD SUPPORT A SAUDI CONTRIBUTION IN THE RAGE OF SDR 1-2.3 BILLION, AND PERHAPS IN THE UPPER HALF OF THAT RANGE.

CONFIDENTIAL

(C) ON TACTICS, THE MD HAD THOUGHT IT MIGHT BE A GOOD IDEA TO OFFER THE SAUDIS A CHOICE ON THE METHOD OF ASSOCIATION, BUT HE UNDERSTOOD THAT THE G10 HAD NOT FAVOURED THIS. IT WOULD BE IMPORTANT NOT TO PUT THEM IN A BOX, BUT TO EMPHASISE OUR IMPORTANT COMMON INTEREST, AND DISCUSS WHAT DIFFERENT TYPES OF ASSOCIATION MIGHT BE ACCEPTABLE. THIS WOULD HAVE TO BE DONE DELICATELY, AND HE ASSUMED THAT THE CHANCELLOR WOULD BE HAVING A WORD ON THE TELEPHONE WITH DELORS WHEN THE LATTER HAD RETURNED FROM RIYADH.

III. SAUDI LOAN

THE MANAGING DIRECTOR DOES PLAN TO DISCUSS THE THIRD SAMA TRANCHE DURING THE VISIT, BUT THINKS HE SHOULD DO THIS SEPARATELY. IT WOULD BE TACTLESS TO GIVE THE IMPRESSION THAT THE CHANCELLOR HAD COME AS CHAIRMAN OF THE INTERIM COMMITTEE TO PURSUE THIS SUBJECT. IT WAS, OF COURSE, POSSIBLE THAT IT WOULD COME UP INCIDENTALLY IN A DISCUSSION OF THE POSSIBLE SAUDI CONTRIBUTION TO AN EXTENDED GAB. IF THAT SHOULD HAPPEN, THE MD WOULD INDICATE THAT HE WOULD HIMSELF PURSUE THE THIRD TRANCHE IN HIS SEPARATE TALK.

2. ON THE LAST PARAGRAPH OF YOUR TELEGRAM THE MD AGREED THAT IT WOULD BE NECESSARY TO MAKE AN UP-TO-DATE ASSESSMENT WITH A VIEW TO A DECISION IMMEDIATELY AFTER THE SAUDI VISIT. HE WELCOMED THE IDEA THAT THE CHANCELLOR SHOULD SOUND HIS G5 COLLEAGUES JUST BEFORE THE VISIT IN THE LIGHT OF THEIR OWN CONTACTS WITH DEVELOPING COUNTRIES.

3. FCO PLEASE PASS DESKBY 230900Z TO PPS/CHANCELLOR OF THE EXCHEQUER AND TO COUZENS AND LAVELLE (TREASURY), GILCHRIST (BANK OF ENGLAND).

(ADVANCED AS REQUESTED)

ANSON

LIMITED
ERD
HED
PS
PS/MR RICKIND
PS/PUS
MR EVANS
MR THOMAS
MR ELBERTON
SIR J LEAHY

COPIES TO:-
ADDRESSEES

MR LITTLEK } TREASURY
MR BOTTRILL }

- 3 -
CONFIDENTIAL

CONFIDENTIAL

44100 - 1

OO JEDDA
RR RIYADH
GRS 95
CONFIDENTIAL
FM FCO 231730Z DEC 82
TO IMMEDIATE JEDDA
TELEGRAM NUMBER 436 OF 23 DECEMBER
INFO RIYADH, UKDEL IMF/IBRD WASHINGTON.

pur

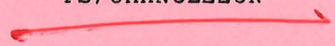
RIYADH TELNO 96: VISIT OF CHANCELLOR OF THE EXCHEQUER

1. YOU WILL HAVE SEEN DETAILS OF THE CHANCELLOR'S TRAVEL PLANS (MY TELNO 253 TO UKDEL). THE IMF PARTY IS NOW BOOKED ON THE SAME FLIGHTS TO RIYADH.
2. WE SHOULD WELCOME YOUR ADVICE ON ACCOMMODATION. THE PARTY WILL NUMBER FOUR OR FIVE, INCLUDING THE CHANCELLOR. THE IMF TEAM ARE BOOKED INTO THE INTERCONTINENTAL. IF YOU ARE TO MAKE HOTEL BOOKINGS IT WOULD SEEM SENSIBLE TO USE THE SAME ONE.

PYM

NNNN
DISTRIBUTION
MINIMAL
ERD
MED

COPIES TO:-
PS/CHANCELLOR





1940

1941

1942

1943

1944

1945

1946

1947

1948

1949

1950

1951

1952

1953

1954

1955

1956

1957

1958

1959

UNCLASSIFIED

44252 - 1

PP RIYADH
RR JEDDAH
GRS 134

paup

UNCLASSIFIED
FM FCO 231838Z DEC 82
TO PRIORITY RIYADH
TELEGRAM NUMBER 76 OF 23 DECEMBER
INFO ROUTINE UKDEL IMF/IBRD WASHINGTON, JEDDA.

YOUR TEL NO 96 AND JEDDA TEL NO 612 : IMF.

PLEASE PASS FOLLOWING REPLY TO ABA AL KHALIL, MESSAGE BEGINS:

QUOTE VERY MANY THANKS FOR YOUR KIND MESSAGE OF CONGRATULATIONS
ON MY ELECTION AS CHAIRMAN OF THE INTERIM COMMITTEE. I GREATLY
VALUED YOUR EARLY INDICATION OF SUPPORT, AND WHAT YOUR EXECUTIVE
DIRECTOR SAID IN WASHINGTON.

2. I WAS DELIGHTED TO HEAR FROM OUR AMBASSADOR THAT YOU WILL BE ABLE
TO RECEIVE ME AND THE IMF MANAGING DIRECTOR ON 8 JANUARY FOR
DISCUSSIONS ON CURRENT IMF ISSUES. I HAVE THOUGHT IT RIGHT THAT MY
FIRST TASK AS CHAIRMAN SHOULD BE TO HEAR YOUR VIEWS AT FIRST HAND,
AND I GREATLY LOOK FORWARD TO MY VISIT.

3. BEST WISHES,
GEOFFREY HOWE UNQUOTE

PYM

DISTRIBUTION
LIMITED
HD/ERD
HD/MED
PS
PS/PUS
MR THOMAS
MR EGERTON

COPIES TO
PPS/CHANCELLOR)
SIR K COUZENS)
MR LIHLER) HM TREASURY
MR LAVELLE)
MR BOTTRILL)

UNCLASSIFIED

Chancellor / Exchequer - TSY

Sir K Goussens - TSY (2) pup

Mr Litter - TSY
Bank of England

1835/24

PS x 6

ERD
MED

Mr Thomas

Sir J Leach of

RC

WONFO 32/24

OO FCO

RR JEDDA

RR RIYADH

RR PARIS

GRS 420

CONFIDENTIAL

FM UKDEL IMF/IBRD WASHINGTON 241800Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 300 OF 24 DECEMBER

INFO JEDDA RIYADH PARIS

ADVANCE COPY

IMMEDIATE

limited

IMF: CHANCELLOR'S VISIT TO SAUDI ARABIA.

1. CARTER (PS/MANAGING DIRECTOR) TELEPHONED ME TODAY TO PASS ON THE GIST OF TELEPHONE CALLS WHICH THE MD HAD HAD FROM DELORS AND CAMDESSUS ABOUT DELORS' VISIT TO SAUDI ARABIA. THEY HAD MENTIONED THE FOLLOWING POINTS:-

(A) THE SAUDIS HAD BEEN VERY HAPPY TO RECEIVE AN EXPLANATION OF HOW IDEAS ON THE BORROWING ARRANGEMENT HAD EVOLVED SINCE TORONTO. THEY HAD NOT PREVIOUSLY UNDERSTOOD HOW THE US PROPOSAL HAD EVOLVED AND COME TO BE PUT IN THE FRAMEWORK OF GAB.

(B) THERE HAD BEEN A DISCUSSION OF POSSIBLE WAYS IN WHICH THE SAUDIS MIGHT BE ASSOCIATED. THEY WERE VERY INTERESTED IN PARTICIPATING IN THE DECISION-MAKING PROCESS, AND HAD TALKED IN TERMS OF BURDEN-SHARING GOING WITH POWER-SHARING. THEY HAD ASKED A LOT OF QUESTIONS ABOUT THE SWISS ARRANGEMENT. THEY WERE STILL LOOKING AT POSSIBLE DEGREES OF PARTICIPATION AND HAD NOT MADE DECISIONS, BUT WE SHOULD BEAR IN MIND THAT, INTER ALIA, THEY WERE ACTIVELY CONSIDERING THE POSSIBILITY THAT THEY MIGHT ASK FOR FULL GAB PARTICIPATION.

(C) THE SAUDIS WERE LOOKING AT THE QUESTION OF THE THIRD SAMA TRANCHE IN A COOPERATIVE WAY. THEY WOULD GIVE PRIORITY TO THAT OVER GAB PARTICIPATION.

(D) DELORS HAD ASKED THEIR ADVICE ON POSSIBLE KUWAITI PARTICIPATION. THE SAUDIS HAD SAID THAT THIS QUESTION SHOULD BE PUT TO THE KUWAITIS DIRECT

(E) DELORS WILL ALSO BE REPORTING TO THE CHANCELLOR AND CAMDESSUS TO COUZENS.

2. FCO RESIDENT CLERK. PLEASE PASS THIS TELEGRAM ASAP TO CHANCELLOR OF THE EXCHEQUER AND SIR K COUZENS, TREASURY. ALSO PASS TO TREASURY AND BANK OF ENGLAND DESKBY OPENING OF BUSINESS ON NEXT WORKING DAY.

ANSON

NNNN

RECEIVED
1970

TYRING + 17

CONFIDENTIAL

GR 2925

CONFIDENTIAL

DESKBY 280930Z

UKDEL IMF/IBRD
FM WASHINGTON 271726Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 301 OF 27 DECEMBER 1982

IMF: 8TH QUOTA REVIEW - PAYMENT FOR INCREASES IN QUOTAS

1. ON 22 DECEMBER, THE EXECUTIVE BOARD DISCUSSED EB/CQUOTA/S2/14. A LARGE NUMBER OF DIRECTORS TOOK THE OPPORTUNITY TO RAISE QUESTIONS OF SUBSTANCE ABOUT THE POSSIBILITY OF NEW SDR ALLOCATIONS, AND THESE ARE REPORTED SEPARATELY IN MIFT.

2. ON THE SPECIFIC QUESTIONS IN THE PAPER CONCERNING THE MEANS OF PAYMENT FOR 25% OF THE QUOTA INCREASE, VAN HOUTVEN (SECRETARY) IDENTIFIED THE FOLLOWING POSITIONS AT THE CLOSE OF THE DISCUSSION: (I) 11 DIRECTORS - US, MYSELF, GERMANY, JAPAN, CANADA, NETHERLANDS, AUSTRALIA, ICELAND, SAUDI ARABIA, VENEZUELA AND ARGENTINA - ACCOUNTING FOR APPROXIMATELY 60% OF THE VOTING POWER, SUPPORTED THE PROPOSAL IN THE LAST PARAGRAPH ON PAGE 9 OF THE PAPER THAT 25% OF THE INCREASE IN QUOTAS SHOULD BE PAID IN RESERVE ASSETS, EITHER IN THE FORM OF SDRS OR IN OTHER MEMBERS CURRENCIES SPECIFIED BY THE FUND.

(II) 8 DIRECTORS - AUSTRIA, INDIA, CHINA, LIBYA, IRAN, INDONESIA, NIGER AND GUINEA - ACCOUNTING FOR JUST OVER 25% OF THE VOTING POWER, TOOK THE VIEW THAT, IN CERTAIN CIRCUMSTANCES, THE BOARD SHOULD CONSIDER ALLOWING MEMBERS TO PAY THEIR SUBSCRIPTIONS ENTIRELY IN THEIR OWN CURRENCY. THE OWN CURRENCY OPTION WAS THE FIRST CHOICE OF ONE DIRECTOR (NIGER) AND THE SECOND CHOICE OF INDIA, CHINA, LIBYA, IRAN, INDONESIA AND GUINEA WHO THOUGHT IT SHOULD BE INCLUDED IF NO AGREEMENT WAS REACHED ON NEW SDR ALLOCATIONS (SEE MIFT). IT WAS THE THIRD CHOICE OF ONE DIRECTOR (AUSTRIA).

VIEWS OF INDIVIDUAL DIRECTORS

3. OF THE 11 DIRECTORS MENTIONED IN PARA 2(I) ABOVE, MOST SUPPORTED THE SDR/USABLE CURRENCY OPTION WITH ARGUMENTS DRAWN FROM THE STAFF PAPER. DALLARA (US) SAID THE CONCEPT OF A RESERVE ASSET PAYMENT, EMBODYING THE PRINCIPLE THAT FINANCIAL RESPONSIBILITIES WERE SHARED AMONG THE MEMBERSHIP AS A WHOLE (WHICH HAD BEEN THE PRACTICE OF THE FUND SINCE ITS INCEPTION) WAS ONE OF THE ESSENTIAL ELEMENTS WHICH MADE THE FUND A UNIQUE MONETARY INSTITUTION. AS SUCH, THE FUND HAD BEEN SUPPORTED BY SUCCESSIVE US ADMINISTRATIONS.

CONFIDENTIAL

/IF

CONFIDENTIAL

IF ONE OF THESE ELEMENTS, HOWEVER SMALL, WAS ERODED IT COULD BE A SERIOUS MISTAKE FOR THE MEMBERSHIP AS A WHOLE. IT WOULD RAISE FURTHER QUESTIONS ON THE PART OF THOSE WHO THOUGHT THAT THE CHARACTER OF THE FUND HAD BEEN CHANGING IN RECENT YEARS. HIS AUTHORITIES WERE WILLING TO SEE THE US DOLLAR INCLUDED ON THE LIST OF CURRENCIES WHICH MIGHT BE USED TO MAKE THE RESERVE ASSET SUBSCRIPTION ON THE ASSUMPTION THAT OTHER MEMBERS WOULD ALSO JOIN THAT LIST.

4. I AGREED WITH THE STAFF THAT 25% OF THE QUOTA INCREASE SHOULD BE PAID IN RESERVE ASSETS. FROM THE FUND'S STANDPOINT, THE MOST ADVANTAGE WOULD BE DERIVED FROM A RESERVE ASSET SUBSCRIPTION PAID ENTIRELY IN SDRS BUT IF THAT REQUIRED AN EXCESSIVE ROTATION OF THE EXISTING STOCK OF SDRS, MEMBERS SHOULD BE GIVEN THE OPTION OF PAYING EITHER IN SDRS OR IN USABLE CURRENCIES AS SPECIFIED BY THE FUND (YOUR TELNO 248). THE BOARD WOULD HAVE TO EXAMINE MORE FULLY THE IMPLICATIONS FOR THOSE MEMBERS WHOSE CURRENCIES MIGHT BE USED. I NOTED THAT IF A COUNTRY WAS SHORT OF RESERVES, A RESERVE ASSET PAYMENT WOULD INCREASE ITS RESERVE TRANCHE POSITION WHICH COULD BE DRAWN ON IF NECESSARY.

5. LASKE (GERMANY) SAID THE OPTION OF PAYING IN SDRS OR USABLE CURRENCIES WAS THE OPTIMUM SOLUTION. HIRAO (JAPAN) SAID THE RESERVE ASSET SUBSCRIPTION SHOULD BE AN INTEGRAL PART OF THE 8TH REVIEW. JOYCE (CANADA) AND SENIOR (VENEZUELA) SAW A STRONG CASE, IN PRINCIPLE, FOR REQUIRING PAYMENT ENTIRELY IN SDRS BUT RECOGNISED THAT HIS COULD CREATE PRACTICAL PROBLEMS. THE USABLE CURRENCY OPTION SHOULD THEREFOR BE INCLUDED. POLAK (NETHERLANDS) SAID A RESERVE ASSET PAYMENT WOULD ONLY CHANGE THE COMPOSITION OF A MEMBER'S RESERVES AND WOULD NOT IMPOSE AN UNREASONABLE BURDEN ON ANY MEMBER. THE OPTION OF PAYING IN SDRS OR USABLE CURRENCIES SHOULD BE ADOPTED BY ACCLAMATION. SIGURDSSON (ICELAND) AGREED THAT THIS WAS THE MOST PRACTICAL APPROACH BUT SAID THIS DID NOT DETRACT FROM HIS AUTHORITIES' STRONG SUPPORT FOR ENHANCING THE SDR'S ROLE IN THE SYSTEM.

6. PROWSE (AUSTRALIA) AGREED THAT THE OPTION OF SDRS OR USABLE CURRENCIES SHOULD FORM THE BASIS OF THE RELEVANT PART OF THE BOARD'S REPORT TO GOVERNORS ON THE 8TH QUOTA REVIEW. HE ALSO ASKED WHETHER IT WOULD BE POSSIBLE FOR THOSE MEMBERS WHOSE CURRENCIES WERE LIKELY TO BE USED IN PAYMENT BY OTHER MEMBERS TO PAY THE RESERVE ASSET PORTION OF THEIR QUOTA INCREASES IN THEIR OWN CURRENCY. ON THIS, WILLIAMS (DEPUTY TREASURER) AND NICOLETOPOULOS (LEGAL COUNSEL) EXPLAINED THAT ARTICLE III, 3(A) SPECIFICALLY REFERRED TO PAYMENT IN THE CURRENCIES OF QUOTE OTHER UNQUOTE MEMBERS. PROWSE'S SUGGESTION WOULD ANYWAY RUN COUNTER TO THE UNIFORMITY PRINCIPLE.

CONFIDENTIAL

7. NIMATALLAH (SAUDI ARABIA) SAID THE ISSUE SHOULD BE SETTLED IMMEDIATELY TO FACILITATE AN EARLY MEETING OF THE INTERIM COMMITTEE. IDEALLY, 25% OF THE QUOTA INCREASE SHOULD BE PAID IN SDRS WHICH WOULD HAVE BEEN EASIER TO ACHIEVE IF AGREEMENT HAD BEEN REACHED TO CONTINUE SDR ALLOCATIONS. THE BOARD SHOULD RE-EXAMINE THIS QUESTION SOON. UNTIL IT WAS RESOLVED, MEMBERS SHOULD BE GIVEN THE OPTION OF SDRS OR CURRENCIES SPECIFIED BY THE FUND.

8. OF THE 8 DIRECTORS LISTED IN PARAGRAPH 2(11) ABOVE, ALFIDJA (NIGER) EXPRESSED A STRONG PREFERENCE FOR ALLOWING MEMBERS TO PAY IN THEIR OWN CURRENCY. HE COULD SUPPORT PAYMENT IN SDRS ONLY IF SUBSTANTIAL NEW ALLOCATIONS WERE AGREED. MALHOTRA (INDIA), ZHANG (CHINA), FINAISH (LIBYA), SALEHKHOU (IRAN), HABIB (INDONESIA) AND SANGARE (GUINEA) SAID PAYMENT IN SDRS WAS THEIR FIRST CHOICE PROVIDED THAT NEW SDR ALLOCATIONS COULD BE AGREED. IN THE ABSENCE OF ALLOCATIONS, THESE DIRECTORS ARGUED THAT THE OWN CURRENCY OPTION COULD NOT BE RULED OUT GIVEN THE PROBLEMS SOME COUNTRIES WOULD HAVE IN ACQUIRING THE NECESSARY FOREIGN EXCHANGE OF SDRS. SALEHKHOU ALSO SUGGESTED IT MIGHT BE NECESSARY TO MAKE PROVISION FOR EXTENDING THE PERIOD PAYMENT.

9. SCHNEIDER (AUSTRIA) ALSO THOUGHT THAT PRIORITY SHOULD BE GIVEN TO NEW SDR ALLOCATIONS BUT SAID THAT, IN THE ABSENCE OF NEW ALLOCATIONS, ALL THREE OPTIONS SHOULD BE RETAINED. IF THEY WERE, IT MIGHT BE POSSIBLE TO HAVE AN IMPLICIT OR EXPLICIT UNDERSTANDING THAT MEMBERS WITH SUFFICIENT SDRS AND/OR FOREIGN EXCHANGE HOLDINGS WOULD USE THESE TO FINANCE 25% OF THEIR SUBSCRIPTION PAYMENTS. ON THIS POINT, NICOLETOPOULOS SAID IT MIGHT BE POSSIBLE FOR MEMBERS TO REACH INFORMAL UNDERSTANDINGS BETWEEN THEMSELVES. THE GOVERNORS' RESOLUTION ON THE 8TH REVIEW COULD ALSO INCLUDE A PROVISION UNDER WHICH THE FUND HOPED, EXPECTED OR URGED MEMBERS IN A POSITION TO USE RESERVE ASSETS TO DO SO. BUT ANY UNDERSTANDING OF THIS SORT COULD NOT BE MADE A LEGAL OBLIGATION FOR SOME MEMBERS AS THIS WOULD CONTRAVENE THE UNIFORMITY PRINCIPLE. IF THE GOVERNORS DECIDED TO LET MEMBERS PAY IN MEANS OTHER THAN SDRS, THAT OPTION OR OPTIONS WOULD HAVE TO BE OPEN TO ALL MEMBERS. WILLIAMS THOUGHT THIS ROUTE SHOULD BE AVOIDED. AT THE TIME OF THE 6TH REVIEW, A NUMBER OF MEMBERS RECEIVING LARGE QUOTA INCREASES HAD BEEN URGED TO MAKE THEIR CURRENCIES USABLE BUT VIRTUALLY NONE HAD DONE SO. THE MANAGING DIRECTOR LATER DESCRIBED THIS ROUTE AS WISHFUL THINKING.

CONFIDENTIAL

10. OF THE THREE DIRECTORS NOT COVERED IN PARAGRAPH 2(I) AND (II) ABOVE, DE MAULDE (FRANCE) SAID PAYMENT SHOULD BE MADE IN SDRS. AS THERE WERE NOT ENOUGH SDRS AT PRESENT TO DO THIS, THE OBVIOUS SOLUTION WAS TO CREATE THEM. THERE SHOULD THEREFORE BE A NEW ALLOCATION EQUAL TO 25% OF THE QUOTA INCREASE UNDER THE 8TH REVIEW. KAFKA (BRAZIL) MADE SIMILAR POINTS. LOVATO (ITALY) GAVE ONLY PRELIMINARY VIEWS, NOTING THAT PAYMENT IN SDRS WOULD BE THE MOST USEFUL SOLUTION BUT COULD BE IMPRACTICAL ON ITS OWN. THE USABLE CURRENCY OPTION COULD RAISE QUESTIONS ABOUT THE WILLINGNESS OF MEMBERS TO HAVE THEIR CURRENCIES USED IN QUOTA PAYMENTS. HE WAS PREPARED TO CONSIDER INCLUDING THE OWN CURRENCY OPTION AS IT WOULD BE POINTLESS TO REQUIRE A RESERVE ASSET PAYMENT IF MEMBERS WERE LIKELY TO WITHDRAW THE RESERVE TRANCHE POSITION THIS CREATED IMMEDIATELY.

MANAGING DIRECTOR'S CLOSING REMARKS

11. THE MANAGING DIRECTOR NOTED THE DIVERSITY OF VIEWS AMONG DIRECTORS. THE BOARD'S REPORT TO THE INTERIM COMMITTEE ON THE 8TH REVIEW WOULD HAVE TO INCLUDE A SECTION ON THE MEANS OF PAYMENT AS IT WAS PART OF THE DECISION WHICH MINISTERS WOULD HAVE TO ADDRESS. THE PREFERRED CHOICE OF THE STAFF, AND OF MEMBERS WITH SOME 60% OF THE VOTING POWER, WAS THAT PAYMENT SHOULD BE MADE IN RESERVE ASSETS IN THE FORM OF SDRS OR USABLE CURRENCIES. IT COULD NOT BE EXCLUDED THAT THE SDR OPTION WOULD BE FACILITATED BY AN AGREEMENT ON NEW ALLOCATIONS IN THE COMING MONTHS. PAYMENT IN USABLE CURRENCIES WOULD NOT IMPOSE A BURDEN ON ANY COUNTRY BECAUSE THE PAYMENT WOULD LEAD TO AN AUTOMATIC INCREASE IN THAT COUNTRY'S RESERVE TRANCHE POSITION WHICH COULD BE DRAWN IN CASE OF NEED. FROM THE POINT OF VIEW OF THE FUND'S LIQUIDITY, ANY LEAKAGE IN THE FORM OF IMMEDIATE WITHDRAWALS OF RESERVE TRANCHE POSITIONS WAS LIKELY TO BE RELATIVELY SMALL. DESPITE THE POSSIBLE LEAKAGE, THE RESERVE ASSET PAYMENT WAS NOT A GIMMICK. IF THE FUND CHANGED ITS ANCIENT RULE OF REQUIRING A 25% RESERVE ASSET PAYMENT, IT WOULD BE SEEN AS INDULGING IN EASY FINANCING. THIS WOULD DAMAGE THE FUND'S IMAGE ON THE FINANCIAL MARKETS AND WOULD MAKE IT MUCH HARDER FOR THOSE WHO HAD TO CONVINCED RELUCTANT SECTIONS OF PUBLIC OPINION TO AGREE TO QUOTA INCREASES UNDER THE 8TH REVIEW.

12. MEMBERS SHOULD THEREFORE REFLECT CLOSELY IN THE COMING WEEKS ON THE INCONVENIENCE OF THE OWN CURRENCY OPTION WITH THE AIM OF REACHING A SOLUTION WHICH WOULD BE IN THE INTERESTS OF THE FUND AND OF A SPEEDY DECISION ON THE 8TH REVIEW. THE BOARD COULD COME BACK TO THIS QUESTION ON 4 JANUARY WHEN IT DISCUSSED THE REPORT TO THE GOVERNORS ON THE 8TH REVIEW.

/TIMING

TIMING

CONFIDENTIAL

13. FOLLOWING THE MANAGING DIRECTOR'S REMARKS, NIMATALLAH (SAUDI ARABIA) ASKED WHETHER THE DECISION ON THE MEANS OF PAYMENT COULD BE POSTPONED UNTIL AFTER THE FEBRUARY MEETING OF THE INTERIM COMMITTEE. IT COULD PERHAPS BE TAKEN UP WHEN THE INTERIM COMMITTEE MET AGAIN IN APRIL AS PLANNED. BUT DALLARA (US) SAID IT WOULD BE VERY DIFFICULT IF NOT IMPOSSIBLE FOR HIS AUTHORITIES TO MOVE AHEAD ON THE SIZE OF THE QUOTA INCREASE WITHOUT A DECISION ON THE MODALITIES. THE PARLIAMENTARY CONSIDERATIONS WHICH HAD PROMPTED HIS AUTHORITIES TO LOOK FOR AN EARLY MEETING OF THE INTERIM COMMITTEE WERE ALSO RELEVANT TO THIS ISSUE. HIS AUTHORITIES COULD NOT START THE LEGISLATIVE PROCESS ON THE SIZE OF THE QUOTA INCREASE WITHOUT A DECISION ON THE MEANS OF PAYMENT. POLAK (NETHERLANDS) AGREED. THE BOARD SHOULD DECIDE NOW THAT PAYMENT SHOULD BE MADE IN RESERVE ASSETS. THE MANAGING DIRECTOR SAID THIS WAS ALSO HIS PERSONAL VIEW. THE MOMENTUM OF THE DIFFERENT STEPS SHOULD BE MAINTAINED. HE WOULD MUCH PREFER TO SOLVE ALL THE ISSUES AT A SINGLE MEETING OF THE INTERIM COMMITTEE.

VOTING MAJORITIES

14. IN REPLY TO QUESTIONS FROM JOYCE (CANADA), NICOLETOPOULOS EXPLAINED THAT THE DECISION ON THE MEANS OF PAYMENT WAS NORMALLY INCLUDED IN THE GOVERNORS' RESOLUTION WHICH DEALT WITH THE SIZE OF THE QUOTA INCREASE. THIS WAS SENSIBLE AS GOVERNMENTS USUALLY WENT TO PARLIAMENTS FOR APPROVAL OF THE QUOTA INCREASE AND THE MEANS OF PAYMENT AT THE SAME TIME. WHILE THE QUOTA INCREASE ITSELF REQUIRED AN 85 PERCENT MAJORITY OF THE GOVERNORS, A DECISION TO PERMIT ANY MEANS OF PAYMENT OTHER THAN SDRS WAS SUBJECT TO A 70 PERCENT MAJORITY OF GOVERNORS. IF THAT 70 PERCENT MAJORITY WAS NOT ACHIEVED, OR IF THE MEANS OF PAYMENT WAS NOT MENTIONED IN THE QUOTA RESOLUTION, MEMBERS WOULD BE REQUIRED TO PAY 25 PERCENT OF THEIR QUOTA INCREASE IN SDRS AS PROVIDED UNDER ARTICLE III, 3(A). AT THE 7TH REVIEW, THE MEANS OF PAYMENT HAD NOT BEEN MENTIONED IN THE QUOTA RESOLUTION AND MEMBERS HAD AUTOMATICALLY PAID 25 PERCENT OF THEIR QUOTA INCREASE IN SDRS.

LIQUIDITY EFFECTS OF DIFFERENT OPTIONS

15. ZHANG (CHINA) DOUBTED WHETHER THE ADVANTAGES OF A RESERVE ASSET PAYMENT FOR THE FUND'S LIQUIDITY WERE AS GREAT, COMPARED WITH THE OWN CURRENCY OPTION, AS THE STAFF SUGGESTED IN THEIR PAPER. IN REPLY, WILLIAMS SAID THE ADVANTAGES OF A RESERVE ASSET PAYMENT WOULD DEPEND ON WHETHER OR NOT MEMBERS WOULD IMMEDIATELY WITHDRAW THE RESERVE TRANCHE POSITIONS CREATED BY THE RESERVE ASSET SUBSCRIPTION. IT WAS EXTREMELY UNLIKELY THAT THE INDUSTRIAL COUNTRIES AND THE OIL-EXPORTING COUNTRIES, WHICH TOGETHER WOULD ACCOUNT FOR OVER 70 PERCENT OF THE OVERALL QUOTA INCREASE, WOULD DO SO. THE SAME WOULD ALSO HOLD TRUE FOR A NUMBER OF LARGE DEVELOPING COUNTRIES. WHILE IT WAS POSSIBLE THAT A FAIRLY LARGE NUMBER OF SMALL COUNTRIES

/WHO

CONFIDENTIAL

WHO WOULD HAVE TO BORROW TO FINANCE THEIR RESERVE ASSET SUBSCRIPTIONS, WOULD WITHDRAW THEIR RESERVE TRANCHE POSITIONS IMMEDIATELY, THE ABSOLUTE AMOUNTS INVOLVED WOULD BE SMALL. IF, HOWEVER, THE OWN CURRENCY OPTION WAS ALLOWED, IT SHOULD BE REMEMBERED THAT THE CURRENCIES OF ROUGHLY HALF OF THE INDUSTRIAL COUNTRIES WERE NOT AT PRESENT INCLUDED IN THE OPERATIONAL BUDGET. THIS ALONE COULD MEAN THAT SOMETHING LIKE 25 PERCENT OF THE OVERALL QUOTA INCREASE WOULD BE PAID IN CURRENCIES WHICH WOULD NOT BE USABLE BY THE FUND. AT MY REQUEST, WILLIAMS AGREED TO PRODUCE A SHORT PAPER OUTLINING THE PRACTICAL EFFECTS OF PRESCRIBING THE DIFFERENT METHODS OF PAYMENT, BOTH ON THE FUND'S LIQUIDITY AND ON INDIVIDUAL MEMBERS.

16. IN REPLY TO FURTHER QUESTIONS ON THE TIME IT WOULD TAKE FOR A MEMBER TO MAKE ITS RESERVE ASSET PAYMENT AND WITHDRAW THE RESERVE TRANCHE POSITION WHICH THIS CREATED, WILLIAMS EXPLAINED THAT THE WHOLE PROCEDURE WOULD TAKE SEVEN BUSINESS DAYS. DE MAULDE (FRANCE) SAID THIS COULD BE EXPENSIVE IF MEMBERS HAD TO BORROW IN THE MARKET TO FINANCE THEIR RESERVE ASSET PAYMENT. POLAK (NETHERLANDS) THOUGHT THE SEVEN DAY PERIOD COULD AND SHOULD BE SHORTENED. WILLIAMS DOUBTED WHETHER THE RULES AND REGULATIONS ALLOWED MUCH ROOM FOR MANOEUVRE, BUT THE MANAGING DIRECTOR AGREED WITH POLAK. THE STAFF WOULD EXAMINE THE SCOPE FOR REDUCING THE SEVEN DAY INTERVAL. IT WAS EXTREMELY IMPORTANT FOR GOVERNORS TO BE CLEAR ON THIS QUESTION.

17. F C O PSE ADVANCE TO SIR K COUZENS AND LAVELLE (HMT), GILCHRIST (BANK OF ENGLAND) AND APPELYARD (ERD).

ANSON

[ADVANCED AS REQUESTED]

MONETARY

ERD

GR 1650

CONFIDENTIAL

CONFIDENTIAL

DESKBY 280930Z

FM UKDEL IMF/IBRD WASHINGTON 271724Z

TO IMMEDIATE FCO

TELEGRAM NUMBER 302 OF 27 DECEMBER 1982

MIPT

IMF: 8TH QUOTA REVIEW - SDR ALLOCATIONS

1. AS REPORTED IN MIPT, A LARGE NUMBER OF DIRECTORS RAISED THE QUESTION OF NEW SDR ALLOCATIONS AT THE BOARD DISCUSSION ON 22 DECEMBER ON THE MEANS OF PAYMENT FOR INCREASES IN QUOTAS (EB/QUOTA/82/14).

2. AT THE CLOSE OF THE DISCUSSION, VAN HOUTVEN (SECRETARY) SAID 14 DIRECTORS HAD SUPPORTED NEW ALLOCATIONS - FRANCE, CANADA, AUSTRIA, SAUDI ARABIA, LIBYA, IRAN, INDIA, CHINA, BRAZIL, VENEZUELA, ARGENTINA, INDONESIA, NIGER AND GUINEA. MOST DIRECTORS IN THIS GROUP, NOTABLY FRANCE, HAD RELATED THEIR SUPPORT FOR A NEW ALLOCATION DIRECTLY TO THE NEED TO PAY 25 PER CENT OF THE QUOTA SUBSCRIPTION IN RESERVE ASSETS. BUT SEVERAL DIRECTORS, NOTABLY CANADA, SAUDI ARABIA AND LIBYA, HAD MADE THE CASE FOR NEW ALLOCATIONS ON THEIR OWN MERITS UNDER THE PROVISIONS OF ARTICLE XVIII.

VIEWS OF INDIVIDUAL DIRECTORS

3. DE MAULDE (FRANCE) SAID THAT SINCE THERE WERE NOT ENOUGH SDR'S AT PRESENT FOR 25 PER CENT OF THE QUOTA INCREASE TO BE PAID IN SDR'S, THE OBVIOUS SOLUTION WAS TO CREATE THEM. THERE SHOULD THEREFORE BE A NEW ALLOCATION OF SDR'S EQUAL TO 25 PER CENT OF THE QUOTA INCREASE UNDER THE 8TH REVIEW. NEW ALLOCATIONS WOULD ALSO BE JUSTIFIED ON MORE GENERAL ECONOMIC GROUNDS. KAFKA (BRAZIL) MADE SIMILAR POINTS. THERE WERE AMPLE GROUNDS FOR NEW ALLOCATIONS QUITE APART FROM THE REQUIREMENT IN THE ARTICLES THAT 25 PER CENT OF THE QUOTA INCREASE SHOULD BE PAID IN SDR'S.

4. NIMATALLAH (SAUDI ARABIA) SAID THERE WERE THREE CONVINCING REASONS FOR NEW ALLOCATIONS ON THEIR OWN MERITS. FIRST, INTERNATIONAL RESERVES, EXCLUDING GOLD, HAD DECLINED BY OVER US DOLLARS 60 BN IN 1981 AND 1982 IN US DOLLAR TERMS. SECOND, ACCESS TO COMMERCIAL BANKS, WHICH HAD PROVIDED THE MAIN SOURCE FOR MEMBERS TO INCREASE THEIR RESERVES BEFORE 1980, WAS NOW SEVERELY STRAINED IN MANY CASES. TO THE EXTENT THAT COMMERCIAL BANKS PROVIDED FINANCE TO REBUILD MEMBERS' RESERVES, THE BANKS WOULD HAVE LESS FUNDS AVAILABLE TO HELP MEMBERS FINANCE THEIR /PAYMENTS

CONFIDENTIAL

CONFIDENTIAL

PAYMENTS DEFICITS. THIRD, THE PRESENT CONDITIONS OF STAGNATION AND EXCESS CAPACITY IN THE WORLD ECONOMY AND FALLING INTERNATIONAL INTEREST RATES MEANT THAT SDR ALLOCATIONS COULD NO LONGER BE REGARDED AS INFLATIONARY. THE BOARD SHOULD COME BACK TO THIS QUESTION SOON.

5. FINAISH (LIBYA), SALEHKKHOU (IRAN), SANGARE (GUINEA), SENIOR (VENEZUELA), PANDAY (INDONESIA) AND MALHOTRA (INDIA) MADE SIMILAR POINTS. SALEHKKHOU SAID IT WAS IMPERATIVE THAT THE FUNDREVIEW ITS POLICY OF PROMOTING THE SDR, A POLICY WHICH HE THOUGHT HAD BEEN CLEARLY UNDERSTOOD WHEN NEW ALLOCATIONS HAD BEEN DECIDED AT THE TIME OF THE 7TH REVIEW. MALHOTRA AND PANDAY PRESSED FOR BOARD DISCUSSION OF THIS QUESTION IN EARLY JANUARY AND ARGUED THAT THE QUESTION OF ALLOCATIONS SHOULD BE PRESENTED TO THE INTERIM COMMITTEE AT ITS NEXT MEETING. JOYCE (CANADA) THOUGHT THE QUESTION OF NEW ALLOCATIONS SHOULD BE KEPT SEPARATE FROM THE MEANS OF PAYMENT ISSUE. HE AND SCHNEIDER (AUSTRIA) THOUGHT ALLOCATIONS SHOULD BE RE-EXAMINED BY THE BOARD IN THE LIGHT OF RECENT DEVELOPMENTS IN INTERNATIONAL LIQUIDITY.

6. ON THE OTHER SIDE, LASKE (GERMANY) SAID AN SDR ALLOCATION EXPRESSLY DESIGNED TO ALLOW MEMBERS OF PAY THEIR RESERVE ASSET SUBSCRIPTION IN SDR'S WOULD BE UNACCEPTABLE TO HIS AUTHORITIES. IT WOULD NOT BE IN CONFORMITY WITH THE RELEVANT ARTICLES AND COULD NOT BE JUSTIFIED ON ECONOMIC GROUNDS. I AGREED: THE QUESTION OF NEW ALLOCATIONS WAS SEPARATE FROM THE ISSUES RELATING TO THE MEANS OF PAYMENT FOR QUOTA INCREASES COVERED IN THE STAFF PAPER AS RESERVE ASSET SUBSCRIPTIONS WERE NOT A NET USE OF RESERVE ASSETS (YOUR TELNO 248). DALLARA (US) ECHOED THIS LAST POINT AND SAID HE DID NOT THINK THIS WAS THE TIME, PLACE OR CONTEXT TO DISCUSS SDR ALLOCATIONS WHICH SHOULD BE CONSIDERED ONLY ON THEIR OWN MERITS ON THE BASIS OF THE PROVISIONS IN ARTICLE XVIII. HIRAO (JAPAN) SAID HIS POSITION ON NEW ALLOCATIONS WAS ALSO THE SAME AS LASKE'S.

MANAGING DIRECTOR'S CLOSING REMARKS

7. IN HIS CLOSING REMARKS ON THIS QUESTION, THE MANAGING DIRECTOR NOTED THAT A LARGE NUMBER OF DIRECTORS HAD ARGUED THAT THE WAS TO FACILITATE A RESERVE ASSET PAYMENT UNDER THE 8TH QUOTA REVIEW WOULD BE TO HAVE A NEW SDR ALLOCATION. A NUMBER OF THESE DIRECTORS HAD BEEN VERY CLEAR THAT THIS WAS NOT THE MAIN REASON FOR THEIR VIEW WHICH WAS BASED ON CONSIDERATIONS RELATED TO INTERNATIONAL LIQUIDITY.

CONFIDENTIAL

8. HE WAS INCLINED TO THINK THAT, UNLESS THERE WAS A RAPID CHANGE OF VIEWS, THE BOARD SHOULD NOT OVER-BURDEN THE INTERIM COMMITTEE ON WHETHER OR NOT THE INTERNATIONAL LIQUIDITY POSITION JUSTIFIED A NEW SDR ALLOCATION. IF THIS ISSUE WAS INCLUDED ON THE AGENDA IT WOULD BE DIFFICULT TO MAKE RAPID PROGRESS TOWARDS A SOLUTION ON THE OTHER ISSUES RELATING TO QUOTAS AND NEW BORROWING ARRANGEMENTS. THE QUESTION OF NEW ALLOCATIONS WOULD REMAIN PERMANENTLY ON THE BOARD'S AGENDA BUT HE WOULD BE VERY HESITANT, WHEN ADVISING THE CHANCELLOR (AS CHAIRMAN OF THE INTERIM COMMITTEE), ABOUT SUGGESTING THAT THE QUESTION OF NEW ALLOCATIONS PER SE SHOULD BE DISCUSSED BY THE INTERIM COMMITTEE AT ITS NEXT MEETING.

9. FOLLOWING THIS, POLAK SAID IT MIGHT BE HELPFUL TO SEPARATE THE ALLOCATION QUESTION FROM THAT OF THE MEANS OF PAYMENT IN THE BOARD'S REPORT ON THE 8TH REVIEW TO THE INTERIM COMMITTEE. THE CASE FOR NEW ALLOCATIONS HAD LITTLE TO DO WITH QUOTA PAYMENTS. MINISTERS WHO SUPPORTED NEW ALLOCATIONS COULD EXPRESS THEIR VIEWS ON THIS ISSUE IN THE DISCUSSION ON THE WORLD ECONOMIC OUTLOOK. JOYCE (CANADA) AGREED WITH THE MANAGING DIRECTOR THAT THE INTERIM COMMITTEE SHOULD NOT BE OVERBURDENED. HE ALSO AGREED WITH POLAK THAT THE ALLOCATION QUESTION SHOULD BE KEPT SEPARATE FROM THAT OF THE MEANS OF PAYMENT. HE SUGGESTED THAT THE BOARD'S REPORT TO THE INTERIM COMMITTEE ON THE 8TH REVIEW COULD REFER TO THE CONCERNS RAISED BY DIRECTORS ABOUT THE INTERNATIONAL LIQUIDITY SITUATION. THE INTERIM COMMITTEE COULD THEN DIRECT, AS PART OF ITS DECISIONS ON THE QUOTA INCREASE AND THE MEANS OF PAYMENT, THAT THE QUESTION OF SDR ALLOCATION SHOULD BE CONSIDERED BY THE BOARD ON AN URGENT BASIS. THE BOARD COULD BE ASKED TO PRESENT A SPECIAL REPORT ON THIS QUESTION TO THE NEXT MEETING OF THE INTERIM COMMITTEE WHETHER THIS WAS HELD IN APRIL OR AT THE TIME OF THE ANNUAL MEETINGS.

10. NIMATALLAH (SAUDI ARABIA) DOUBTED WHETHER THE TWO QUESTIONS COULD BE KEPT COMPLETELY SEPARATE. MALHOTRA (INDIA) ACKNOWLEDGED THAT IT MIGHT NOT BE SENSIBLE FOR TACTICAL REASONS TO BRING THE ALLOCATION ISSUE TO THE INTERIM COMMITTEE IN FEBRUARY. HOWEVER, THE ISSUE WAS BOUND TO BE RAISED BY MINISTERS IN THE G24 MEETING AND IN THE INTERIM COMMITTEE. THE BOARD'S REPORT TO THE INTERIM COMMITTEE ON THE 8TH REVIEW SHOULD REFLECT THE STRONG FEELING OF DIRECTORS ON THIS POINT.

CONFIDENTIAL

11. CONCLUDING THIS DISCUSSION, THE MANAGING DIRECTOR SAID THAT THE SUGGESTIONS BY POLAK AND, IN PARTICULAR, BY JOYCE WERE EXTREMELY USEFUL . HE DOUBTED VERY MUCH WHETHER THE BOARD COULD REACH A CONSENSUS ON NEW ALLOCATIONS IN THE COMING WEEKS. ALTHOUGH THERE HAD BEEN SHIFTS IN THE POSITION OF ONE OR TWO DIRECTORS, THE QUOTE BROAD SUPPORT UNQUOTE REQUIRED FOR HIM TO MAKE A PROPOSAL WAS LACKING. IT WOULD BE EXTREMELY MESSY TO LAUNCH IT AS A SUPPLEMENTARY ITEM ON THE INTERIM COMMITTEE AGENDA. ON THE OTHER HAND, HE WOULD REPORT TO THE CHANCELLOR THAT THERE WERE GROWING CONCERNS IN THE BOARD ABOUT THE DIFFICULTIES OF THE WORLD ECONOMIC SITUATION AND ON THE NEED TO RE-EXAMINE INTERNATIONAL LIQUIDITY FACTORS ON AN OBJECTIVE BASIS. THE FUND COULD NOT TURN A BLIND EYE TO THESE PROBLEMS. THE BOARD COULD COME BACK TO THIS QUESTION ON 4 JANUARY WHEN THE DRAFT REPORT TO THE INTERIM COMMITTEE ON THE 8TH REVIEW WOULD BE DISCUSSED.

12. AFTER THE MEETING, THE MANAGING DIRECTOR COMMENTED TO ME THAT IT WOULD BE VERY IMPORTANT TO FIND A WAY OF ENSURING THAT THIS ISSUE DID NOT DISRUPT THE INTERIM COMMITTEE. HE HOPED THAT THOSE COUNTRIES WHICH DID NOT FAVOUR AN SDR ALLOCATION WOULD SERIOUSLY CONSIDER JOYCE'S PROPOSAL, WHICH WOULD NOT COMMIT THEM TO AN ALLOCATION, BUT SEEMED A REASONABLE COMPROMISE IN THE CIRCUMSTANCES.

13. FCO PLEASE ADVANCE TO SIR K COUZENS AND LAVELLE (HMT), GILCHRIST (BANK OF ENGLAND) AND APPELYARD (ERD).

ANSON

[ADVANCED AS REQUESTED]

MONETARY

ERD

1714

NOV 0 006/27

ADVANCE COPY
IMMEDIATE

OO FCO

RR RIYADH

RR JEDDA

PS 6
PS/Mr Riffkind
PS/POB.
Mr Thomas
Mr Ogden
Mr J Leahy (H/ERD)
Mr J Leahy (H/MED)
Miss Rutter, Chancery Office
Mr Couzens, HM Treasury
Mr Lavelle
Mr Gilchrist Bank of England
RC
(7)

OR 250

CONFIDENTIAL

FM UKDEL INF/IBRD WASHINGTON 271728Z

TO IMMEDIATE FCO

TELEGRAM NUMBER 303 OF 27 DECEMBER 1982

INFO RIYADH, JEDDA.

NY TELNO 208 AND TELCOM ANSON/RUTTER

CHANCELLOR OF THE EXCHEQUER'S VISIT TO SAUDI ARABIA

1. NIMATALLAH ASKED ME LAST WEEK WHETHER THE CHANCELLOR WAS GOING TO PROPOSE AN AGENDA FOR HIS TALK WITH ABALKHAIL. I SAID THAT I THOUGHT THAT THE AGENDA WAS ESSENTIALLY THE WHOLE COMPLEX OF ISSUES SURROUNDING THE FORTHCOMING MEETING OF THE INTERIM COMMITTEE. NIMATALLAH WAS QUITE HAPPY WITH THIS, BUT SAID THAT IF THERE WERE ANY OTHER SPECIFIC POINTS, HE WOULD BE GRATEFUL IF I COULD TELL HIM. COULD YOU PLEASE LET ME KNOW IF THERE ARE ANY OTHER POINTS WHICH YOU WISH ME TO PASS ON, OR IF YOU WISH TO OFFER A MORE STRUCTURED AGENDA.

R Lavelle will advise

2. I TOLD NIMATELLAH THAT I WAS NOT, OF COURSE, SPEAKING FOR THE MANAGING DIRECTOR, WHO MIGHT HAVE CONCERNS OF HIS OWN TO PURSUE. NIMATALLAH TOOK THIS POINT AND SAID THAT HE WOULD SPEAK TO THE MD SEPARATELY. THE MD TOLD ME ON DECEMBER 22 THAT HE WOULD BE MENTIONING TO THE SAUDIS THAT HE WANTED TO TALK ABOUT THE THIRD SAMA TRANCHE.

3. FCO PLEASE PASS TO MISS RUTTER (CHANCELLOR'S OFFICE) AND TO COUZENS AND LAVELLE (TREASURY) AND TO GILCHRIST (BANK OF ENGLAND).

ANSON

GR 250

CONFIDENTIAL

CONFIDENTIAL

FM UKDEL IMF/IBRD WASHINGTON 271728Z

TO IMMEDIATE FCO

TELEGRAM NUMBER 303 OF 27 DECEMBER 1982

INFO RIYADH, JEDDA.

Copy

MY TELNO 298 AND TELCOM ANSON/RUTTER

CHANCELLOR OF THE EXCHEQUER'S VISIT TO SAUDI ARABIA

1. NIMATALLAH ASKED ME LAST WEEK WHETHER THE CHANCELLOR WAS GOING TO PROPOSE AN AGENDA FOR HIS TALK WITH ABALKHAIL. I SAID THAT I THOUGHT THAT THE AGENDA WAS ESSENTIALLY THE WHOLE COMPLEX OF ISSUES SURROUNDING THE FORTHCOMING MEETING OF THE INTERIM COMMITTEE. NIMATALLAH WAS QUITE HAPPY WITH THIS, BUT SAID THAT IF THERE WERE ANY OTHER SPECIFIC POINTS, HE WOULD BE GRATEFUL IF I COULD TELL HIM. COULD YOU PLEASE LET ME KNOW IF THERE ARE ANY OTHER POINTS WHICH YOU WISH ME TO PASS ON, OR IF YOU WISH TO OFFER A MORE STRUCTURED AGENDA.

2. I TOLD NIMATELLAH THAT I WAS NOT, OF COURSE, SPEAKING FOR THE MANAGING DIRECTOR, WHO MIGHT HAVE CONCERNS OF HIS OWN TO PURSUE. NIMATALLAH TOOK THIS POINT AND SAID THAT HE WOULD SPEAK TO THE MD SEPARATELY. THE MD TOLD ME ON DECEMBER 22 THAT HE WOULD BE MENTIONING TO THE SAUDIS THAT HE WANTED TO TALK ABOUT THE THIRD SAMA TRANCHE.

3. FCO PLEASE PASS TO MISS RUTTER (CHANCELLOR'S OFFICE) AND TO COUZENS AND LAVELLE (TREASURY) AND TO GILCHRIST (BANK OF ENGLAND).

ANSON

[ADVANCED AS REQUESTED]

LIMITED
ERD
MED
PS
PS/MR RIFKIND
PS/PUS
MR EVANS
SIR J LEAHY
MR THOMAS
MR EGERTON

COPIES TO
MISS RUTTER CHANCELLOR'S OFFICE
TREASURY
SIR K COUZENS)
MR LAVELLE) H M TREASURY
MR LITTLER)
MR BOTTRILL)
MR GILCHRIST BANK OF ENGLAND

CONFIDENTIAL

GRS 700

CONFIDENTIAL

CONFIDENTIAL

DESKBY 290900Z

FM UKDEL IMF/IBRD WASHINGTON 282300Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 305 OF 28 DECEMBER

INFO JEDDA RIYADH

MY TELNO 303

IMF: CHANCELLOR'S VISIT TO SAUDI ARABIA

1. I HAD LUNCH WITH NIMATALLAH TODAY FOR A FURTHER EXCHANGE OF VIEWS BEFORE THE CHANCELLOR'S VISIT.

2. ON THE PROSPECTS FOR AN EARLY INTERIM COMMITTEE MEETING, NIMATALLAH SAID THAT HIS MINISTER FAVOURED AN EARLY MEETING IN PRINCIPLE (UNDERLINE NEXT 2 WORDS) PROVIDED THAT THE NECESSARY PREPARATORY WORK HAD BEEN PROPERLY DONE. IN REPORTING ON THIS, NIMATALLAH HAD IDENTIFIED FOUR MAIN ISSUES: SIZE, DISTRIBUTION, MINIMUM QUOTAS AND GAB. ON SIZE, ABALKHAIL HAD TALKED TO REGAN IN GERMANY AFTER THE FRANKFURT G5 MEETING AND HAD GOT THE IMPRESSION THAT THE UNITED STATES WERE NOW WILLING TO COME UP INTO THE RANGE SDR 90-100 BILLION. PROVIDED THAT THERE COULD BE AT LEAST A 50 PER CENT INCREASE (I.E. SDR 91.5 BILLION), NIMATALLAH THOUGHT THAT THIS WOULD BE ACCEPTABLE. ON DISTRIBUTION, HE ENVISAGED THAT A CONSENSUS SHOULD BE SOUGHT IN THE AREA OF 50/50 EQUI-PROPORTIONAL AND SELECTIVE (BASED ON METHOD 3). SAUDI ARABIA WAS PREPARED TO JOIN IN A CONSENSUS ON THESE LINES, ALTHOUGH ITS OWN NATIONAL INTEREST WAS CLOSER TO THAT OF JAPAN. HE THOUGHT THAT THE JAPANESE WOULD BE PREPARED TO MOVE FROM THEIR PRESENT POSITION, BUT HE AGREED THAT THE COMMUNIQUE WOULD HAVE TO BE SENSITIVELY WORDED IF THOSE COUNTRIES NOW AT THE ENDS OF THE SPECTRUM WERE TO BE PREPARED TO COME TOWARDS THE MIDDLE. ON MINIMUM QUOTAS HE DID NOT EXPRESS MUCH INTEREST.

3. THIS LEFT THE GAB. NIMATALLAH ASKED WHETHER THIS NEEDED TO BE PART OF THE PACKAGE TO BE DECIDED BY THE INTERIM COMMITTEE IN FEBRUARY. ON SOME POINTS, E.G. THE WAY IN WHICH PARALLEL CONTRIBUTORS WOULD BE ASSOCIATED, THE G10 DID NOT YET SEEM TO HAVE REACHED AGREEMENT AMONG THEMSELVES. THE SAUDIS WERE STUDYING THE WHOLE MATTER WITH GREAT INTEREST. ONE OF THE THINGS THEY WOULD WANT TO KNOW WAS WHETHER A DISTINCTION COULD BE MADE BETWEEN THE G10 AND MEETINGS OF CONTRIBUTORS TO THE NEW ARRANGEMENTS. IF SO, AND IF IT COULD BE UNDERSTOOD THAT THERE WOULD BE APPROPRIATE ARRANGEMENTS FOR CONSULTATION AMONG THE CONTRIBUTORS, THE DETAILS OF PARALLEL CONTRIBUTIONS COULD PERHAPS BE LEFT UNTIL LATER. HE DID NOT THINK THAT A DECISION ON AN ACTUAL SAUDI CONTRIBUTION COULD BE MADE IN TIME FOR THE FEBRUARY MEETING. THE MATTER WOULD HAVE TO BE CONSIDERED CAREFULLY AND REFERRED TO THE SAUDI COUNCIL OF MINISTERS./IF

CONFIDENTIAL

CONFIDENTIAL

IF A SAUDI CONTRIBUTION WAS AN ESSENTIAL PART OF THE PACKAGE, IT WOULD THUS BE BETTER TO WAIT UNTIL APRIL. BUT HE DID NOT SEE WHY THE G10 ELEMENT IN THE PACKAGE COULD NOT BE DECIDED IN FEBRUARY, WITH THE DOOR LEFT OPEN FOR OTHER CONTRIBUTORS TO COME IN LATER.

4. HE COMMENTED THAT IF THE G10 HAD PRODUCED A MORE DETAILED PLAN IT MIGHT HAVE BEEN CRITICISED FOR OFFERING A CUT AND DRIED PROPOSAL WITHOUT CONSULTING OTHERS. WE HAD WANTED TO GET REACTIONS AT THIS STAGE FROM THE EXECUTIVE BOARD AND OTHER GOVERNMENTS. HE THOUGHT THAT THE US ADMINISTRATION AND PERHAPS SOME OTHER G10 GOVERNMENTS MIGHT WANT TO BE ABLE TO TELL THEIR PARLIAMENTS THAT CONTRIBUTIONS UNDER THE NEW GAB ARRANGEMENTS WOULD BE MORE BROADLY BASED. BUT THESE WERE POINTS WHICH WOULD NO DOUBT BE DISCUSSED IN THE TALKS IN RIYADH.

5. HE ALSO SUGGESTED THAT IF A MEETING WAS TO BE HELD IN FEBRUARY IT WOULD BE NECESSARY FOR MEMBERS OF THE COMMITTEE TO BE PREPARED TO SHOW FLEXIBILITY. IT WOULD BE UNFORTUNATE IF THE G24, FOLLOWING THEIR USUAL CUSTOM, WERE TO ATTACH THEMSELVES FIRMLY TO SPECIFIC POINTS IN A PUBLIC COMMUNIQUE JUST BEFORE THE NEGOTIATIONS STARTED. NIMATALLAH SAID THAT HE WAS NOT SURE WHETHER A G24 MEETING WOULD BE HELD, PARTICULARLY IF THERE WERE NO DEVELOPMENT COMMITTEE IN FEBRUARY. HE SUGGESTED THAT IT MIGHT BE EASIER TO LEAVE A G24 MEETING UNTIL APRIL IF THERE WERE A FURTHER INTERIM COMMITTEE MEETING THEN, POSSIBLY TO DISCUSS THE WORLD LIQUIDITY ISSUE, WHICH HE FELT ANYWAY WOULD NEED TO BE ADDRESSED. HE SAID THAT WE HAD BEEN THINKING IN TERMS OF ADVANCING THE MEETING FROM APRIL TO FEBRUARY. IF THERE WERE STILL A POSSIBILITY OF A SECOND MEETING IN APRIL, THIS MIGHT WEAKEN THE MOMENTUM NECESSARY TO REACH FIRM CONCLUSIONS AT THE FEBRUARY MEETING.

6. FCO PLEASE ADVANCE TO PPS CHANCELLOR OF THE EXCHEQUER, COUZENS, LITTLER AND LAVELLE (TREASURY) AND GILCHRIST (BANK OF ENGLAND).

ANSON

[ADVANCED AS REQUESTED]

LIMITED
ERD
MED
PS
PS/MR HURD
PS/MR RIFKIND
PS/PUS

MR EVANS
SIR J LEAHY
MR EGERTON
MR THOMAS

COPIES TO
MISS RUTTER CHANCELLOR'S OFFICE
TREASURY
SIR K COUZENS)
MR LAVELLE) TREASURY
MR LITTLER)
MR BOTTRILL)
MR GILCHRIST BANK OF ENGLAND
PPS/CHANCELLOR OF THE EXCHEQUER

RESTRICTED

GRS 75
RESTRICTED
FROM RIYADH 260524Z DEC 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 101 OF 28 DECEMBER
AND TO IMMEDIATE JEDDA

psf

TELE 436
YOUR ~~25496~~ TO JEDDA: VISIT OF THE CHANCELLOR OF THE
EXCHEQUER.

1. ACCOMMODATION FOR THE CHANCELLOR OF THE EXCHEQUER AND PARTY BOOKED AT INTERCONTINENTAL, FOR WHICH MINISTRY OF FINANCE WILL PAY.
2. MINISTRY OF FINANCE HAVE ASKED US TO CONFIRM THAT VISIT WILL BE CONFINED TO IMF BUSINESS AND THAT THE CHANCELLOR WILL NOT (NOT) WISH TO SEE SAUDI MINISTERS OTHER THAN ABA AL KHAIL AND QURAIISHI. WE HAVE DONE SO.

MUIR

LIMITED
MED
NENAD
PCD
ERD
PS
PS/MR HURD
PS/PUS
SIR J LEAHY
MR EGERTON
MR THOMAS

COPIES TO
PS/CHANCELLOR OF EXCHEQUER

RESTRICTED

GRS 700

CONFIDENTIAL

Prop

CONFIDENTIAL

DESKBY 290900Z

FM UKDEL IMF/IBRD WASHINGTON 282300Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 305 OF 28 DECEMBER

INFO JEDDA RIYADH

MY TELNO 303

IMF: CHANCELLOR'S VISIT TO SAUDI ARABIA

1. I HAD LUNCH WITH NIMATALLAH TODAY FOR A FURTHER EXCHANGE OF VIEWS BEFORE THE CHANCELLOR'S VISIT.

2. ON THE PROSPECTS FOR AN EARLY INTERIM COMMITTEE MEETING, NIMATALLAH SAID THAT HIS MINISTER FAVOURED AN EARLY MEETING IN PRINCIPLE (UNDERLINE NEXT 2 WORDS) PROVIDED THAT THE NECESSARY PREPARATORY WORK HAD BEEN PROPERLY DONE. IN REPORTING ON THIS, NIMATALLAH HAD IDENTIFIED FOUR MAIN ISSUES: SIZE, DISTRIBUTION, MINIMUM QUOTAS AND GAB. ON SIZE, ABALKHAIL HAD TALKED TO REGAN IN GERMANY AFTER THE FRANKFURT G5 MEETING AND HAD GOT THE IMPRESSION THAT THE UNITED STATES WERE NOW WILLING TO COME UP INTO THE RANGE SDR 90-100 BILLION. PROVIDED THAT THERE COULD BE AT LEAST A 50 PER CENT INCREASE (I.E. SDR 91.5 BILLION), NIMATALLAH THOUGHT THAT THIS WOULD BE ACCEPTABLE. ON DISTRIBUTION, HE ENVISAGED THAT A CONSENSUS SHOULD BE SOUGHT IN THE AREA OF 50/50 EQUI-PROPORTIONAL AND SELECTIVE (BASED ON METHOD 3). SAUDI ARABIA WAS PREPARED TO JOIN IN A CONSENSUS ON THESE LINES, ALTHOUGH ITS OWN NATIONAL INTEREST WAS CLOSER TO THAT OF JAPAN. HE THOUGHT THAT THE JAPANESE WOULD BE PREPARED TO MOVE FROM THEIR PRESENT POSITION, BUT HE AGREED THAT THE COMMUNIQUE WOULD HAVE TO BE SENSITIVELY WORDED IF THOSE COUNTRIES NOW AT THE ENDS OF THE SPECTRUM WERE TO BE PREPARED TO COME TOWARDS THE MIDDLE. ON MINIMUM QUOTAS HE DID NOT EXPRESS MUCH INTEREST.

3. THIS LEFT THE GAB. NIMATALLAH ASKED WHETHER THIS NEEDED TO BE PART OF THE PACKAGE TO BE DECIDED BY THE INTERIM COMMITTEE IN FEBRUARY. ON SOME POINTS, E.G. THE WAY IN WHICH PARALLEL CONTRIBUTORS WOULD BE ASSOCIATED, THE G10 DID NOT YET SEEM TO HAVE REACHED AGREEMENT AMONG THEMSELVES. THE SAUDIS WERE STUDYING THE WHOLE MATTER WITH GREAT INTEREST. ONE OF THE THINGS THEY WOULD WANT TO KNOW WAS WHETHER A DISTINCTION COULD BE MADE BETWEEN THE G10 AND MEETINGS OF CONTRIBUTORS TO THE NEW ARRANGEMENTS. IF SO, AND IF IT COULD BE UNDERSTOOD THAT THERE WOULD BE APPROPRIATE ARRANGEMENTS FOR CONSULTATION AMONG THE CONTRIBUTORS, THE DETAILS OF PARALLEL CONTRIBUTIONS COULD PERHAPS BE LEFT UNTIL LATER. HE DID NOT THINK THAT A DECISION ON AN ACTUAL SAUDI CONTRIBUTION COULD BE MADE IN TIME FOR THE FEBRUARY MEETING. THE MATTER WOULD HAVE TO BE CONSIDERED CAREFULLY AND REFERRED TO THE SAUDI COUNCIL OF MINISTERS./IF

CONFIDENTIAL

CONFIDENTIAL

IF A SAUDI CONTRIBUTION WAS AN ESSENTIAL PART OF THE PACKAGE, IT WOULD THUS BE BETTER TO WAIT UNTIL APRIL. BUT HE DID NOT SEE WHY THE G10 ELEMENT IN THE PACKAGE COULD NOT BE DECIDED IN FEBRUARY, WITH THE DOOR LEFT OPEN FOR OTHER CONTRIBUTORS TO COME IN LATER.

4. HE COMMENTED THAT IF THE G10 HAD PRODUCED A MORE DETAILED PLAN IT MIGHT HAVE BEEN CRITICISED FOR OFFERING A CUT AND DRIED PROPOSAL WITHOUT CONSULTING OTHERS. WE HAD WANTED TO GET REACTIONS AT THIS STAGE FROM THE EXECUTIVE BOARD AND OTHER GOVERNMENTS. HE THOUGHT THAT THE US ADMINISTRATION AND PERHAPS SOME OTHER G10 GOVERNMENTS MIGHT WANT TO BE ABLE TO TELL THEIR PARLIAMENTS THAT CONTRIBUTIONS UNDER THE NEW GAB ARRANGEMENTS WOULD BE MORE BROADLY BASED. BUT THESE WERE POINTS WHICH WOULD NO DOUBT BE DISCUSSED IN THE TALKS IN RIYADH.

5. HE ALSO SUGGESTED THAT IF A MEETING WAS TO BE HELD IN FEBRUARY IT WOULD BE NECESSARY FOR MEMBERS OF THE COMMITTEE TO BE PREPARED TO SHOW FLEXIBILITY. IT WOULD BE UNFORTUNATE IF THE G24, FOLLOWING THEIR USUAL CUSTOM, WERE TO ATTACH THEMSELVES FIRMLY TO SPECIFIC POINTS IN A PUBLIC COMMUNIQUE JUST BEFORE THE NEGOTIATIONS STARTED. NIMATALLAH SAID THAT HE WAS NOT SURE WHETHER A G24 MEETING WOULD BE HELD, PARTICULARLY IF THERE WERE NO DEVELOPMENT COMMITTEE IN FEBRUARY. HE SUGGESTED THAT IT MIGHT BE EASIER TO LEAVE A G24 MEETING UNTIL APRIL IF THERE WERE A FURTHER INTERIM COMMITTEE MEETING THEN, POSSIBLY TO DISCUSS THE WORLD LIQUIDITY ISSUE, WHICH HE FELT ANYWAY WOULD NEED TO BE ADDRESSED. HE SAID THAT WE HAD BEEN THINKING IN TERMS OF ADVANCING THE MEETING FROM APRIL TO FEBRUARY. IF THERE WERE STILL A POSSIBILITY OF A SECOND MEETING IN APRIL, THIS MIGHT WEAKEN THE MOMENTUM NECESSARY TO REACH FIRM CONCLUSIONS AT THE FEBRUARY MEETING.

6. FCO PLEASE ADVANCE TO PPS CHANCELLOR OF THE EXCHEQUER, COUZENS, LITTLER AND LAVELLE (TREASURY) AND GILCHRIST (BANK OF ENGLAND).

ANSON

[ADVANCED AS REQUESTED]

LIMITED
ERD
MED
PS
PS/MR HURD
PS/MR RIFKIND
PS/PUS

MR EVANS
SIR J LEAHY
MR EGERTON
MR THOMAS

COPIES TO
MISS RUTTER CHANCELLOR'S OFFICE
TREASURY
SIR K COUZENS)
MR LAVELLE)
MR LITTLER) TREASURY
MR BOTTRILL)
MR GILCHRIST BANK OF ENGLAND
PPS/CHANCELLOR OF THE EXCHEQUER

[Ltd]

IMMEDIATE

ADVANCE COPY

DWF G 009

Hd ~~Fin~~

Hd RC

Hd ER

Ps (L),

Hd MED

LEB 642/28

Ps/Mr. Husch

RC

OO FCO

Ps/POS

15
X

OO JEDDA (ACTIONED)

Sr. T. Leahy

Mr. Thomas 04/28

GRS 75

Ps/Character of the
Exchequer

RESTRICTED

FROM RIYADH 280524Z DEC 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 101 OF 28 DECEMBER

AND TO IMMEDIATE JEDDA

^{TELE}
YOUR ~~436~~ 436 TO JEDDA: VISIT OF THE CHANCELLOR OF THE EXCHEQUER.

1. ACCOMMODATION FOR THE CHANCELLOR OF THE EXCHEQUER AND PARTY BOOKED AT INTERCONTINENTAL, FOR WHICH MINISTRY OF FINANCE WILL PAY.

2. MINISTRY OF FINANCE HAVE ASKED US TO CONFIRM THAT VISIT WILL BE CONFINED TO IMF BUSINESS AND THAT THE CHANCELLOR WILL NOT (NOT) WISH TO SEE SAUDI MINISTERS OTHER THAN ABA AL KHAIL AND QURAIISHI. WE HAVE DONE SO.

MUIR

NNNN

6+

WKPXQXRJF.2,/'4,41EFWIHUX

ERD. 0205/28
M Thomas
PPS / Chancellor TSY
Sir K Couzens TSY
M Lavelle TSY
M' Gilchris B / ENGLAND.

WONFO 002/28

OO FCO

IMMEDIATE

PP PARIS

PP BONN

ADVANCE COPY

PP TOKYO

GRS 100

UNCLASSIFIED

RL

FM UKDEL INF/IBRD WASHINGTON 280155Z DEC 82

TO PRIORITY FCO

TELEGRAM NUMBER 304 OF 27 DECEMBER

AND TO PRIORITY PARIS BONN TOKYO

INF RESOURCES: YOUR TELNO 2202 TO WASHINGTON.

1. LAROSIERE IS AWAY UNTIL JANUARY 4 BUT I TOLD HIS PRIVATE SECRETARY OVER THE WEEKEND THAT THE CHANCELLOR'S MESSAGE HAD BEEN SENT TO G5 FINANCE MINISTERS, AND I HAVE SENT A COPY TO DALE IN HIS ABSENCE.

2. GRATEFUL IF ANY REPLIES FROM DELORS, STOLTENBERG, AND TAKESHITA (AND FROM REGAN IF SENT OTHERWISE THAN THROUGH EMBASSY HERE) COULD BE REPEATED TO ME SO THAT I CAN GIVE LAROSIERE THE GIST OF ANY REPLIES BEFORE HE LEAVES FOR LONDON ON JANUARY 6.

3. FCO PLEASE PASS TO TREASURY, BANK OF ENGLAND

ANSON

QRU FOR THE MO

+2

V

DWF G 040

LEB 650/28

OO FCO

OO UKDEL IMF/IBRD WASHINGTON

RR RIYADH (ACTIONED)

GRS 65

RESTRICTED

FM JEDDA 281105Z DEC 82

TO IMMEDIATE FCO

TELNO 627 OF 28 DEC

AND TO IMMEDIATE UKDEL IMF/IBRD WASHINGTON

INFO ROUTINE BLO RIYADH

~~XX~~ ADVANCE COPY
11/20/82
IMMEDIATE

ERD

PS/Chancellor.

TSY

VISIT OF THE CHANCELLOR OF THE EXCHEQUER

1. THE MINISTRY OF FINANCE HAVE ASKED US FOR A FULL LIST OF THOSE IN SIR G HOWE'S PARTY. ALTHOUGH WE UNDERSTAND THAT THE IMF ARE TAKING THE LEAD IN MAKING ARRANGEMENTS FOR THE VISIT, IT IS IN OUR INTERESTS TO BE AS HELPFUL AS WE CAN. WE SHOULD BE MOST GRATEFUL, THEREFORE, FOR AS MANY DETAILS AS YOU HAVE.

CRAIG

NNNN

CONFIDENTIAL

FROM: R G LAVELLE

DATE: 29 December 1982

MISS BUTTER

cc: Sir K Couzens
Mr Littler
Mr Bottrill o/r
Mr Atkinson
Mr Hall

SAUDI ARABIA: WASHINGTON TEL NO 303

Mr Anson reports that the Saudi Arabian Executive Director has asked if the Chancellor wished to propose an agenda for his talks with Abalkhail. Mr Anson's off the cuff response was that the agenda would be 'essentially the whole complex of issues surrounding the forthcoming meeting of the Interim Committee'. The Saudis seem happy not to have anything more structured.

2. There seems much to be said for leaving matters on this basis.

3. Although we now have a reasonably good idea of the lie of the land, further developments in the Executive Board are possible which might then have a bearing on the ranking of topics for discussion. We have still to hear from M Delors about the outcome of his talks in Riyadh. The tactical handling of the Chancellor's discussions can perhaps best be left for consideration in detail with the Managing Director on the 'plane.

4. Beyond these points, there may also be issues best left somewhat less than precise at the conclusion of the discussions. The precise arrangements for Saudi association with the enlarged GAB is one such issue. The Saudis appear in the Board to have favoured an SDR allocation. This could be another. The more structured an agenda, the higher profile for the meeting and the greater the likelihood of unwelcome forms of press speculation.

5. If the Chancellor agrees we will react to Mr Anson's telegram accordingly.


R G LAVELLE

CONFIDENTIAL



FROM: JILL RUTTER

DATE: 29 December 1982

cc Sir K Couzens
Mr Littler
Mr Bottrill
Mr Atkinson
Mr Sheridan

pay

MR LAVELLE

INTERIM COMMITTEE/SAUDI ARABIA: WASHINGTON TEL NO 298

The Chancellor was grateful for your note of 23 December.

2. The Chancellor has commented that he will need to have the issues set out in much greater detail soon: especially on the question raised in paragraph 4 and 5 of telegram number 294 from Washington - on the method of mitigation.

3. The Chancellor wondered if it will be possible for you to prepare a paper - with ~~the~~ tables and documents - that could be used for a teach-in next week. It would be useful if we could have this for the Chancellor's weekend box.

JLR

JILL RUTTER

UNCLASSIFIED

Conf

From E A Yeo

29 December 1982

MISS RUTTER (CHANCELLOR'S OFFICE)

cc Sir Kenneth Couzens
Mr R G Lavelle

CHANCELLOR'S VISIT TO SAUDI ARABIA

The attached telegram was dictated to me (as Duty Officer) at home late on the evening of Monday 27 December.

2. As I was unable to contact you on the telephone yesterday morning (Tuesday), I read it to Mr Springthorpe and we decided (in accordance with the advice of the FCO Resident Clerk) that action could be left until today, Wednesday.
3. I expect a copy is already with you but I attach the text given me. Would you please be so good (if it is necessary) to pass a copy to Mr Gilchrist.



E A YEO

UK Delegation, Washington to FCO

My Tel No 298 and telephone conversation between Mr Anson and Miss Rutter re Chancellor of the Exchequer's visit to Saudi Arabia.

1. Nimatollah asked me last week whether the Chancellor was going to propose an agenda for his talk with Abalkail. I said that I thought the agenda was essentially the whole complex of issues surrounding the forthcoming meeting of the Interim Committee. Nimatollah was quite happy with this but said that if there were any other specific points, he would be grateful if I could tell him. Could you please let me know if there are any other points which you wish me to pass on, or if you wish to offer a more structured agenda?

2. I told Nimatollah that I was not, of course, speaking for the Managing Director who might have concerns of his own to pursue. Nimatollah took this point and said that he would speak to the Managing Director separately. The Managing Director told me on 22nd December that he would be mentioning to the Saudis that he wanted to talk about the third Sama tranche.

3. Please pass to Miss Rutter, Couzens, Lavelle and Mr Gilchrist, Bank of England.

GR 2000
CONFIDENTIAL
DESKBY 300900Z
FM UKDEL IMF/IBRD WASHINGTON 292230Z DEC 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 307 OF 29 DECEMBER

CONFIDENTIAL

MY TELNO 293
IMF: PROSPECTS FOR INTERIM COMMITTEE

1. YOU MAY LIKE AT THIS STAGE TO HAVE MY OWN COMMENTS TO SUPPLEMENT THOSE GIVEN BY THE MANAGING DIRECTOR IN MY TUR. THE FOLLOWING VIEWS REFLECT MY CONVERSATIONS WITH A REPRESENTATIVE SAMPLE OF EXECUTIVE DIRECTORS HERE OVER THE LAST FEW DAYS, RECORDS OF WHICH WILL ALSO BE COPIED TO LAVELLE (TREASURY) AND GILCHRIST (BANK OF ENGLAND) IN THURSDAY'S BAG.

2. IT IS NOW WIDELY ASSUMED HERE THAT AN EARLY INTERIM COMMITTEE MEETING WILL TAKE PLACE. THIS IS INEVITABLE GIVEN THE NUMBER OF TIMES THE MD HAS HAD TO REFER TO IT IN JUSTIFYING THE TIMETABLE FOR BOARD WORK. EXPECTATIONS FOR AN EARLY MEETING, AMONG THE MEMBERSHIP AND IN THE PRESS, HAVE NOW BUILT UP TO THE POINT WHERE A DECISION NOT TO HOLD IT COULD BE INTERPRETED AS A LOSS OF MOMENTUM AND A WEAKENING IN THE COMMITMENT TO EQUIP THE FUND TO DEAL WITH CURRENT PROBLEMS. WE HAVE ALSO REACHED A POINT WHERE (APART FROM THE SAUDI TALKS) IT WILL NOT BE POSSIBLE TO REACH MUCH GREATER PRECISION ON THE TESTS OF SUCCESS THAN IN PARA 1(1) OF MY TUR. SOME UNCERTAINTY IS BOUND TO REMAIN UNTIL THE MEETING ITSELF TAKES PLACE, AND MOST ISSUES WILL ANYWAY BE NO EASIER IN APRIL THAN IN FEBRUARY.

3. THE DEBATE TENDS TO BE OVERSIMPLIFIED AS BEING BETWEEN THE UNITED STATES ON THE ONE SIDE AND THE NON-OIL LDCS ON THE OTHER. THE LINE-UP OF NATIONAL PREFERENCES IS NOT, HOWEVER, THE SAME ON ALL ISSUES. ON THE SIZE OF THE QUOTA INCREASE, THE SPECTRUM DOES INDEED RUN FROM THE UNITED STATES TO THE NON-OIL LDCS, WITH MOST INDUSTRIAL COUNTRIES NEARER TO THE LDCS AND A FEW, INCLUDING OURSELVES, ATTEMPTING TO BRIDGE THE GAP. ON DISTRIBUTION, ON THE OTHER HAND, THE SPECTRUM RUNS FROM JAPAN TO THE NON-OIL LDCS WITH A LARGER GROUP IN THE MIDDLE, INCLUDING OURSELVES AND THE UNITED STATES.

4. IT MAY NOW THEREFORE BE MORE PROFITABLE TO TAKE A SYNOPTIC VIEW AND CONSIDER WHAT OVERALL APPROACH WOULD BE MOST LIKELY TO PRODUCE A SUCCESSFUL MEETING, ASSUMING IT IS HELD. THIS WILL REQUIRE COMPROMISES BY SOME ON SUBSTANCE, AND THE INCLUSION OF WORDING IN THE COMMUNIQUE TO MAKE PARTICULAR ASPECTS MORE PALATABLE TO VARIOUS COUNTRIES. FOR THIS PURPOSE, THE ISSUES CAN BE SPLIT INTO TWO BROAD GROUPS: RESOURCES (INCLUDING SIZE, BORROWING ARRANGEMENTS, MODALITIES OF PAYMENT, AND SDR ALLOCATIONS); AND SHARES (INCLUDING DISTRIBUTION OF QUOTAS, ACCESS LIMITS, MINIMUM QUOTAS AND BASIC VOTES).

CONFIDENTIAL

RESOURCES

*V. useful. We need
to discuss all those
who are serious or active
Minimum hours for
2 more view fets below.
reporting Bid discussion
11/12*

*Consider @ Mrs.
meeting.*

RESOURCES

5. ON THE SIZE OF THE QUOTA INCREASE, IT HAS BEEN NOTICED HERE THAT SECRETARY REGAN, GIVING EVIDENCE TO CONGRESS LAST WEEK, IS REPORTED TO HAVE TALKED ABOUT AN INCREASE IN THE FUND OF DLRS 40 BILLION, WHICH WOULD EQUATE TO A TOTAL FUND WELL UP IN THE RANGE OF SDR 90-100 BILLION. WE NEED TO KEEP UP THE PRESSURE ON THE UNITED STATES TO MAINTAIN AT LEAST THIS DEGREE OF FLEXIBILITY. IT IS IMPORTANT TOO THAT THE UNITED STATES SHOULD MAKE QUITE CLEAR WHEN THEY HAVE REACHED THEIR FINAL POSITION: THEIR TACTIC OF EDGING UP IN LITTLE STEPS HAS NOT BEEN HELPFUL. THE AFRICANS NOW SEEM TO RECOGNISE THAT IT IS NOT PRACTICAL POLITICS TO GET MORE THAN SDR 100 BILLION. PROVIDED WE CAN GET VERY CLOSE TO THAT. AND AT THE VERY LEAST A 50 PERCENT INCREASE, IT SHOULD BE GENERALLY ACCEPTABLE.

6. THE GAB PROPOSAL SHOULD GIVE SOME COMFORT TO THOSE WHO WOULD HAVE PREFERRED TO SEE A LARGER QUOTA INCREASE. TO AVOID GIVING OFFENCE, HOWEVER, IT SHOULD NOT BE DESCRIBED AS A SUBSTITUTE FOR IT. THE SAUDI REACTION WILL CLEARLY BE CRUCIAL AND THE CHANCELLOR AND THE MANAGING DIRECTOR WILL NO DOUBT FORM THEIR OWN OPINIONS DURING THE RIYADH VISIT (SEE ALSO MY TELNO 305). WE ALSO NEED TO CONSIDER HOW NON-SAUDI PARALLEL CONTRIBUTORS, SUCH AS KUWAIT AND AUSTRALIA, MIGHT BE APPROACHED. FIRM AGREEMENT NEEDS TO BE REACHED IN THE G10 MINISTERIAL MEETING ON THE OUTSTANDING ISSUES FOR THE G10, INCLUDING THE CONTRIBUTION KEY, ON WHICH THE JAPANESE WILL PROBABLY PRESS FOR A LOWER CONTRIBUTION AS A REFLECTION OF THEIR FAILURE TO GET THEIR WAY IN THE QUOTA EXERCISE. FOR THE LDCS, THE MOST CONTENTIOUS ELEMENT HAS BEEN THE DECISION-MAKING PROCESS UNDER WHICH THE G10 CONTROL USE OF THE FACILITY. THE INDIANS, IN PARTICULAR, HAVE ARGUED THAT THIS IS UNNECESSARY SINCE THE G10 HAVE A MAJORITY IN THE EXECUTIVE BOARD, AND UNDERSIRABLE BECAUSE IT WEAKENS CONFIDENCE THAT THE FUND WILL HAVE ACCESS TO THE RESOURCES IN CASE OF NEED. THEY WILL NEED TO BE REASSURED ON THIS POINT BEFORE THE MEETING. THE AFRICANS, AND PROBABLY MOST NON-OIL LDCS, ATTACH LESS IMPORTANCE TO THE GAB THAN TO THE QUOTA INCREASE PROPER.

7. ON MODALITIES OF PAYMENT, THERE IS NOW A MAJORITY IN THE BOARD FOR PAYMENT OF THE 25 PERCENT CONTRIBUTION IN RESERVE ASSETS (SDRS OR USABLE CURRENCIES), ALTHOUGH NOT YET THE QUALIFIED MAJORITY WHICH IS NEEDED FOR THIS PURPOSE. I HOPE FURTHER DISCUSSION IN THE BOARD WILL REASSURE THE POORER COUNTRIES THAT THEY CAN, IF NECESSARY, DRAW THE RESERVE TRANCHE CREATED BY THE RESERVE ASSET PAYMENT ALMOST IMMEDIATELY AFTER THE PAYMENT IS MADE.

8. SOME COUNTRIES WILL PRESS FOR AN SDR ALLOCATION AT LEAST LARGE ENOUGH TO COVER THE RESEVE ASSET PAYMENT, AND OTHERS WILL TAKE THE OPPORTUNITY TO PRESS FOR A RESUMPTION OF ALLOCATIONS GENERALLY. THE QUESTION OF SDR ALLOCATIONS IS BOUND TO BE MENTIONED EXTENSIVELY IN THE G24 (IF IT MEETS BEFOREHAND) AND IN THE INTERIM COMMITTEE ITSELF.

2
CONFIDENTIAL

/WE

WE CANNOT AVOID DISCUSSION OF THIS SUBJECT FROM TIME TO TIME, AND WE HAVE IN FACT GOT BY FOR OVER A YEAR WITHOUT A FULL-SCALE DISCUSSION. WE NEED TO FIND SOME PROCEDURAL DEVICE TO ENSURE THAT IT DOES NOT DISRUPT THE DISCUSSION ON THE QUOTA REVIEW. IT WOULD BE USEFUL TO HAVE THE QUOTA REVIEW FIRST ON THE AGENDA FOR THE INTERIM COMMITTEE, AND THE WORLD ECONOMIC OUTLOOK SECOND, SO THAT ANY DEBATE ON SDR ALLOCATIONS CAN BE REFERRED TO THE SECOND ITEM. WE CAN AT LEAST EXPECT SOME REQUESTS FOR FURTHER STUDY OF THE CURRENT WORLD LIQUIDITY SITUATION BY THE EXECUTIVE BOARD, WITH A REPORT BACK TO THE INTERIM COMMITTEE AT THE ANNUAL MEETING. THIS WOULD NOT COMMIT THOSE WHO ARE AGAINST AN SDR ALLOCATION TO ANY PARTICULAR ACTION, BUT IT WOULD PROVIDE A SAFETY VALVE.

SHARES

9. THE DISTRIBUTION OF QUOTAS REMAINS MUCH THE MOST DIFFICULT ISSUE ON WHICH TO SEE A CONSENSUS DEVELOPING. CONSIDERABLE PROGRESS HAS BEEN MADE IN THE BOARD IN CLEARING AWAY METHODOLOGICAL PROBLEMS. PROVIDED WE CAN HOLD TO THE CONCLUSIONS REACHED LAST WEEK, MINISTERS WILL BE PRESENTED WITH A SINGLE QUESTION, NAMELY HOW MUCH OF THE INCREASE SHOULD BE DISTRIBUTED SELECTIVELY (IN PROPORTION TO CALCULATED QUOTAS) AND HOW MUCH EQUIPROPORTIONALLY. THERE IS STILL A VERY WIDE RANGE OF VIEWS ON THIS QUESTION. AT ONE END THERE IS A RATHER HETEROGENEOUS GROUP, INCLUDING JAPAN, WHICH WOULD PREFER THE WHOLE INCREASE TO BE SELECTIVE. AT THE OTHER END THERE IS A GROUP OF NON-OIL LDCS, NOTABLY INDIA, CHINA AND THE AFRICANS, WHO WOULD PREFER NO CHANGE AT ALL IN THE LDC SHARE IN QUOTAS, BUT WHO MIGHT BE WILLING TO SETTLE FOR THE INCREASE BEING 75 PERCENT EQUIPROPORTIONAL AND 25 PERCENT SELECTIVE. THE AFRICANS ESPECIALLY ARE WORRIED THAT THE RATHER LOW VOTING POWER OF THEIR TWO CONSTITUENCIES WOULD BE FURTHER ERODED, AND FELT THAT THEIR CONCERNS ABOUT DISTRIBUTION SHOULD BE RESPECTED AS A QUID PRO QUO FOR NOT GETTING WHAT THEY SOUGHT ON THE SIZE OF THE FUND. IN THE MIDDLE THERE IS A GROUP OF COUNTRIES WITH ABOUT HALF THE VOTING POWER, ALTHOUGH AMONG THESE THERE ARE ALSO SOME VARIATIONS OF OPINION.

10. THE JAPANESE CLEARLY EXPECT THAT IN A POLITICAL COMPROMISE THEY WILL HAVE TO MOVE SOME WAY, ALTHOUGH THEY WOULD HOPE THAT THE EQUIPROPORTIONAL ELEMENT WOULD NOT BE TOO LARGE. THE QUESTION IS WHETHER THE TWO ENDS CAN BE PERSUADED TOWARDS A MIDDLE POSITION WHICH WOULD INVOLVE AN EQUIPROPORTIONAL ELEMENT OF THE ORDER OF 50 PERCENT. THIS WILL REQUIRE CONSIDERABLE FLEXIBILITY ON THE PART OF ALL.

11. TO SAVE JAPANESE FACE, AND TO GET THE GERMANS ON BOARD, IT WILL AT LEAST BE NECESSARY TO INCLUDE SOME GENERAL WORDING TO THE EFFECT THAT THE NEXT QUOTA REVIEW WILL ALSO INCLUDE A FURTHER STEP TOWARDS REFLECTING RELATIVE ECONOMIC POSITIONS. THE NON-OIL LDCS ARE MORE CONCERNED WITH THEIR ACCESS TO THE FUND, AND ALSO WITH VOTING RIGHTS, ESPECIALLY WHERE THE VIABILITY OF CONSTITUENCIES COULD BE AFFECTED. ON ACCESS, THE MD IS HOPED TO KEEP DISCUSSION OUT OF THE INTERIM COMMITTEE AS FAR AS POSSIBLE, AND THE PRESENT LIMITS WILL ANYWAY HAVE TO BE REVIEWED BY THE BOARD BEFORE JUNE 1983. BUT THERE IS BOUND TO BE SOME DEBATE ABOUT IT. IF THE ISSUE IS RAISED, WE SHOULD AT LEAST BE PREPARED TO PROPOSE THAT NO INDIVIDUAL COUNTRY WOULD HAVE LESS ABSOLUTE ACCESS THAN NOW, AND THAT THE AVERAGE ACCESS LIMIT WOULD

NOT BE REDUCED BY QUITE AS MUCH AS THE PERCENTAGE INCREASE IN THE SIZE OF THE FUND. THIS IS THE KIND OF FORMULA WHICH THE UK HAS ALREADY ADVOCATED IN G5 AND EC DISCUSSIONS.

12. ON VOTING POWER, WE SHOULD BE PREPARED TO GIVE AN ASSURANCE THAT THE TWO AFRICAN CONSTITUENCIES WILL BE SAFEGUARDED. WE MAY ALSO NEED TO KEEP OPEN THE POSSIBILITY OF SOME MOVE ON BASIC VOTES OR MINIMUM QUOTAS. AN INCREASE IN BASIC VOTES WOULD REQUIRE A CHANGE IN THE ARTICLES, AND WE HAVE BEEN RELUCTANT TO CONSIDER IT IN THE FUND (ALTHOUGH WE HAVE ACCEPTED SOMETHING SIMILAR IN THE WORLD BANK). SO FAR, THE LDCS SEEM TO HAVE ACCEPTED THAT AN INCREASE IN BASIC VOTES IS NOT POLITICALLY POSSIBLE, BUT THEY STRONGLY SUPPORTED THE CONCEPT OF A MINIMUM QUOTA ALTHOUGH IT WAS ONLY IN THE INTERESTS OF A SMALL MINORITY. ALTHOUGH WE DO NOT LIKE THIS LATTER PROPOSAL, IT WOULD NOT BE COSTLY, AND IT WOULD BE WORTH RETAINING AS A POSSIBLE BARGAINING CHIP IF IT WOULD HELP TO PRODUCE AGREEMENT IN THE FINAL STAGES.

GENERAL

13. TWO OTHER GENERAL POINTS ARE WORTH CONSIDERING. THE FIRST CONCERNS THE PERIOD OF THE QUOTA REVIEW. THE ARTICLES REQUIRE A REVIEW AT LEAST EVERY 5 YEARS, AND ACCELERATION OF THE PRESENT REVIEW THUS AUTOMATICALLY ADVANCES THE NEXT ONE. THIS WAS ONE REASON FOR ADVANCING THE INTERIM COMMITTEE, SINCE IT MEANS THAT A RATHER SMALLER QUOTA INCREASE WOULD SUFFICE. ANOTHER REASON WAS THAT THE AMERICANS COULD GET THEIR LEGISLATION IN A NON-ELECTION YEAR. FROM THE LATTER STANDPOINT A FOUR-YEAR CYCLE MIGHT HAVE ADVANTAGES. IF IT PROVED HELPFUL, THE INTERIM COMMITTEE COULD PERHAPS EXPRESS THE INTENTION TO HAVE ANOTHER REVIEW IN 4 YEARS RATHER THAN THE STATUTORY 5. THIS WOULD MAKE IT MORE LIKELY THAT THE RESOURCES NOW MADE AVAILABLE WOULD BE SUFFICIENT UNTIL THE NEXT REVIEW. IT WOULD ALSO BRING FORWARD THE DATE WHEN ANOTHER SELECTIVE STEP COULD BE MADE IN QUOTAS AND THUS HELP TO MOLLIFY THE JAPANESE, ETC. IN BOTH WAYS IT COULD HELP TO PROMOTE A CONSENSUS. THIS WOULD THEREFORE ALSO BE WORTH KEEPING IN RESERVE FOR THE FINAL STAGES OF NEGOTIATION.

14. THE OTHER POINT CONCERNS THE G24. THEY NORMALLY MEET BEFORE THE INTERIM AND DEVELOPMENT COMMITTEES AND ISSUE A TENDENTIOUS PRESS COMMUNIQUE BEFORE THE INTERIM COMMITTEE BEGINS. THIS IS MAINLY FOR PUBLIC CONSUMPTION AND USUALLY DOES NOT MATTER MUCH. IT WOULD HOWEVER BE A PITY IF THEY WERE TO TIE THEIR OWN HANDS BEFORE A MEETING IN WHICH CONSIDERABLE FLEXIBILITY WILL BE REQUIRED. THIS PROBLEM WOULD NOT ARISE IF THE G24 DO NOT MEET AT ALL: SEE NIMATALLAH'S REMARKS IN MY TELNO 305. BUT THIS COURSE MAY NOT BE ACCEPTABLE TO OTHER G24 MEMBERS, AND THE MD AND OTHERS HAVE BEEN ASSUMING THAT THE G24 WOULD MEET. IF IT DOES, IT WOULD BE WORTH ENCOURAGING FRIENDLY LDCS TO URGE THAT THEY DO NOT TIE THEMSELVES TOO RIGIDLY IN ADVANCE.

15. FCO PLEASE ADVANCE TO PPS/CHANCELLOR, COUZENS, LITTLER, LAVELLE (TREASURY) AND GILCHRIST (BANK OF ENGLAND).

ADVANCED AS REQUESTED

ANSON
MONETARY
ERD
MED
NAD

COPIES TO
ADVANCE ADDRESSEES

4

CONFIDENTIAL

C/Me,
Pl attach Bottrill's minute
of 21 December.

Spoke to Lavelle

What hour,
are we doing this?

FROM: SIR KENNETH COUZENS
DATE: 30 December 1982

[Handwritten signature]

CHANCELLOR

*[Handwritten note: I shall have my
return to Delors?!!]*

cc Mr Littler
Mr Lavelle
Mr Bottrill
Mr Atkinson
Mr Anson - Washington

[Handwritten note: Prop]

*[Handwritten note: C The answer is, I think,
not a lot - tho' to be fair]*

*[Handwritten note: That's what Bottrill's
minute, bottom of his stack,
recommended. I myself think that the High Committee in
Delhi ought to send the minute now.]*

DELORS VISIT TO SAUDI ARABIA

[Handwritten signature]

Michel Camdessus telephoned me to give some advance information about the discussion on IMF matters between Delors and himself on the one hand and the Saudis on the other, during their recent visit to Saudi Arabia. The following information is likely to be incorporated in a letter from Delors to yourself, but you may like to have an early account.

2. Camdessus said the Saudis showed themselves very anxious to participate in discussing and taking decisions on these IMF matters. Their wish to be consulted was a recurrent theme. In this connection they were flattered by your decision to visit them as Chairman of the Interim Committee.

3. They were much concerned about the international financial "crisis", or "mess", as they described it.

4. They had many questions about the origins of the proposal now emerging for both the amount of the quota increase and for the GAB amendment. They felt that they had been somewhat in the dark since Toronto. They had been suspicious of the US proposal for an emergency facility in Toronto because it appeared to involve discrimination on access and on other matters between IMF members. Was the GAB proposal the same as the US proposal or did it differ from it? Camdessus said that Delors and he had explained that the GAB "second window" proposal had been devised precisely in order to remove the discriminatory features of the original US

proposal. At the end of the French explanation the Saudis expressed themselves satisfied.

5. On Saudi participation in a parallel arrangement, the Saudis said the question was still an open one for them. They said their first priority was to meet their quasi-obligation on a 3rd tranche of lending of 4 billion SDR's to the IMF. However they asked about the position of the Swiss in relation to the GAB (a separate agreement). They made it clear they would not wish to be a sleeping partner and wanted to participate in decisions. They did not ask for membership of the G10 but Camdessus said that all possibilities were still open in their minds.

6. The Saudis supported acceleration of the IMF quota increase and of the Interim Committee in the interests of restoring confidence in the international financial system.

7. Finally, the Saudis asked Delors to let the BIS know that they were ready to subscribe \$150m to the operation in support of Brazil. Here also however they stressed their wish to have a more recognised part in the taking of decisions (in this case, I suppose, decisions of central bank governors).

8. Camdessus added some information on action being taken from Paris in aid of your wish to secure LDC support for the IMF package. The Tresor was sending a message to a meeting of West African franc zone Ministers seeking their support for acceleration of the quota increase and for reinforcement of the Fund by the means proposed. Similar messages were being sent separately to the central banks of the eastern franc zone countries in Africa. He was confident of the right response. Their relations with Algeria, though improved as a result of a bad (sic) deal made by France on the price for Algerian gas, were not good enough to allow the same confidence; but they intended to put Algeria in the picture and engage their interest.

KFC

K E COUZENS

pnf



FROM: JILL RUTTER
DATE: 31 December 1982

MR LAVELLE

cc: Sir K Couzens
Mr Littler
Mr Bottrill
Mr Atkinson
Mr Hall

SAUDI ARABIA: WASHINGTON TEL NO 303

The Chancellor has seen your minute to me of 29 December.
He is happy for you to react to Mr Anson's telegram in the
way set out in your minute.

JRR

JILL RUTTER

CONFIDENTIAL

FROM: R G LAVELLE

DATE: 31 December 1982

CHANCELLOR

cc: Sir K Couzens
Mr Littler
Mr Bottrill
Mr Hall
Mr Atkinson

VISIT TO SAUDI ARABIA

It may be helpful if I were to set down a few thoughts about the shape of your discussion next week in Saudi Arabia.

2. As I see it the objectives of the expedition are:

- to exchange views on the main issues for decision at the next Interim Committee;
- to explore the possibilities for credit agreements between the Saudis and the IMF in parallel to the enlarged GAB;
- to secure the third SDR 4 billion SAMA tranche.

3. The third task is for the Managing Director and we have established that it will be pursued separately. The run over the ground to be covered by the next Interim Committee is to some extent a public relations exercise but given the potential influence of your hosts it is rather more than this. In particular it is arguable that their support for the acceleration of the meeting is of some significance. The question of parallel credit arrangements alongside the GAB is one where it would be helpful but is not essential to advance matters, and it would be unrealistic to contemplate anything like a decision.

Orchestration of discussion

4. No firm agenda has been arranged. The natural progression would however be to go first through issues of common interest

CONFIDENTIAL

CONFIDENTIAL

leaving the problems of parallel arrangements to the GAB to last. One might on that basis envisage two sessions but this is something that could be established at the outset by mutual agreement. In general it might be helpful to follow the pattern of some initial remarks by yourself on individual topics. The Managing Director might then be invited to elaborate on views in the Board, perhaps going into rather more detail. This would lead the way to some account by the Saudis of their own views. It may be that this whole process will be something of a stately progression - there will certainly have been some considerable element of politesse in the opening stages - but this seems an inevitable bit of theatre.

Content

5. In what I have thought of as the first session the natural progression would be to consider the size of the Fund and questions of distribution. On both these issues the Saudis and ourselves are very much at one. They would favour a Fund of SDR 100 billion but would probably settle for a 50% increase. As regards distribution they are content with the basic technique now being adopted (the Australian method) and seem to favour about 50% equiproportional dilution. Our understanding is that they would favour acceleration of the next Interim Committee meeting. In all these respects they are, therefore, occupying like us a middle ground. The Saudi Executive Director has taken up one or two points which represent a developing country position: viz the case for an SDR allocation and for some minimum quota. Given the relative blandness of the other discussion in this session it would be sensible to touch on these areas in the context in which they in any case naturally arise. The technique of dialogue with the Managing Director might be a helpful way of lightening the educational process in this area.

6. One might envisage the second exchange as being essentially concerned with the GAB. In the first instance it would seem helpful to follow up what M Delors has said about the evolution of the US proposal from something potentially divisive into the acceptable form we believe it now has achieved. This would be the natural run in to an account of the features of the GAB and

would probably get discussion off to a reasonable start.

7. This would leave to the end the most delicate area: of Saudi parallel arrangements. At present there are three main issues here: how much the Saudis might contribute; the access they might have to GAB resources and the modalities of consultation over activation of GAB and Saudi resources. There may be some discussion of these matters in the Executive Board next Wednesday. At first sight the Fund papers do not seem to have set the points up in the most helpful way in particular since it appears to be envisaged that parallel creditors might have access to GAB resources even for repayment of loans made to the Fund at an earlier stage. As regards contributions, there also seems some expectation that concepts such as GNP and reserve levels would be thought applicable in the case of parallel creditors, as for founder members. This also seems unnecessarily restrictive. More generally there seems much to be said for a rather loose link between the arrangements for calling up capital for founder members and others, and one would certainly not envisage direct Saudi participation in the G-10 decision process. Some of these potential difficulties may be eased by discussion next week. But in any case the saving grace is perhaps that the Saudis show some signs of a wish to "keep an open mind" in this area, perhaps partly to avoid any appearance of snub, or too close engagement with developed countries, but also to preserve their own flexibility of action. All in all this seems to be an area to be treated with some delicacy and with no attempt to bring matters on too fast.

8. Our understanding is that the Saudis attach greater importance to honouring their commitment to a third SDR 4 billion tranche under existing arrangements than participation in an enlarged GAB. This of itself seems to make it unlikely that they will wish to make any very committal remarks in this discussion. This outcome would be underlined if, as I assume will be the case, the Managing Director's own negotiations take place towards the end of the day before the party returns to London.


CONFIDENTIAL

Advancement of Interim Committee meeting

9. The Managing Director and yourself will presumably need to contemplate some form of press conference after the visit. It will be helpful at that stage to make clear that this has not been simply a begging expedition but rather, as far as you are concerned, a continuation of the process of soundings of opinion which you have been undertaking rather intensively since your appointment as Chairman. There will certainly be elements in the discussion which will have heartened you. The natural question which will ^{be} put is whether the Interim Committee meeting will be accelerated. It seems to me that a decision on this could neither be announced before or immediately after the Saudi visit since the first might seem an affront to your hosts and the second to have given them too great a say in the matter. The answer is perhaps to allow some efflux of time between your visit and the announcement, which preferably should take place in Washington but could be made in parallel here. At the press conference immediately following your visit it might be sufficient to say that you hoped that a decision would be possible very shortly.

Briefing

10. We have sent forward separately a piece on the formerly arcane matter of distribution. We would hope next week to put forward some more detailed briefing, including points to make, following the pattern of topics outlined in summary above. There would be supporting briefs covering items that might be mentioned in any more general exchanges eg over lunch.


R G LÁVELLE

11/11/11

11/11/11

11/11/11

11/11/11

11/11/11