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PO -CH /GH/0087



PART F

25-26 May 1983

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PART F

PART F

Begins: 25/5/83

Ends: 27/6/83

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1/9/95

WILLIAMSBURG G7 ECONOMIC
SUMMIT

25/3/83

THE WILLIAMSBURG SUMMIT

Speaking Note for Chancellor's Press Conference: 25 May

Introduction

text (at first pages) below

Many of you will have been present at the Press Conference I gave on 26 April, in which I gave an outline of the ^{UK} approach to the Williamsburg Summit and the several international meetings which have taken place between then and now. The two principal ^{groups of} meetings were those ^{held} [of the Development Committee] in Washington at the end of April and ~~of the Ministerial Committee of the OECD~~ in Paris on 9-10 May, [the latter of which I was unable to attend myself]. In the margins of these and other meetings, there have been opportunities for Finance Ministers of Summit countries to get together for more private discussions.

We now have the Summit itself this weekend, beginning on Saturday afternoon. As you will know, the Prime Minister will have to leave Williamsburg on Sunday evening, but will have been present for the main meetings, including discussion of the central issues of the world economy. Francis Pym and I will stay on until the end of the meetings on Monday afternoon.

Form of Meetings

I must advise you - not for the first time - that you should not expect the forthcoming Summit to result in a series of specific new decisions. A Summit meeting is in any case not the right forum for most important economic decisions: those rest more appropriately either with individual governments, or with established international bodies of wider representation. The main point of the Summit is to provide an opportunity for those concerned to reach a better

/understanding

But I am not one of those who are cynical about Summits. Having now been at 4 (Tokyo, Venice, Rambolho, Versailles), I believe they ~~are~~ have real value.

Understanding with each other and discuss the general directions and policies. As you know, President Reagan has made determined effort on this occasion to give the maximum amount for informal discussion among the eight leaders alone. There indeed there should be - differences of perception and emphasis them. But I hope there will emerge a valuable shared understanding of some of the important problems which confront the world economy a stronger will to cooperate in tackling them. *The aim is to increase common perceptions: and I think Williamsburg will achieve that*

Main Themes

The last six months have seen an important change of climate in world economy. The atmosphere - and the evidence - of recovery has become stronger and a little wider. The prospects for world economic recovery will be at the heart of the Summit discussions, but the thread of discussion will not be a search for means of promoting recovery. Rather it will be a confirmation of the strategy to maintain the right kind of recovery, and a study of some of the still worrying possibilities which might stand in the way of success.

After a deep and prolonged recession, and with prospects of gradual recovery which will not enable us rapidly to reduce high levels of unemployment, it is not surprising that there have been demands for measures to stimulate more rapid growth of activity. To give way to such demands now would be a profound mistake, putting at risk the longer-term benefits of the adjustments so many countries have been painfully making. The belief that recovery on a durable basis is obtainable only if the continuing fight against inflation is successful, already expressed at the Versailles Summit a year ago, has been reinforced since then. The fact that the best recovery prospects are being shown in the countries which have achieved the lowest rates of inflation carries great weight. Measures taken

Reagan?

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... the world economy
... but I hope there will be a
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a speaker will be responsible in handling them. The aim is to have
... and to make the world economy more stable.

Main Themes

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... which has achieved the
... of inflation and growth.

during the last year in France are an important commitment to the counter-inflationary strategy. The Summit is likely to endorse the strategy, and note with some confidence that ^{There now is an} opportunity ~~is now~~ there for sustainable non-inflationary growth over the coming years.

~~and~~
of course ~~we~~ we still face formidable problems. That confidence ~~must be tempered by some particular worries and~~ problems, among which I think four may attract particular attention: the high interest rate/budget deficit problem; the international debt problem; problems facing developing countries generally; and protectionism.

The High Interest Rate/Budget Deficit Problem

High real interest rates - particularly in the United States which inevitably sets a pattern for other countries - are troublesome from several points of view:

- they must inhibit the scale of recovery of new investment, which is a vital need for sustained future economic growth;
- they are a very significant part of the costs of debt which are weighing so heavily on some of the more advanced developing countries;
- they are contributing to a high \$ exchange rate which in turn is damaging United States external trade and encouraging protectionist pressures in that country.

There is room for argument about the mechanisms through which high real interest rates have emerged, but it is a widespread opinion - which I certainly share - that the most important single action which would improve the situation would be for the United States authorities - Administration and Congress - to demonstrate their determination

and ability to bring down over the next few years the present very large United States fiscal deficit.

The International Debt Problem

A second worry which is bound to be discussed is the problem of excessive debts of certain countries, particularly some of the more advanced developing countries.

Important action has already been taken. Rescue operations have been mounted speedily for several countries, based on adjustment programmes worked out with, and approved by, the International Monetary Fund. Increases in the resources potentially available to the IMF have been agreed, and it is important that they now be ratified promptly. Some principles for handling difficult cases have been developed: [the insistence on appropriate adjustment of domestic policies by debtor countries: the central role of the IMF; the desirability of maintaining commercial bank financing, indeed providing some flow of new funds although on a very much smaller scale than in the past; and readiness of all concerned to cooperate and to react promptly.]

and monetary arrangements are being improved. The Summit will discuss all this

[The] Leaders at the Summit will want to satisfy themselves that these problems are being continuously and effectively monitored. They will want also to look a little further ahead. They are bound to share the widespread dissatisfaction with the kinds of financing which have led to some present problems of excessive short-term debt. They will want to explore ideas for healthier financing in the future.

Other Developing Country Problems

The dominance of the problems of sovereign debt must not distract attention from the problems of other developing countries - poorer ones - which have in different ways suffered severely from the

/recession.

recession. Summit leaders will have very much in mind the forthcoming meeting of UNCTAD, and will want to respond to the moderate and realistic tone of statements on behalf of developing countries in the recent past, particularly from the meetings in New Delhi and in Buenos Aires. Recovery of economic growth by industrial countries will be a necessary and valuable condition for recovery in all developing countries. But Summit leaders will also want to consider the importance of keeping open trading markets - both ways - and of maintaining adequate flows of aid. [They will have very much in mind that there is inter-dependence between industrial countries and developing countries, as well as between industrial countries themselves.]

Protectionism

Protectionist pressures have been growing, in some Summit countries as in many others. [It is hardly surprising in the circumstances of recession, with the particular hardships it has brought to some individual industries.] But there can be no doubt that more open markets should be an aid to world economic recovery, and that rising protectionism would threaten to restrict healthy growth. I expect the leaders at the Summit to discuss ^{how to} ~~possibilities of encouraging~~ ^e greater openness of trade as the recovery gathers pace, so that each can reinforce the other.

Future Co-operation

The theme of future co-operation is likely to be strong. And this must surely be welcome. In recent weeks, Finance Ministers of Summit countries have been developing their thinking and practice in co-operation with each other in two important respects. Both stem from decisions taken at and immediately following the Versailles Summit last year.

First, in relation to exchange rates. You will no doubt have seen the Jurgensen Report, and the statement by Finance Ministers of Summit countries issued when it was published ^{in Washington last month.} That Report was about the relatively narrow question of intervention in foreign exchange markets by the monetary authorities of individual countries, to influence or support their exchange rate. There was some ^{convergence} ~~coming together~~ of extreme views ^{on the role of such} ~~in relation to this particular kind of operations~~, with a recognition that ~~they~~ can have a beneficial effect in some limited circumstances. But our discussions as Finance Ministers went wider than this, in a more general recognition - with the agreement of all - that the exchange rate is an important aspect of a country's economy, important for itself and others; and that the authorities of any one country should have regard to their exchange rate in considering domestic policies and their effects. You ~~may call this a hesitant beginning.~~ ^{This} ~~But it~~ is an important foundation for future development,

^{and the} ~~I expect that~~ Summit leaders ^{may wish to reflect on possible developments.} ~~will note the outcome of our discussions.~~ ~~It may be that some will wish to explore more ambitious ideas.~~

The thought of a new Bretton Woods Conference has been suggested, ~~and may well be mentioned at the Summit.~~ I would myself think such an idea premature at present, although perhaps not to be ruled out for a later stage, ~~perhaps when progress has been made on the second area of co-operation which we have been developing.~~

[On Bretton Woods, you might find it helpful to use the comment which Sprinkel and I developed together and have used only privately: It took 2 men four years and 150 drafts to lay the foundations for Bretton Woods.]

^{omit}
The second line of co-operation ^{which I had had with Mr. H. D.} ~~launched from last year's Summit~~ ^{at Versailles} was the idea that certain countries, particularly the five whose

/currencies

currencies constitute the SDR, should try to co-operate particularly closely, with the help of the Managing Director of the IMF, in analysing their own policies and their impact on each other and the rest of the world. ^{There have since ~~is now~~ been a number of meetings of finance ministers to do just that. The most recent} ~~The process began hesitantly, but the most recent meeting under this heading~~ in Washington at the end of April - involved a very thorough and critical analysis and much frank and valuable discussion. The participants felt that they were making progress and determined to continue and intensify their arrangements. This will be reported to leaders at the Summit and I believe they will find it a welcome and promising development for the future.

Conclusion

It will not escape you that the various problems I have mentioned as likely to be occupying us at Williamsburg are closely related - each has an impact on the other - and the achievement of a sustainable non-inflationary recovery is a key to all of them.

Don't expect Williamsburg to produce any panacea - there aren't any. But don't underestimate the importance of recommitment to the aim of sustainable non-inflationary recovery, and to ~~the~~ frank and informal discussion of transitional problems, and to greater convergence of views on the key issues. That's what I hope we'll see at Williamsburg: and I believe it will be valuable.



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233 4225

25 May, 1983

I G Littler CB
Second Permanent Secretary

Sir Robert Armstrong, KCB, CVO,
Cabinet Office,
70, Whitehall,
LONDON, SW1.

Dear Sir Robert,

ECONOMIC SUMMIT, WILLIAMSBURG

Thank you for your letter and private draft of the Williamsburg declaration.

I think this is very much what will be needed - particularly in the general tone. I have just a very few suggestions.

I would delete the first sentence of paragraph 2 and the word "but" in the following line. Instead, I suggest a little bridge between paragraphs 3 and 4 as follows:

- at the end of paragraph 3, add: "in doing so, we must avoid repeating the mistakes of the 1970's which contributed so much to the instability and the prolonged recession from which we have been suffering.";
- and begin paragraph 4: "We have seen, growing in strength over the past year, signs of improvement. There has been marked success in many industrial countries in reducing the rate of inflation. Recovery of demand and output is gaining ground and broadening. That presents us.....".

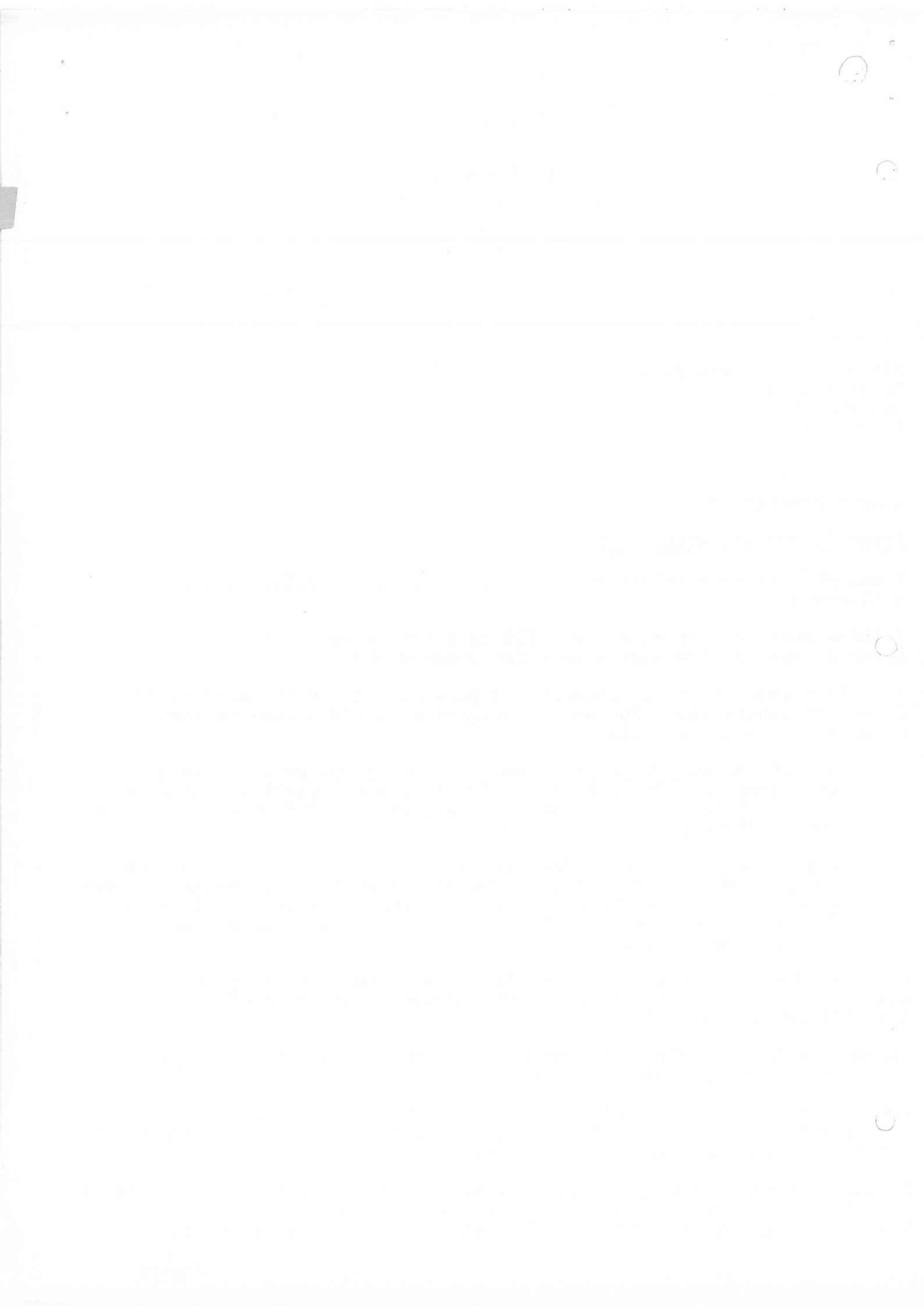
Could we reverse the order of the first two turrets in paragraph 4, and delete the words "with the object of" in the second line of what would then become the first turret.

In paragraph 7, penultimate sentence, I think "expectations" might be better replaced by "fears" or "worries".

On paragraph 9, I am content, but I would expect the US to want to insert some reference to future meetings of Trade Ministers and Finance Ministers jointly. However, let us not propose it.

My last comment - perhaps rather for Ken Couzens - is to suggest that the second sentence of paragraph 11 might begin: "We welcome the likely favourable impact on world inflation and output, but we agree that

/there



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there remains no less importance and urgency of efforts".

Copies of this letter go to the recipients of yours.

Yours sincerely,



for (J. G. LITTLER)

Dictated by Mr. Littler and signed in
his absence

cc RM Evans, Esq., C.M.G. FCO

Sir Anthony Rawlinson, KCB., Department of Trade

Sir Kenneth Couzens, KCB, Department of Energy

Sir William Ryrie KCB, Overseas Development Administration.

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70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Permanent Secretary to the Management and Personnel Office

Sir Robert Armstrong GCB CVO

Ref. A083/1504

24 May 1983

received 3pm
25/5

Dear Geoffrey,

Economic Summit: Williamsburg

As you know, there has been no preparatory work on the declaration to be made by President Reagan on behalf of his colleagues at the end of the Economic Summit in Williamsburg on 30 May. It has been agreed that, at the end of the plenary session on the afternoon of 29 May, Heads of State or Government should give their Personal Representatives general guidance on the structure and content of the declaration as a basis for drafting. As the Americans are in the chair, it will be the responsibility of the American Personal Representative to write the first draft; but he has asked me to work with him on that.

I should like to go into that process with some building blocks for a declaration, and with a reasonably clear idea of what we ourselves would want a declaration to say. It seemed to me that the best way of providing myself with this would be in fact to prepare my own draft of a declaration which I could as it were have in my pocket at Williamsburg.

I attach accordingly a draft declaration prepared for this purpose. You will see that, in keeping with the American suggestion to me that there was not likely to be any marked discontinuity between the United States thematic paper and the final declaration, I have drawn heavily on the material in the thematic paper, though I have tried to present it in a form in which it can be read out by the President and in a form which indicates that it is the result of the discussion at Williamsburg. It was drafted before I had seen the latest message from President Reagan to the Prime Minister, but I think that it is consistent with it. I should greatly welcome any comments which you may have on it, and the comments of others to whom I am sending copies of this letter and the draft: Richard Evans (Foreign and Commonwealth Office), Anthony Rawlinson (Department of Trade), Ken Couzens (Department of Energy) and Bill Ryrrie (Overseas Development Administration).

* by use of play transmem

/I am

J G Littler Esq CB

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I am also sending a copy of this letter and the draft to John Coles, since I hope that there may be an opportunity to receive the Prime Minister's comments and suggestions in the aircraft on the way to Williamsburg.

*Yours ever
Robert*

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DRAFT DECLARATION

As we have met here at Williamsburg, for the ninth Economic Summit of Heads of State or Government of seven of the largest industrial countries of the world, we recognise that both the industrial countries and the developing countries are confronted with daunting problems.

2. We have had some success at reducing the rate of inflation in the industrialised countries. But the world recession has left us all - developed and developing countries alike - with levels of output and unemployment which none of us can regard as acceptable; it has left many of the developing countries with crippling burdens of debt and without the means to service that debt from their earnings; and it has led to a creeping growth of protectionism in world trade, as each country seeks to use protectionist measures on a national basis with the object of keeping businesses and jobs going at home.

3. These problems are not separate, nor separable. Nor can any one country or group of countries resolve the problems on its own. We can solve them only if we work together, and if we tackle them with a co-ordinated approach which takes account of the ways in which they are linked and interact on each other.

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4. Recovery is now under way in the industrialised countries. That presents us with an opportunity and a challenge, to ensure that this recovery spreads to the rest of the world; that it endures; and that it reverses a decade of cumulative inflation and unemployment. This will require steady, purposeful and co-ordinated action across a range of interrelated policies:

- promoting conditions for growth, employment and the creation of new jobs, for structural adjustment, and for the acceptance of technological development;
- maintaining the fight against inflation, with the object of achieving lower interest rates and more stable exchange rates, and to this end intensifying consultation among us on economic policies and market conditions;
- supporting the international financial system, and strengthening world economic co-operation and institutions;
- maintaining the open multilateral trading system, reversing the trend of protectionism and working to achieve greater trade liberalisation;
- recognising that prosperity is more than material gain, and also reflects our basic shared values of political freedom,

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economic opportunity, cultural creativity and human dignity, and contributes to the defence of these values which also guide our economic and other relations with Eastern countries.

5. The key to all this is a return to sound and sustainable growth: in other words, growth that is not fuelled by and does not generate renewed inflation.

6. Last year at Versailles we instituted a process of consultations to promote convergence of economic conditions in key currency countries, which would among other things contribute to the achievement of greater stability of exchange rates, in the interest of balanced growth and progress of the world economy. This year we note with satisfaction the progress that has been made in this, and endorse proposals for strengthening monetary co-operation for stability and growth which are described in a separate statement which is being issued with the text of this declaration.

7. That statement refers to the need to avoid a rebound in interest rates, and to encourage investment. We would go further. Though interest rates have come down since we met last year, they are still at levels which discourage investment,

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and which considerably increase the burden of servicing the debt of the developing countries. They are at these levels in part because they reflect expectations about future levels of inflation, and in part because of levels of budget deficits, and therefore of governmental borrowing. It is the more important that we should follow policies which lead to growth without reviving inflation, and that we should intensify our efforts to get and keep budget deficits under control.

8. We have discussed suggestions for a high level international monetary conference to agree upon changes to the international monetary system with a view to restoring greater stability of exchange rates and strengthening the role and institutions of the international monetary system. Though we are all agreed that the conditions do not yet exist in which such a conference could be likely to produce a successful outcome, we are in general agreement on the objectives. We have invited our Finance Ministers, in consultation with the Managing Director of the International Monetary Fund, to define the conditions for improving the international monetary system and to consider the part which might in due course be played in this

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process by a high level international monetary conference.

9. In our discussions we have reaffirmed our joint and several commitments to the open multi-lateral trading system, and we have agreed upon the need to halt and reverse the spread of protectionism. The recovery which is under way provides favourable conditions for the progressive relaxation of trade barriers and trade-distorting measures; and opportunities for freer and greater trade are necessary conditions not only of sustained growth in the industrialised countries but also of the progress of economic development and the discharge of the burden of debt service in the developing countries. We have decided to give new impetus to the resolution of current problems in agricultural trade and conflicts of jurisdiction, and to the search for a safeguards agreement as mandated by the GATT Ministerial meeting last November. We hope that the GATT will press forward its programme for the liberalisation of trade in services. We believe that there should be more frequent meetings of the GATT at Ministerial level in future, with a view to improving the open multi-lateral trading system, including trade between developed and developing countries. We shall

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invite our Trade Ministers, and the competent authorities in the European Community, to pursue these matters, in consultation with the Director General of the GATT.

10. We are agreed upon the need to encourage both the development of advanced technology and the public acceptance of its role in promoting growth, employment and trade. We have noted with approval the report of the Working Group on Technology, Growth and Employment which was set up at Versailles last year, and commend the progress made in the eighteen co-operative projects discussed in that report. We look forward to receiving a further progress report at our meeting in the United Kingdom next year. At the same time we will work together to find ways, without discouraging growth and technological development, to protect and preserve natural resources and to reduce the threat of pollution from industrial processes.

11. We have discussed the implications of the recent fall in oil prices both for the international financial system and for energy supply. We are agreed that the fall in oil prices in no way diminishes the importance and urgency of efforts to conserve energy, to develop economic alternative energy resources, and to encourage

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and assist the growth of indigenous energy production in the developing countries.

12. Recovery, and a return to sound and sustainable growth in the industrialised countries, is (we believe) the greatest contribution we can make to the welfare and prosperity of the developing countries, to their economic development and to their ability to service their debts. But more than that is needed.

13. We have agreed to examine ways to improve the effectiveness of the development process and structural adjustment by assuring non-inflationary flows of private and public finance and investment to the developing countries, both bilaterally and through the international institutions. We urge the early ratification of agreements to increase the resources of the International Monetary Fund, through the increases of quotas and of the provisions of the General Arrangements for Borrowing. We reaffirm our commitments to provide agreed funding levels for the International Development Agency and the multilateral development banks. We do not believe that there can be any master-plan for dealing with the debt problems created for certain developing countries by the fall in oil and commodity prices: the problems of each country

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are different, and have to be considered on their own. But we are agreed that our approach to these problems should be based on the following strategy:

- (1) the need for orderly and effective adjustment in the borrowing country; .
- (2) the provision of balance of payments financing by the International Monetary Fund, subject to appropriate conditions;
- (3) the readiness of Governments and central banks to act quickly in response to debt emergencies, in advance of negotiations with creditors and the IMF;
- (4) the readiness of commercial banks to roll over or restructure existing debts and to increase their net lending to developing countries, subject to the limits of commercial prudence;
- (5) the achievement of sound and sustainable recovery in the industrialised countries, as a foundation for lower interest rates and increased trade between developed and developing countries.

14. We are agreed that it remains of special importance that official development assistance should be concentrated on the poorer developing countries, and should be related to the greatest

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extent possible to the development of indigenous food and energy production.

15. We welcome the openness to dialogue with the industrialised countries evinced at the recent conferences of the Non-Aligned Movement in New Delhi and the Group of 77 in Buenos Aires. We share their commitment to engage constructively in the forthcoming conference in Belgrade of the United Nations Conference on Trade, Aid and Development (the so-called "UNCTAD VI"). We look forward to strengthening dialogue with the developing countries in this and other appropriate fora.

16. We have agreed to continue the work already in progress in various international bodies and fora to develop an agreed analysis of our economic relations with the countries of the Eastern bloc, with attention to our shared security concerns. On this basis we shall each pursue our own policy actions consistently with the agreed principles and analysis, reflecting the fact that our relations with these countries must be compatible with the basic values and security concerns of our own countries.

17. Finally, we have accepted the invitation of the Prime Minister of the United Kingdom to meet again in London next year.

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EXCHEQUER

26 MAY 1983

3/26

Mr Litterer

Mr Ulowin

Mr Bavelle

Mr Wall

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THE EXCHEQUER

WASHDC MAY 25, 1983 1500LOCAL EASTERN STANDARD
PLICATE MESSAGE
OF PREVIOUS TRANSMISSIONS

STANDARD

FINANCE MINISTERS' DISCUSSIONS IN
FOR THE WILLIAMSBURG SUMMIT PROVIDES FOR
FOR FINANCE MINISTERS TO GET TOGETHER

DINNER
MEETING (9:00 AM TO 12:00 NOON)
LUNCH
DINNER

ASSIGNMENTS THAT MAY BE GIVEN TO US BY
I SUGGEST THAT THE AGENDA FOR OUR TALKS
LUDE THE FOLLOWING TOPICS:
VEILLANCE; DRAFT STATEMENT ON
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SPECTS FOR SUSTAINABLE ECONOMIC RE-
RIES, AND
STERS MAY WISH TO RAISE.
EASURE TO WELCOME YOU TO WILLIAMSBURG.

NB
- See Deleters,
below.

SINCERELY,
DONALD T. REGAN
SECRETARY OF THE DEPT OF TREASURY
WASHINGTON DC 21/0306/KY

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5/26.

PARIS LE 26 MAI 1983

DE TRESOR SON NUMERO 83/1088 POUR SIR GEOFFREY HOWE - CHANCELOR
OF THE EXCHEQUER - HM. TREASURY PARLIAMENT STREET (LONDON).

DEAR COLLEAGUE :

PLEASE FIND HEREUNDER THE TEXT OF THE TELEX I SENT TO OUR
COLLEAGUE DONALD T. REGAN ABOUT THE WILLIAMSBURG AGENDAS.

QUOTE

DEAR COLLEAGUE :

THANK YOU VERY MUCH FOR YOUR INVITATION TO SEVERAL MEETINGS
IN WILLIAMSBURG.

I AGREE WITH YOUR SUGGESTIONS FOR DISCUSSION TOPICS

I SUGGEST TO ADD TO THE LIST :

1) AN EXCHANGE OF VIEWS ON APPROPRIATE WAYS FOR STARTING
WORK ON NECESSARY IMPROVEMENTS OF THE INTERNATIONAL MONETARY SYSTEM

2) RESOURCE TRANSFERS TO LDCS :

- LEVEL OF O.D.A.
- IDA 6 AND 7
- WORLD BANK RESOURCES AND INTERVENTIONS
- AID TO AFRICA
- PRIVATE FLOWS AND INVESTMENTS

SINCERELY,
JACQUES DELORS.

UNQUOTE

SINCERELY
JACQUES DELORS.

262405 TRSY G
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REC.	26 MAY 1983
ACTION	Mr Linder
COPIES	Mr Unwin
	Mr Lavelle
	Mr Hall

OUT TELEGRAM

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IMF CFF - OIL EXPORTERS
OBJECTIVES
1. We are anxious to depoliticise this paper, out of concern on the one hand at veiled Saudi threats to link the third SAMA tranche to a satisfactory outcome to this discussion, and on the other hand out of fear that whitewashing OPEC's role in 1979-80 could alienate US Congress and harden attitudes of US and Germans on other issues. We ourselves seek no linkage with other concurrent issues, except that access to CFF by oil exporters will obviously reduce the ordinary resources available to finance higher cash access by other commodity exporters. We hope discussion will be forward - rather than backward-looking, low-key, and conclusive (ie no further papers, delay, or reference to Ministers).
2. We want following conclusions in Larosiere's summing-up:

NNNN ends telegram	BLANK	Catchword OPEC
File number	Dept TRSY	Distribution Washington
Drafted by (Block capitals) M ATKINSON		
Telephone number 233 7716		
Authorised for despatch		
Comcen reference	Time of despatch	



DESKBY 5648005 TO IMMEDIATE

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LCZC

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DESKBY 5648005

FM TCO MAY 1983

TO IMMEDIATE UKDEL IMVIBRD, WASHINGTON

TELEGRAM NUMBER

IME CFF - OIL EXPORTERS

OBJECTIVES

1. We are anxious to depoliticize this paper, out of concern on the one hand at veiled Saudi threats to link the third SAMA tranche to a satisfactory outcome to this discussion, and on the other hand out of fear that withdrawing OPEC's role in 1979-80 could alienate US Congress and harden attitudes of US and Germans on other issues. We ourselves seek no linkage with other concurrent issues, except that access to CFF by oil exporters will obviously reduce the ordinary resources available to finance higher cash access by other commodity exporters. We hope discussion will be forward - rather than backward-looking, low-key, and conclusive (ie no further papers, delay, or reference to Ministers).

2. We want following conclusions in Larosiere's summary:

OPEC

FRY

Washington

M ATKINSON

533 7710

OUT TELEGRAM (CONT)

Classification and Caveats

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a. OPEC membership does not automatically disallow CFF access, but whether or not OPEC actions are a major determinant of a particular shortfall is relevant and needs to be examined on a case-by-case basis, together with member's role in OPEC collective action.

b. Specific policies pursued by the oil exporter are usually even more relevant, and should also be explored on a case-by-case basis.

c. Treatment of significant change in credit terms (see para 11).

3. Likely beneficiaries from Liberal approach to oil exporter access are not Arabs but eg Nigeria (where generous access is in UK commercial interest) and Venezuela/Mexico (where larger Fund involvement could help international banking confidence). Hence we want 1983 shortfall in their earnings to be eligible for compensation, while keeping open the possibility that future shortfalls more directly linked to OPEC price HIKES could be disqualified.

POINTS TO MAKE

4. Article 2B of OPEC agreement sets objective of finding quote ways and means of ensuring stabilisation of prices, with a view to eliminating harmful and unnecessary fluctuations. close quotes. These aims are in keeping with principles underlying CFF. CFF is not presently disallowed for members party to agreements designed to stabilise prices of other commodities (eg coffee). But note that Directors have had difficulty with commodity agreements other than OPEC, particularly where quotas were operated. You may rehearse in particular our line at para 28 of your saving 141 of 1982, and staff view (para 38) that quotas under commodity agreements recognised by the Fund were generally regarded as beyond control of individual members only because they were the result of negotiations between both producers and

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Catchword

consumers

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consumers. This does not apply to OPEC quotas. But OPEC/OAPEC membership is no automatic or invariable bar to CFF access.

5. While we can trace no access to CFF by OPEC member so far, Egypt, an OAPEC member bound under OAPEC Article ^{III} II by ratified resolutions of OPEC, drew under CFF in 1976.

6. OPEC under its Articles also a forum for discussion. It provides framework for concertation of policies by several members, even if concertation not unanimous nor initially endorsed by formal OPEC resolution.

7. Agree that actions by OPEC (or by several OPEC members acting in concert) had occasionally but not consistently determining effect (pl6) on oil earnings. But disagree that role of OPEC ^{IS} of not relevant (pl7). In certain circumstances OPEC actions (especially in response to shocks) can make a direct and overwhelming contribution to the creation of shortfall. Thus the 1979 price hikes led to a massive technical shortfall in respect of 1978 oil exporters earnings. There could have been difficulty then (and in similar future conjunctures) in agreeing CFF compensation to OPEC members in the event they had a ^{SPOT} bop need. Where ~~spot~~ prices ~~soar~~ in response to shock, sellers market develops, crude is tightly held, number of spot transactions tends to fall, there are fewer (and mainly distress) buyers. By no means clear that sharp OPEC price hikes in this situation can legitimately be said to follow the market. Their ratchet effect here tends to determine the market price, and to consolidate it in a way which, with hindsight, has possibly increased the medium term-fluctuation in crude oil earnings. Note that this can directly affect earnings from petroleum product and gas export.

8. In contrast, in falling market, in glut conditions, where a higher proportion of oil traded is on spot terms, prices are more valid indicator of market. OPEC actions, eg

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production quotas can as recently stabilise and moderate the gradual fall in market price, but may not have the same dominance as in rising market. Importance of OPEC is thus asymmetrical depending on the market.

9. For use at your discretion. Some may argue that 1982

decline in OPEC members earnings stems from their action in sharply raising prices in 1979 and 1980. Perhaps, but actions by non-OPEC producers and consumers, and the recession, were also major contributing factors towards the price ~~decline~~ ^{DECLINE} and although these may have reflected the OPEC price hike the causality is too indirect and lagged to disqualify OPEC members' shortfalls from compensation. Besides, ambit of CFF is five year period. Actions before year 1 may affect circumstances in shortfall year, but it is the factors causing fluctuations within the five-year period that should be given greatest weight.

10. Individual ~~OPEC~~ ^{OPEC} members have some influence in, and responsibility for, collective actions. Whether OPEC action was a major determinant of a particular earnings shortfall, and the significance of the individual members part in that action (ie as a price-maker or price-taker - including the making or taking of quality, etc premia), is a matter for judgement in each case, and should be routinely explored by staff in each CFF application from OPEC member. It is one element in the wider judgement on whether shortfall largely outside member's control.

11. Agree that examination of individual member's specific policies is also important (often more important) element in assessment. Collective OPEC action to arrest downward price drift by production ceilings, for example, may lead to smaller earnings shortfall for oil exporters as a group (p12) but could lead to larger technical shortfall for members who as swing producers bear an exceptional ~~proportion of total~~

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Catchword

PROPORTION

PRODUCTION

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proportion of total production cutback. (Swing producers are however in practice unlikely to qualify on bop grounds). Factors underlying export volume variations need to be examined on a case-by-case basis.

12. Pricing feature peculiar to oil is alteration of credit terms instead of price change. This may have a relatively small effect on ^{↑ CRUDE VALUATION BUT A POTENTIALLY SIGNIFICANT EFFECT} oil export earnings in a given twelve-month period. Under CFF export earnings for other commodities may be adjusted for abnormal ^{INVENTORY} ~~inventory~~ variances. Seek assurance that adjustment will similarly be made to oil earnings in respect of significant variances in accounts receivable due to movements in credit terms.

13. You may rehearse our doubts about eligibility of earnings from initial or final oil export flows (para 7 of by telno 56 of 1982 on CFF and your Saving 485 of 1981 on Guatemala).
Background

14. Financial impact on Fund of oil exporter's access to CFF is worrying. (Hull's helpful letter to Atkinson of 5 May). We note that projected use would not be significantly reduced by voluntary declaration by Arab oil producers that they would (like G-10 members) abstain from using CFF - though this would be politically helpful. It would be helpful if others could highlight corollary that there would be less resources to finance CFF access by other commodity exporters. We - and presumably other G10 members - would resist activation of GAB to replenish a drain on Fund resources brought about by a surge in CFF use.

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Catchword

FROM J GRAHAM
DATE 25 May 1983

MISS O'MARA

A/CST ← A/RST
PS/EST
c.c. Mr Littler
Mr Anson ✓
Mr Unwin
~~Mr Carey~~
Mr Lavelle
Mr Gordon
Mr Bottrill
Mr Mortimer
Mr Ridley *Mr Graham*

WILLIAMSBURG: LETTER FROM MR MURRAY

I attach a draft reply for the Chancellor as requested in your
minute of 20 May 1983.

J Graham

J GRAHAM

NBG

DRAFT

Rt Hon Lionel Murray OBE
General Secretary
Trades Union Congress
Congress House
Great Russell Street
WC1B 3LS

WILLIAMSBURG ECONOMIC SUMMIT, 28-30 MAY 1983

I am grateful to you for sending me a copy of the statement drawn up by the Trades Union Advisory Committee. The paper is right to lay stress on the interdependence of the world economy and the need for a co-operative strategy, which I believe is particularly necessary for the major industrial countries.

2. I hope the participants of the Williamsburg Summit can agree to strike a cautiously optimistic note concerning prospects of the world economy while recognising that much remains to be done to ensure that the momentum of recovery is maintained.

Yours

Ugh!

Spare.

CONFIDENTIAL

cc Mr. Gittler
Mr. Aavelle
Mr. Hall.

26/5/83

Jde.

Ref. A083/1525

MR COLES

Economic Summit: Williamsburg

As you know, there has been no preparatory work on the declaration to be made by President Reagan on behalf of his colleagues at the end of the Economic Summit in Williamsburg on 30 May. It has been agreed that, at the end of the plenary session on the afternoon of 29 May, Heads of State or Government should give their Personal Representatives guidance on the structure and content of the declaration as a basis for drafting. As the Americans are in the chair, it will be the responsibility of President Reagan's Personal Representative to write the first draft; but, as President Reagan's latest message to the Prime Minister makes clear, my United States colleague has asked me to work with him on that. The discussion at the last meeting of Personal Representatives showed that that would be acceptable to the other Personal Representatives.

2. I should like to go into that process with some building blocks ready prepared. I should also like - particularly as the Prime Minister will have gone by the time the drafting starts - to go into the process with a reasonably clear idea of what we ourselves would want a declaration to say. It seemed to me that the best way of equipping myself would in fact be to prepare my own draft of a declaration which I could have in my pocket at Williamsburg.

3. I have accordingly prepared a draft, which I have agreed with the Departments concerned. I have assumed that there is not likely to be any marked discontinuity between the United States thematic paper as agreed at the last meeting of Personal Representatives and the final declaration. But the thematic paper was in note form and not wholly free of jargon; I have tried to cast this in a form which lends itself to being read out and which indicates in the text that it is the result of the discussion at Williamsburg. It is consistent with President Reagan's two recent messages to the Prime Minister.

4. I hope that there may be an opportunity to discuss the draft with the Prime Minister and receive her comments and suggestions in the aircraft on the way to Williamsburg.

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5. I am sending copies of this minute and the draft declaration to the Private Secretaries to the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary

ROBERT ARMSTRONG

ROBERT ARMSTRONG

26 May 1983

CONFIDENTIAL

DRAFT DECLARATION

As we have met here at Williamsburg, for the ninth Economic Summit of Heads of State or Government of seven of the largest industrial countries of the world, we recognise that both the industrial countries and the developing countries are still confronted with daunting problems. Our discussion here has convinced us that there exists the basis for making real progress in resolving these problems, in our shared understanding of the nature of the problems, of the objectives which which we should pursue, and of the need for co-operation and coherence in our policies and actions.

2. The world recession has left us all - developed and developing countries alike - with levels of output and unemployment which none of us can regard as acceptable; it has left many of the developing countries with crippling burdens of debt and with insufficient means to service that debt from their earnings; and it has led to a creeping growth of protectionism in world trade, as each country seeks to use protectionist measures on a national basis with the object of keeping businesses and jobs going at home.

3. These problems are not separate, nor separable. Nor can any one country or group of countries resolve the problems on its own. We can solve them only if we work together, and if we tackle them with a co-ordinated approach which takes account of the ways

in which they are linked and interact on each other. In doing so we are determined to avoid the mistakes of the 1970s which contributed to the recession and the instability from which the whole world has been suffering.

4. We have seen signs of improvement, growing in strength over the past year. There has been marked success in the industrialised countries as a whole in reducing the rate of inflation. Recovery of demand and output is gaining ground and broadening. That presents us with an opportunity and a challenge, to ensure that this recovery spreads to the rest of the world, including the developing countries; that it endures; and that it reverses a decade of cumulative inflation and unemployment. This will require steady, purposeful and co-ordinated action across a range of interrelated policies:

- maintaining the fight against inflation, achieving lower interest rates and more stable exchange rates, and to this end intensifying consultation among us on economic policies and market conditions;
- promoting conditions for growth, employment and the creation of new jobs, for structural adjustment, and for the acceptance of technological developments;
- supporting the international financial system, and strengthening world economic co-operation and institutions;

- maintaining the open multilateral trading system, reversing the trend of protectionism and working to achieve greater trade liberalisation;
- recognising that prosperity is more than material gain, and also reflects our basic shared values of political freedom, economic opportunity, cultural creativity and human dignity, and contributes to the defence of these values which also guide our economic and other relations with Eastern countries.

5. The key to all this is a return to sound and sustainable growth: in other words, growth that is not fuelled by and does not generate renewed inflation.

6. Last year at Versailles we instituted a process of consultations to promote convergence of economic conditions in key currency countries, which would among other things contribute to the achievement of greater stability of exchange rates, in the interest of balanced growth and progress of the world economy. This year we note with satisfaction the progress that has been made in this since Versailles, including most recently the Ministerial meeting of the Organisation for Economic Co-operation and Development in Paris earlier this month. We endorse proposals for strengthening monetary co-operation for stability and growth which are described in a separate statement which is being issued with the text of this declaration.

7. That statement refers to the need to avoid a rebound in interest rates, and to encourage investment. We would go further. Though interest rates have come down since we met last year, they are still at levels which discourage investment, and which considerably increase the burden of servicing the debt of the developing countries. They are at these levels in part because they reflect fears about future levels of inflation, and in part because of levels of budget deficits, and therefore of governmental borrowing. It is the more important that we should follow policies which lead to growth without reviving inflation, and that we should intensify our efforts to get and keep budget deficits under control.

8. We have discussed suggestions for a high level international monetary conference to agree upon changes to the international monetary system with a view to restoring greater stability of exchange rates and strengthening the role and institutions of the international monetary system. Though we are all agreed that the conditions do not yet exist in which such a conference would be likely to produce a successful outcome, we are in general agreement on the objectives. We have invited our Finance Ministers, in consultation with the Managing Director of the International Monetary Fund, to define the conditions for improving the international monetary system and to consider the part which might in due course be played in this process by a high level international monetary conference.

9. In our discussions we have reaffirmed our joint and several commitments to the open multilateral trading system, and we have agreed upon the need to halt and reverse the spread of protectionism. The recovery which is under way provides favourable conditions for the progressive relaxation of trade barriers and trade-distorting measures; and opportunities for freer and greater trade are necessary conditions not only of sustained growth in the industrialised countries but also of the progress of economic development and the discharge of the burden of debt service in the developing countries. We have decided to give new impetus to the resolution of current problems in agricultural trade and conflicts of jurisdiction, and to the search for a safeguards agreement as mandated by the Ministerial meeting last November of the contracting parties to the General Agreement on Tariffs and Trade (GATT). We hope that the GATT will press forward its programme for the liberalisation of trade in services. We believe that there should be more frequent meetings of the GATT at Ministerial level in future, with a view to improving the open multilateral trading system, including trade between developed and developing countries. We shall invite our Trade Ministers, and the competent authorities in the European Community, to pursue these matters, in consultation with the Director General of the GATT and all the contracting parties.

10. We are agreed upon the need to encourage both the development of advanced technology and the public acceptance of its role in promoting growth, employment and trade. We have noted with approval the report of the Working Group on Technology, Growth and Employment which was set up at Versailles last year, and commend the progress made in the 18 co-operative projects discussed in that report. We look forward to receiving a further progress report at our meeting in the United Kingdom next year. At the same time we will work together to find ways, without discouraging growth and technological development, to protect and preserve natural resources and to reduce the threats of pollution and disease from industrial processes.

11. We have discussed the implications of the recent fall in oil prices both for the international financial system and for energy supply. We all share the view that a period of stability in oil prices would be helpful to world economic prospects. We are also agreed that the fall in oil prices in no way diminishes the importance and urgency of efforts to conserve energy, to develop economic alternative energy resources, and to encourage the growth of indigenous energy production in developing countries which at present lack it.

12. Recovery, and a return to sound and sustainable growth in the industrialised countries, is (we believe) the greatest contribution we can make to the welfare

and prosperity of the developing countries, to their economic development and to their ability to service their debts. But more than that is needed.

13. We have agreed to examine ways to improve the effectiveness of the development process and structural adjustment by assuring non-inflationary flows of private and public finance and investment to the developing countries, both bilaterally and through the international institutions. We urge the early ratification of agreements to increase the resources of the International Monetary Fund, through the increases of quotas and of the provisions of the General Arrangements for Borrowing. We reaffirm our commitments to provide agreed funding levels for the International Development Agency and the multilateral development banks, and agree on the importance of adequate replenishment of IDA for the future. We do not believe that there can be any master-plan for dealing with the debt problems that face many developing countries: the problems of each country are different, and have to be considered on their own. But we are agreed that our approach to these problems should be based on the following strategy:

- (1) the need for orderly and effective adjustment in the borrowing country;
- (2) the provision of balance of payments financing by the International Monetary Fund, subject to appropriate conditions;

- (3) the readiness of Governments and central banks to act quickly in response to debt emergencies, in advance of negotiations with creditors and the IMF;
- (4) the readiness of commercial banks to roll over or restructure existing debts and to increase their net lending to developing countries, subject to the limits of commercial prudence;
- (5) the achievement of sound and sustainable recovery in the industrialised countries, as a foundation for lower interest rates and increased trade between developed and developing countries.

14. We are agreed on the importance of official development assistance especially for poorer developing countries. We believe that these resources should be concentrated on such countries and should be related to the greatest extent possible to the development of indigenous food and energy production.

15. We welcome the openness to dialogue with the industrialised countries evinced at the recent conferences of the Non-Aligned Movement in New Delhi and the Group of 77 in Buenos Aires. We share their commitment to engage constructively in the forthcoming conference in Belgrade of the United Nations Conference on Trade and Development. We shall be ready at UNCTAD VI to discuss ideas on a desirable recovery and proposals to manage debt problems, facilitate adjustment, promote trade, revive commodity markets and

encourage more private investment in developing countries. We look forward to strengthening dialogue with the developing countries in this and other appropriate fora.

16. We have agreed to continue the work already in progress in various international bodies and fora to develop an agreed analysis of our economic relations with the countries of the Eastern bloc, with attention to our shared security concerns. On this basis we shall each pursue our own policy actions consistently with the agreed principles and analysis, reflecting the fact that our relations with these countries must be compatible with the basic values and security concerns of our own countries.

17. Finally, we have accepted the invitation of the Prime Minister of the United Kingdom to meet again in London next year.

FROM: J.G.LITTLER
DATE: 26 MAY, 1983

MR. KERR

cc (with third enclosure only)
Mr. Unwin
Mr. Carey
Mr. Lavelle
Mr. Bottrill

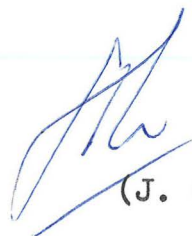
WILLIAMSBURG

I attach three further contributions for the Chancellor:-

(a) A minute of 20 May from Mr. Odling-Smee covering a paper on "External Debt Problems of Non-Oil Developing Countries". This arises from discussions I have had with Mr. Odling-Smee, and is an attempt which I find helpful to get a broad perspective on the debt problem, its causes, its different components, and some of the important quantities and relationships. I think the Chancellor may find it useful to read through as background.

(b) A private draft prepared by Sir Robert Armstrong of what might become the final Williamsburg declaration, together with a letter which I have sent to him containing a few small comments. If the Chancellor has any further thoughts on this before we get to Williamsburg, it would be helpful if Sir Robert and I could run over them with him during the journey.

(c) A steering note and some supporting material for the discussions among Finance Ministers.



(J. G. LITTLER)



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

26 May 1983

Michael Scholar Esq
10 Downing Street
LONDON
SW1

Dear Michael,

INTERNATIONAL FINANCIAL SCENE

In my letter of 16 May I promised to send you, before Williamsburg, a further assessment of the international financial scene. I accordingly enclose an up-to-date paper prepared by the Bank of England, and discussed with them and with other Departments. Detailed notes on some of the main problem countries in Latin America are included; and, as before, a table showing the exposure of ECGD and British banks to the major problem countries in Latin America, Eastern Europe and the Far East is attached.

Despite the continuing signs of world economic recovery, the general tone of this latest assessment is a little less optimistic than the one I sent you on 6 May, largely because of the deterioration in the Brazilian situation, which I reported on 16 May. Apart from Brazil, however, the major IMF - led rescue packages appear to be holding together reasonably well, though there remain many uncertainties ahead as the number of countries facing debt service problems continues to increase, and banks remain cautious in their lending policies.

The Chancellor has asked me to draw attention to the following particular points:-

(a) There were disturbing press reports last week that the Bank for International Settlements (BIS) had decided not to grant any more bridging loans of the kind recently provided for Mexico, Brazil and others. Fortunately, however, these were quickly corrected in a statement by the President of the Bank, which did not rule out further lending. In practice, we hope that, with the major problem cases now identified and in the hands of the IMF, there will be little further need for totally new BIS facilities for emergency bridging assistance. But some flexibility over repayment arrangements on existing loans may be required, and the BIS have indicated they are prepared to consider this on a case-by-case basis.

(b) Brazil's failure to meet IMF performance criteria and restore the shortfall in inter-bank lending lines is likely to delay, at least for some weeks, further IMF drawings. This may necessitate short term bridging finance or new medium term bank lending. Repayments of the BIS bridging loan due to be made at the end of this month from IMF drawings now unlikely to be available may have to be rolled over for a limited period. If



so, the Treasury indemnity covering the Bank of England's outstanding participation in this facility (some \$47m) would also have to be extended. The Brazilian authorities' task in pressing ahead with necessary economic adjustment measures may be complicated by domestic political pressures, though the latest reports suggest that the disturbances in Sao Paulo have died down.

(c) On Argentina, as I reported in my letter of 23 May, the \$1.5 billion medium term commercial bank loan is still held up by several outstanding issues of substance. It is most unlikely that these can be resolved quickly; and our assessment, after discussion with the Bank, is that the facility will not now be ready for signature before mid-June at the earliest. (As you know, we shall receive prior notification.) Within the IMF, we are ensuring that certain key Executive Directors are aware - as the Managing Director of course already is - of the importance we attach to the ending of financial discrimination against UK companies as a pre-condition for access to IMF drawings after July.

(d) The financial difficulties of Nigeria have also been the subject of a good deal of recent press comment. Nigeria's overall indebtedness is small in comparison with the major debtor countries, and its problems - which largely arise from the accumulation of arrears on short term trade debts now amounting to around \$5B - are rather different in character. Nevertheless, the UK has an extensive commercial involvement, and ECGD are heavily exposed there. We shall therefore keep a careful eye on progress on the Nigerians' approach to the IMF, and their negotiations with the banks.

(e) We thought it worth including an assessment of Hong Kong's current financial and economic situation. But this does not of course indicate that we see many similarities between that situation and those of the other countries discussed in these papers.

I am sending copies of this letter to Tim Allen (Bank of England), Brian Fall (FCO) and John Rhodes (DOT).

*Yours ever,
J O Kerr*

J O KERR
Principal Private Secretary

INTERNATIONAL FINANCIAL SCENE

1 General Market Situation

In recent weeks international banking markets have in general remained more settled than at the turn of the year. Banks everywhere have continued to be more cautious and selective in their interbank business, and announcements of medium-term credits have remained subdued. Nevertheless the extremely worrying Brazilian situation, which is in part attributable to the unwillingness of some banks to renew interbank lines, and the continuing problems in the Argentine, could yet make markets more jittery and aggravate the difficulties of finding continuing solutions to the problems of these countries and some of the other badly placed countries.

Brazil's difficulties, however, also reflect a failure to meet IMF performance targets, particularly as regards control over public expenditure. These targets and their timing are under discussion with the IMF and a waiver will have to be granted in respect of the breaches. But banks will then have to decide how to put up the further contribution that will be needed from them: major banks may prefer to make additional finance available in the form of new loans rather than increase their interbank lending, and it may well not prove possible to maintain, either in the case of Brazil or for other countries, the principle of equal-burden sharing which has so far been considered most important in the rescue schemes that have been put together.

Brazil's difficulties, however, are not unexpected and the major banks (at least in the UK) could undertake needed additional lending without pressure being put on their balance sheet ratios. Thus there is a reasonable chance - though no certainty - that the deterioration in Brazil's financial situation may not prove contagious to the other Latin American problem countries, or have wider adverse repercussions.

In this regard, the general world economic outlook offers some hope of a slightly better environment in which to continue to deal with the world debt problems. In the past few weeks economic indicators in the US have provided further confirmation of a strong upturn in

activity, even though there remain doubts about its sustainability. These hinge, inter alia, on worries about the likely path of interest rates. On the one hand, it is felt that the Fed will seek to avoid action which could abort the domestic recovery and aggravate international debt problems. On the other hand, there is some concern, among both commentators and markets, at the possible revival of inflationary expectations as hopes of a budget compromise recede and M1 continues to grow outside its target range.

Another potentially encouraging development for major debtors has been some further strengthening in dollar non-oil commodity prices. At present this seems to reflect mainly an expectation of increased industrial demand rather than any actual upturn in raw material usage but in time it could lead to an improvement in these countries' external earnings. The new official price structure for oil, on the other hand, is holding up quite well, and though there has been some slight tendency for spot prices to soften, the prospect of further falls in the energy bills of the problem countries seems less likely.

On the other side of the coin, the capacity of US banks to lend abroad could be affected in years to come by Congressional legislation at present under discussion within the important context of increasing the US commitment to the IMF and the GAB. The proposals in question are concerned with strengthening the supervisory control over US banks' international lending in various ways. In particular, the the House of Representatives' draft would require banks to set aside specific provisions on all international lending where they cannot apparently be repaid without a major restructuring or additional lending; this criterion could apply to a large number of countries with operational IMF programmes whose efforts to adjust could therefore be hampered. The House draft also instructs the US Executive Director actively to oppose IMF loans to countries which practise apartheid (although as yet there has been no parallel move in the Senate). Subsequently the House of Representatives' Committee has announced hearings on draft legislation to restrict lending by US banks to South Africa. These are symptoms (amongst others) of an inward-looking mood in Congress which is at best unhelpful and at worst potentially damaging to the international trading and financial system.

2 Latin America

As indicated above, the likelihood of completing Brazil's financial package, as originally conceived, appears increasingly remote. The programmed IMF drawing of \$411 mn on 31 May is now unlikely to take place before July, with a consequent delay in the scheduled disbursement under the new money facility from banks. Brazil is likely to be forced to seek short-term bridging finance or a further medium-term jumbo fairly soon; in the meantime, payment arrears will mount up.

Confirmation by the IMF Board on 23 May that the Fund programme is broadly on course has raised hopes among some leading banks that Mexico may avoid the need to raise additional new loans later in the year. A rescheduling agreement covering the public sector debt is likely to be ready for signature shortly. The authorities have now clarified that they will be seeking a long-term restructuring of officially guaranteed private sector debt, while intimating that negotiations on a multilateral basis - but not under the Paris Club label - are acceptable.

There are firmer indications that the IMF are generally satisfied with Argentina's performance so far under its standby arrangement, and the second Fund drawdown should have been made on schedule on 20 May. There are however continuing difficulties over conditions relating to the \$1.5 bn new money loan from banks. Signature is unlikely before mid-June at the earliest pending, inter alia, full repayment of interest arrears and changes in Argentina's bankruptcy law which discriminates against foreign creditors. Conclusion of a rescheduling agreement covering public sector debt is unlikely before September. The Argentines have apparently now submitted a revised law to change the entire content of Law 22591 (which governs existing discriminatory financial restrictions against UK companies) but the text of this is not yet available to us for assessment. Political difficulties could yet throw Argentina's financing programme off course.

Elsewhere in Latin America, progress on the various rescue operations has been mixed. In the case of Chile agreement has been reached

with the Advisory Group of banks and the IMF Managing Director hopes to receive a written commitment by 15 June that all banks will participate so that he can present a waiver request to the Executive Board. Bridging finance of some \$500 mn, which is necessary to keep the IMF "shadow" programme on course, is being arranged by the Advisory Group and by the BIS. In contrast, the Venezuelan talks with creditor banks have barely got off the ground. To date they have concentrated on balance of payments projections with considerable discrepancies remaining between the authorities' forecasts and those of the bankers who believe that an IMF standby (and conditionality) is now essential. With national elections due in December the authorities are reluctant to adopt an austerity programme. The negotiations look likely to be complex and prolonged, and an extension of the existing moratorium which expires on 1 July appears inevitable. The situation has been hindered by the emergence of further interest arrears.

3 Eastern Europe

Elements in the support operation for Yugoslavia are gradually being put in place. The BIS has granted a \$500 mn bridging facility of which \$300 mn, backed by central banks, has already been disbursed. Release of the balance remains conditional on the resolution of difficulties over the pledging of the gold collateral. Meanwhile the commercial banks are working towards completion of their package by the end of June. The banks are expected to sign an agreement soon with Romania on the rescheduling of commercial maturities in 1983 but are still discussing amongst themselves the request by Poland for a long-term accommodation covering maturities during the next several years. Governments have reached agreement with Romania about the rescheduling of official maturities in 1983 but have not yet agreed to re-open negotiations with Poland. Among East European countries which are still meeting their original debt obligations Hungary recently raised a \$200 mn syndicated banking credit, but the repayment of a \$300 mn facility to the BIS towards the end of April left its liquidity position strained and, exceptionally, it was granted a further facility, for \$100 mn, until

the proceeds of a Fund drawing became available at the end of June. So far, too, the GDR is managing to struggle through.

4 Southern Europe

Although there are no immediate problems in Southern Europe, the market is showing growing caution towards several countries which have large borrowing programmes to finance their continuing deficits. This is particularly true of Portugal where the absence of effective government during discussions between the parties over the formation of a coalition is delaying a formal approach to the IMF and unsettling banking confidence. A recent, ineptly timed, \$300 mn eurocredit for seven years was agreed only with difficulty and at higher interest margins than originally expected by the Portuguese; but this and a \$400 mn facility from the BIS against gold should temporarily ease the liquidity position.

5 Far East

The most significant development in the Asian region has been the decision by the Indonesian government, announced at the beginning of May, to revise four major industrial projects, with the aim of making foreign exchange savings of some \$4 bn in fiscal 1983-84. Prior to this decision the likely current account deficit was of the order of \$7-7.5 bn. Besides the large prospective reduction in the deficit, the decision is important as an indication of political willingness to curb development in the interests of financial stability.

Mention should also be made of Hong Kong. In contrast to the other countries covered by this note whose situation is characterised by an excessive or potentially excessive burden of external indebtedness, Hong Kong's difficulties are primarily domestic and largely the product of a slump in the property market, the impact of which has been exacerbated by continued high interest rates, a fragile state of confidence due to uncertainty about the future of the territory, and the world recession. (A fuller note is annexed.)

Attached are Notes* which bring up to date the position on certain countries (all Latin American) in which there have been significant developments since the last assessment. Also attached is a table showing the external indebtedness of each of the problem countries considered in this or previous assessments and the exposure of British banks and the ECGD.

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*Each note begins with an estimate of the country's total external debt. The source for the estimates varies and might have come from the IMF, official sources within the country (Ministry of Finance, Central Bank etc) or reports from elsewhere (Embassies, press etc). In each case the figures quoted are the ones judged to be the most accurate and up-to-date.

ARGENTINA

Total indebtedness at end-1982 was officially estimated at \$39 bn including \$2.7 bn in arrears.

Reportedly the IMF team which visited Argentina in April was generally satisfied with performance in the first quarter of 1983 and the second tranche (SDR 300 mn) of the standby credit is likely to be made available on 20 May as scheduled. Receipt of the IMF credit will allow for disbursement of the third and final tranche (\$300 mn) of the \$1.1 bn bridging loan. Further IMF drawings, however, are dependent upon the ending of discrimination against UK companies under Law 22591. The Argentine Government have apparently now submitted a draft to change the entire content of Law 22591 but the text of this has not yet been passed on to us for assessment.

Signature of the \$1.5 bn medium-term loan (UK share of \$159 mn) is now unlikely before mid-June. Repayment of interest arrears, a pre-condition of the loan, continues to lag, although repayment of public sector interest arrears corresponding to February (\$280 mn) has been completed and March arrears have begun to be paid. The Argentines are expected to bring interest payments to date by using the final tranche of the bridging loan. Other pre-conditions for the medium-term loan have not yet been met.

The original regulations for the refinancing of short-term private sector debt covered by Central Bank exchange guarantees and \$1.4 bn in foreign currency swaps, rejected by Argentina's creditor banks as being inadequate, are expected to be reissued shortly. The banks are seeking a higher interest on the five-year bonds and promissory notes which the Central Bank will issue to refinance the private sector loans than the 2% over LIBOR stipulated at

present. The banks also want the bonds and promissory notes to be made available in the name of the debtor as well as the name of the creditor so that they are free to retain a direct relationship with Argentine private sector clients if they so wish. Talks on the rescheduling of \$5.5 bn of public sector debt maturities overdue on 1 December 1982 and falling due from that date to 31 December 1983 are now unlikely to be concluded until September. The terms are expected to involve a six-year repayment schedule with a three-year period of grace.

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BRAZIL

Total indebtedness at end-1982 was estimated by the IMF at \$81.3 bn. Hopes of maintaining the financial package completed at the end of February are now more doubtful. Despite record trade surpluses of \$500 mn in March and \$600 in April, Brazil continues to suffer from acute short-term liquidity problems [arrears are said to amount to some \$500 mn net and could rise steeply]. Although outstanding credits from banks under Project III [short-term trade-related credit lines] are not thought to be in jeopardy, progress in recouping an extra \$1.5 bn in inter-bank lines under Project IV is at a virtual standstill, and there now seems little hope of recovering the outstanding amount. Attempts in the last few weeks by the Brazilian liaison group banks to encourage individual US regional, Arab, Swiss and German banks to make up shortfalls on their "fair share" met with virtual rejection. A compromise solution to overcome the problem by combining Projects III and IV (some US banks being more willing to commit trade-related finance than bank-to-bank credit) has been rejected. As a further possibility, the Brazilians suggested that inter-bank lines should be made directly available to the Central Bank but this also seems to be unacceptable to most banks.

Brazil's difficulties are now compounded by the failure to meet end-March IMF targets under the EFF programme. Central Bank President Langoni was in Washington on 16 May to discuss the non-compliance with the Fund Staff and has probably requested a waiver from performance criteria. The next tranche of IMF resources (\$411 mn) due from 31 May will thus be delayed, and also the next instalment of Project I money which is dependent on compliance with the IMF programme. With these resources delayed, discussions in the next few days will concentrate on ways of raising alternative finance. It has been suggested that the banks may be approached for either a \$1-1 1/2 bn short-term loan to clear arrears or a further medium-term jumbo of \$2-3 bn. Another possibility would be to postpone repayment under the banks' bridging facility. But any new agreement with the banks would probably be dependent on renegotiation of IMF targets. Langoni is thought to have talked to the US Treasury about a further loan. Whilst the BIS take the line that the repayment schedule of the existing facility must be respected (\$400 mn is due on 31 May) a new short-term advance may be a possibility.

CHILE

Total indebtedness at end-1982 was \$18 bn (two-thirds private sector

The Fund telexed the Advisory Committee on 22 April to detail Chile's 1983 financing needs and stress that a return to the original programme by end-September requires the bankers' co-operation. The "shadow" programme was on course and the economy appeared to be responding favourably. The IMF's financial plan requires creditor banks to maintain short-term trade-related credit outstanding as at 31 January 1983 and to refinance or reschedule the repayment of short-term financial debt and amortisations of medium and long-term debt due from 31 January 1983 through 31 December 1984. Chile's total financing requirement for 1983 is \$5.1 bn (including a projected current account deficit of \$1.3 bn); gross capital inflows of \$3.8 bn are projected, leaving \$1.3 bn to be financed from additional-bank loans. de Larosiere has requested that the Advisory Committee provide him with a written commitment by 15 June that the \$1.3 bn new money will be made available so that he can present a waiver request to the Executive Board. It is proposed that the funds be disbursed as follows: \$500 mn around end-July following approval by the Board of a waiver and purchase by Chile of its outstanding cumulative entitlement under the standby (SDR 54 mn), \$570 mn by to 30 September and \$230 mn by 31 December. In order to keep the Chileans in line with their revised reserves target, bridging finance of \$400 - 500 mn is required in the period up to end-June - to be repaid out of the new money loan. The Advisory Group has agreed to contribute \$180 mn but this may be reduced since the BIS has made up to \$350 mn available to the Chileans.

At a meeting on 28 April agreement was reached between the Advisory Committee and the Chileans on the terms of the rescheduling. Finance Minister Caceres telexed around 600 creditor banks on 29 April to seek their ratification of the package which includes:

- (i) the rescheduling, over eight years including four years' grace, at 2 1/8% over LIBOR or 2% over Prime of \$3.4 bn principal repayments due from 31 January 1983 to 31 December 1984 on public and private (financial) sector debt; \$1.3 bn of this relates to short-term working capital credits;

- (ii) \$1.3 bn new credit (representing an 11 1/4% increase in exposure for individual banks on levels outstanding at 31 January 1983) over seven years including four years' grace at 2 1/4% over LIBOR or 2 1/8% over Prime;
- (iii) the restoration of \$0.2 bn short-term trade-related lines to reach level outstanding as at 31 January 1983; level to be maintained through 31 December 1984.
- (iv) the renewal for another 90 days of the suspension of capital repayments which expired at the end of April.

Although "official" (ie ECGD type) debt is excluded from the rescheduling, a condition of the new money loan is that Chile will either have requested that its official creditors reschedule such debt on a comparable basis or have obtained satisfactory evidence for the banks that current outstandings will not be reduced. A further condition of the loan is that the external debt of the two banks liquidated in January be assumed by the state-owned Banco del Estado, where appropriate subject to rescheduling on the terms above, and that interest on it be brought up to date.

Progress on the restructuring of private corporate sector debt, which was included in the moratorium, was hampered initially by the government's reluctance to provide liquidity support but, following pressure from foreign bankers, some support was provided to companies in difficulties. Caceres' telex spelt out at some length the measures which have already been taken to promote the recapitalisation of the private sector. It also stated that the government will guarantee the rescheduled private financial sector debt and that, although it will not offer guarantees on corporate sector foreign debt, foreign exchange will be made available to companies on as favourable a basis as for public and private financial sector entities to enable them to meet their obligations. The Ibanez Commission, which was set up to examine the troubled conglomerates, is expected to make decisions as to their viability in time for them to be dealt with in a debt restructuring with foreign banks by end-June.

Bankers have been asked to commit themselves to the package by 23 May and Caceres appealed for their co-operation. In addition to the debt relief detailed above, Chile will require new money of \$633 mn. in 1984.

MEXICO

Total indebtedness at end-1982 was an estimated \$83 bn.

While interest payments on public sector debt are reportedly being kept current, arrears on private sector debt remain substantial. On 11 April the authorities made a further small arrears payment of \$37 mn (equivalent to 5% of the balances in dollar-denominated accounts established under the so-called "peso deposit" scheme introduced last December). This is only the second payment on arrears built up between 1 August 1982 and 31 January 1983 and brings the total of such payments to under \$100 mn. Balances not paid by 30 September 1983 are to be refinanced.

With regard to officially guaranteed/disbursed private sector credits, following Paris Club discussions on 11-13 April, Camdessus telexed the Mexicans on behalf of creditors to emphasise the understanding until now that Mexico would not request a rescheduling of official credits and to seek clarification on the subject by 24 April. Although this deadline was not met, on 29 April the Mexicans took the opportunity of the Development Committee meeting in Washington to call a meeting of representatives of the G10 countries and Switzerland to clarify their plans for dealing with officially guaranteed private sector debt-arrears and 1983 maturities on which total around \$1.5 bn (of which about half is due to US Eximbank). Essentially a restructuring is being sought on terms similar to those recently agreed with Spain, which has been the first creditor country to break ranks by deciding on a bilateral deal, involving a refinancing loan over six years, including three years' grace. A telex formally setting out these proposals, and replying to Camdessus' earlier telex was expected in time for the next round of Paris Club discussions on 17 May. The indications are that the Mexicans will agree to negotiate on a multilateral basis (albeit not under the Paris Club label); however, the terms likely to be acceptable to creditors are not yet clear. ECGD are currently canvassing other Whitehall departments on proposals which involve suspending cover for the Mexican private sector while continuing to offer the UK share of \$150 mn in new official credits to the Mexican public sector.

VENEZUELA

Total indebtedness at end-1982 is estimated at \$33 bn.

The Advisory Committee discussed an economic sub-Group's report on the Venezuelan authorities' cash-flow projections at its meeting on 4-5 May. The Group's conclusions were considerably more pessimistic than those of the authorities; as a result, the Committee has recommended that the Government adopts an economic adjustment programme in conjunction with the IMF. At Finance Minister Sosa's request the Fund has prepared a report detailing what would be required for a standby to be agreed. The IMF's conditions - including a devaluation of the bolivar and corrective fiscal measures - may be regarded by the authorities as being too severe in an election year, but bankers are certain to press hard for a programme to be implemented. The next meeting of the Advisory Committee was scheduled for 17 May.

The Venezuelans are reported to be seeking a longer-term solution to the country's debt problems involving a more comprehensive debt rescheduling. A number of options are currently under consideration and detailed discussion of rescheduling terms is not therefore expected to begin for some weeks. However, it appears almost certain that medium and long-term repayments falling due this year (amounting to \$2.2 bn) will need to be rescheduled in addition to short-term maturities (\$6.6 bn State agencies plus \$4.2 bn State banks) and that new money may now be required. Further difficulties exist over the treatment of private sector debt, which is not included in the moratorium but which bankers wish to discuss within the main rescheduling negotiations. In addition, arrears of interest are believed to be mounting - affecting the willingness of many banks to be cooperative.

ECGD withdrew Section 1 cover for new business outside the short term on 11 May; in future short-term business will only be covered under Section 1 on CILC terms.

INDEBTEDNESS AND BRITISH EXPOSURE (end December 1982)

	Total external debt	British banks unguaranteed claims	ECGD amounts at risk
\$ billion			
<u>Latin America</u>			
Argentina	39	2.3	0.4
Brazil	81	4.4	1.9
Chile	18	1.1	0.06
Ecuador	6	0.5	0.1
Mexico	83	5.2	1.8
Peru	12	0.4	0.1
Uruguay	4	0.3	0.01
Venezuela	33	2.4	0.09
<u>Eastern Europe</u> (convertible currency)			
East Germany	15	0.8	0.2
Hungary	7	0.5	0.07
Poland	25	0.5	1.4
Romania	10	0.4	0.6
Yugoslavia	20	0.9	1.3
<u>Far East</u>			
Indonesia	20 7	0.6	0.9 7
Philippines	19	1.2	0.3 7
South Korea	37	2.0	0.9 7
/Hong Kong	-*	-*	5.2 7

Because of differences in definition the ECGD exposure figures in the final column are not directly comparable with the figures in the other two columns.

∕ At end March 1983; excludes short-term debt

≠ At end February 1983

* Because of Hong Kong's position as an offshore centre the available figures for external indebtedness and banking exposure to Hong Kong are not comparable to those for other countries shown above and do not provide a meaningful indication of the territory's debt exposure.

HONG KONG

Hong Kong's public sector external debt is minimal, comprising only the balance outstanding (US\$52 mn at end-1982) on loans from the Asian Development Bank. The Hong Kong Government has however also issued guarantees on borrowings by the Mass Transit Railway of some HK\$5.3 bn (US\$0.8 bn). There are no statistics on private sector indebtedness, other than banking debt - and the latter essentially reflects Hong Kong's role as a major international financial centre and cannot be taken as an indication of the territory's debt exposure.

At end-June 1982, total claims of BIS area banks on Hong Kong amounted to US\$37.7 bn, but liabilities to Hong Kong were US\$34 bn, giving a net claims position of US\$3.7 bn. The Hong Kong statistics, which have a more comprehensive coverage (including what is likely to be a substantial level of business by regional banks), show the Hong Kong monetary system had liabilities to all banks outside Hong Kong of US\$55.7 bn at end-March 1983, and claims on such banks of US\$44.3 bn - a net liability position of US\$11.4 bn: however, the monetary sector also had claims on non-banks abroad of some US\$16 bn. The main element in these claims is lending to SE Asian countries and other offshore centres.

The Hong Kong economy, which is largely export-oriented, is suffering from the combined effects of the world recession, a slump in the property and stock markets and the continuing depressing effect on confidence of uncertainty about the territory's future. The world recession had begun to hit trade performance in 1981 but its effects had been partly offset by buoyant private domestic consumption. In 1982, however, with a deterioration in both the external and domestic sectors, growth slowed sharply to 2.4%, from an average 12% in the previous five years. Exports fell 3.9% but somewhat less than the decline in imports, and the deficits both on visible trade (\$2.6 bn) and the current account (\$1.2 bn) narrowed from the level of the previous year. The external assets of the Exchange Fund, effectively Hong Kong's reserves, amounted to \$5.4 bn at end-1981. \

The long-sustained property boom collapsed in mid-1981, mainly under the influence of high interest rates, and prices fell sharply in the second half of 1981. Uncertainty about the future of the Colony after the expiry of the lease in 1997 has increased the severity of what was otherwise a timely shakeout in the property market and developed property values are now up to 50% below their mid-1981 peak. As a result, several major property companies (notably Carrian and EDA) have serious financial difficulties. Pressures from the recession, as well as the property slump, have squeezed corporate liquidity generally and further problem situations may still come to light. These developments have had their impact on the financial sector and the deposit-taking companies (DTCs) have been further hit by legislation aimed, broadly, at shifting short-term deposits from the DTCs back to the banks over a two-year period which ends on 30 June. A weakening of confidence in the financial markets sparked off a withdrawal of interbank facilities to the secondary banking sector last November and eight registered deposit-taking companies have now had their registrations revoked.

Reflecting these developments, at end-1982 the Hang Seng index of the stock market was only 40% of its mid-1981 all-time peak, although it has now recovered to 50% of this level. The exchange rate is 12% weaker in effective terms than at end-1981 and 22% down against the US\$, having recently fluctuated around a record low point of HK\$7.00/US\$1. Inflation, down to 8.0% year on year in January, is back to 10% year on year.

For 1983, the Government have forecast 4% growth (assuming 2% growth in the US economy) and recent indications from export orders are encouraging. World recovery would do much to ease the present strains on Hong Kong's financial system though the property market, with a substantial existing overhang, cannot be expected to show any significant revival for some time to come. A few further DTCs are expected to go out of business around the middle of the year, as a result of the structural changes mentioned above, but this need not have significant repercussions on the rest of the domestic system. Further corporate failures, particularly in the property sector, are

also possible. The worst dangers of a major banking and financial crisis may now be past, however, and the authorities, with the support of the major banks, should be able to contain any further difficulties in the short to medium term. Continuing political uncertainty, however, may be reflected in periodic pressure on the exchange rate and the stock market, with possibly more damaging effects on confidence and the economy as a whole in the longer term.

At end-March 1983, ECGD had £708.5 mn at risk under Section I and £2,636.1 mn under Section 2 - Hong Kong represents ECGD's largest single exposure. At end-December 1982, UK-registered banks' consolidated external claims on non-banks - a better measure of amounts at risk to Hong Kong residents than the figures for total exposure - amounted to US\$2,022 mn; claims by British-owned banks totalled US\$1,721 mn of which US\$1,035 mn was unguaranteed.* Figures for total exposure to Hong Kong (including off-shore business) were: UK-registered banks US\$4,694 mn; British-owned banks US\$4,071 mn of which US\$2,028 mn unguaranteed.

Bank of England
May 1983

*BIS figures now provide a bank/non-bank split of claims of domestic branches of banks in the reporting area but, as off-shore branches are not included, this gives only a limited picture of their total exposure, and a breakdown has not, therefore, been given in this note.

62405 TRSY G
RESOR 220962F

5/26

cc. Mr Little.
Mr Unwin
Mr Lavelle.
Mr Hall

PARIS LE 26 MAI 1983

LE TRESOR SON NUMERO 83/1088 POUR SIR GEOFFREY HOWE - CHANCELOR
OF THE EXCHEQUER - HM. TREASURY PARLIAMENT STREET (LONDON).

DEAR COLLEAGUE :

PLEASE FIND HEREUNDER THE TEXT OF THE TELEX I SENT TO OUR
COLLEAGUE DONALD T. REGAN ABOUT THE WILLIAMSBURG AGENDAS.

QUOTE

DEAR COLLEAGUE :

THANK YOU VERY MUCH FOR YOUR INVITATION TO SEVERAL MEETINGS
IN WILLIAMSBURG.

I AGREE WITH YOUR SUGGESTIONS FOR DISCUSSION TOPICS

I SUGGEST TO ADD TO THE LIST :

1) AN EXCHANGE OF VIEWS ON APPROPRIATE WAYS FOR STARTING
WORK ON NECESSARY IMPROVEMENTS OF THE INTERNATIONAL MONETARY SYSTEM

2) RESOURCE TRANSFERS TO LDCS :

- LEVEL OF O.D.A.
- IDA 6 AND 7
- WORLD BANK RESOURCES AND INTERVENTIONS
- AID TO AFRICA
- PRIVATE FLOWS AND INVESTMENTS

SINCERELY,
JACQUES DELORS.

UNQUOTE

SINCERELY

JACQUES DELORS.

62405 TRSY G
RESOR 220962FM



(PWP)

PS/CST.PS/FST.PS/EST.

Mr LITTLER.
Mr ANSON.
Mr UNWIN.
Mr LAVELLE.
Mr RIDLEY.
Mr GORDON.
Mr BOTTICELL.
Mr MORTIMER.
Mr GRAMAM.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

26 May 1983 SogS.F.C.O.

The Rt Hon Lionel Murray OBE
General Secretary
Trades Union Congress
Congress House
Great Russell Street
LONDON WC1B 3LS

[Handwritten signature]

WILLIAMSBURG ECONOMIC SUMMIT 28-30 MAY

I was grateful to you for sending me with your letter of 12 May a copy of the statement drawn up by the Trade Union Advisory Committee. You also wrote to Francis Pym: I have been asked to reply on his behalf too.

There are aspects of the Committee's analysis from which I feel bound to dissent. As I think you know, I do not believe Williamsburg can provide easy panaceas. If we were to be too impatient in our promotion of growth we would damage the foundations of recovery. The aim must be growth that is sustainable and non-inflationary, and I am in particular not convinced that stimulating public investment is the right route to its achievement.

By implication the Committee itself goes some way to recognise this in its reference to the need to reduce real interest rates. A display of renewed determination by the US authorities to bring down their fiscal deficit would be widely judged to be of particular value in reinforcing the downward movement of interest rates achieved in recent months.

That said, there are important elements in the Committee's observations which I would certainly accept. For example I agree on the importance of early ratification of the recent expansion of IMF resources. I also share the Committee's views on the desirability of greater stability in the international monetary system. In recent weeks Finance Ministers have had constructive discussions on this; and I would expect the emphasis on co-operation and interdependence to be an important theme at Williamsburg too.

It was good of you to write.

[Handwritten signature]

GEOFFREY HOWE

CONFIDENTIAL

cc Mr. Gutter
Mr. Savelle
Mr. Hall.

26/5/83

J. J. J.

Ref. A083/1525

MR COLES

Economic Summit: Williamsburg

As you know, there has been no preparatory work on the declaration to be made by President Reagan on behalf of his colleagues at the end of the Economic Summit in Williamsburg on 30 May. It has been agreed that, at the end of the plenary session on the afternoon of 29 May, Heads of State or Government should give their Personal Representatives guidance on the structure and content of the declaration as a basis for drafting. As the Americans are in the chair, it will be the responsibility of President Reagan's Personal Representative to write the first draft; but, as President Reagan's latest message to the Prime Minister makes clear, my United States colleague has asked me to work with him on that. The discussion at the last meeting of Personal Representatives showed that that would be acceptable to the other Personal Representatives.

2. I should like to go into that process with some building blocks ready prepared. I should also like - particularly as the Prime Minister will have gone by the time the drafting starts - to go into the process with a reasonably clear idea of what we ourselves would want a declaration to say. It seemed to me that the best way of equipping myself would in fact be to prepare my own draft of a declaration which I could have in my pocket at Williamsburg.

3. I have accordingly prepared a draft, which I have agreed with the Departments concerned. I have assumed that there is not likely to be any marked discontinuity between the United States thematic paper as agreed at the last meeting of Personal Representatives and the final declaration. But the thematic paper was in note form and not wholly free of jargon; I have tried to cast this in a form which lends itself to being read out and which indicates in the text that it is the result of the discussion at Williamsburg. It is consistent with President Reagan's two recent messages to the Prime Minister.

4. I hope that there may be an opportunity to discuss the draft with the Prime Minister and receive her comments and suggestions in the aircraft on the way to Williamsburg.

CONFIDENTIAL

Mr. [Name]
[Address]
[City, State, Zip]

Dear Mr. [Name]:

[Faint, mostly illegible body text consisting of several paragraphs of a letter.]

CONFIDENTIAL

5. I am sending copies of this minute and the draft declaration to the Private Secretaries to the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary

ROBERT ARMSTRONG

ROBERT ARMSTRONG

26 May 1983

CONFIDENTIAL

DRAFT DECLARATION

As we have met here at Williamsburg, for the ninth Economic Summit of Heads of State or Government of seven of the largest industrial countries of the world, we recognise that both the industrial countries and the developing countries are still confronted with daunting problems. Our discussion here has convinced us that there exists the basis for making real progress in resolving these problems, in our shared understanding of the nature of the problems, of the objectives which we should pursue, and of the need for co-operation and coherence in our policies and actions.

2. The world recession has left us all - developed and developing countries alike - with levels of output and unemployment which none of us can regard as acceptable; it has left many of the developing countries with crippling burdens of debt and with insufficient means to service that debt from their earnings; and it has led to a creeping growth of protectionism in world trade, as each country seeks to use protectionist measures on a national basis with the object of keeping businesses and jobs going at home.

3. These problems are not separate, nor separable. Nor can any one country or group of countries resolve the problems on its own. We can solve them only if we work together, and if we tackle them with a co-ordinated approach which takes account of the ways

in which they are linked and interact on each other. In doing so we are determined to avoid the mistakes of the 1970s which contributed to the recession and the instability from which the whole world has been suffering.

4. We have seen signs of improvement, growing in strength over the past year. There has been marked success in the industrialised countries as a whole in reducing the rate of inflation. Recovery of demand and output is gaining ground and broadening. That presents us with an opportunity and a challenge, to ensure that this recovery spreads to the rest of the world, including the developing countries; that it endures; and that it reverses a decade of cumulative inflation and unemployment. This will require steady, purposeful and co-ordinated action across a range of interrelated policies:

- maintaining the fight against inflation, achieving lower interest rates and more stable exchange rates, and to this end intensifying consultation among us on economic policies and market conditions;
- promoting conditions for growth, employment and the creation of new jobs, for structural adjustment, and for the acceptance of technological developments;
- supporting the international financial system, and strengthening world economic co-operation and institutions;

*removing
obstacles
- linkages
framework*

- maintaining the open multilateral trading system, reversing the trend of protectionism and working to achieve greater trade liberalisation;
- recognising that prosperity is more than material gain, and also reflects our basic shared values of political freedom, economic opportunity, cultural creativity and human dignity, and contributes to the defence of these values which also guide our economic and other relations with Eastern countries.

*Continues
program
towards*

5. The key to all this is a return to sound and sustainable growth: in other words, growth that is not fuelled by and does not generate renewed inflation.

6. Last year at Versailles we instituted a process of consultations to promote convergence of economic conditions in key currency countries, which would among other things contribute to the achievement of greater stability of exchange rates, in the interest of balanced growth and progress of the world economy. This year we note [with satisfaction] the progress that has been made in this since Versailles, including most recently the Ministerial meeting of the Organisation for Economic Co-operation and Development in Paris earlier this month. We endorse proposals for strengthening monetary co-operation for stability and growth which are described in a separate statement which is being issued with the text of this declaration.

7. That statement refers to the need to avoid a rebound in interest rates, and to encourage investment. We would go further. Though interest rates have come down since we met last year, they are still at levels which discourage investment, and which considerably increase the burden of servicing the debt of the developing countries. They are at these levels in part because they reflect fears about future levels of inflation, and in part because of levels of budget deficits, and therefore of governmental borrowing. It is the more important that we should follow policies which lead to growth without reviving inflation, and that we should intensify our efforts to get and keep budget deficits under control.

history
here

8. We have discussed suggestions for a high level international monetary conference to agree upon changes to the international monetary system with a view to restoring greater stability of exchange rates and strengthening the role and institutions of the international monetary system. Though we are all agreed that the conditions do not yet exist in which such a conference would be likely to produce a successful outcome, we are in general agreement on the objectives. We have invited our Finance Ministers, in consultation with the Managing Director of the International Monetary Fund, to define the conditions for improving the international monetary system and to consider the part which might in due course be played in this process by a high level international monetary conference.

9. In our discussions we have reaffirmed our joint and several commitments to the open multilateral trading system, and we have agreed upon the need to halt and reverse the spread of protectionism. The recovery which is under way provides favourable conditions for the progressive relaxation of trade barriers and trade-distorting measures; and opportunities for freer and greater trade are necessary conditions not only of sustained growth in the industrialised countries but also of the progress of economic development and the discharge of the burden of debt service in the developing countries. We have decided to give new impetus to the resolution of current problems in agricultural trade and conflicts of jurisdiction, and to the search for a safeguards agreement as mandated by the Ministerial meeting last November of the contracting parties to the General Agreement on Tariffs and Trade (GATT). We hope that the GATT ^{shall} will press forward its programme for the liberalisation of trade in services. We believe that there should be more frequent meetings of the GATT at Ministerial level in future, with a view to improving the open multilateral trading system, including trade between developed and developing countries. We shall invite our Trade Ministers, and the competent authorities in the European Community, to pursue these matters, in consultation with the Director General of the GATT and all the contracting parties.

10. We are agreed upon the need to encourage both the development of advanced technology and the public acceptance of its role in promoting growth, employment and trade. We have noted with approval the report of the Working Group on Technology, Growth and Employment which was set up at Versailles last year, and commend the progress made in the 18 co-operative projects discussed in that report. We look forward to receiving a further progress report at our meeting in the United Kingdom next year. At the same time we will work together to find ways, without discouraging growth and technological development, to protect and preserve natural resources and to reduce the threats of pollution and disease from industrial processes.

11. We have discussed the implications of the recent fall in oil prices both for the international financial system and for energy supply. We all share the view that a period of stability in oil prices would be helpful to world economic prospects. We are also agreed that the fall in oil prices in no way diminishes the importance and urgency of efforts to conserve energy, to develop economic alternative energy resources, and to encourage the growth of indigenous energy production in developing countries which at present lack it.

12. Recovery, and a return to sound and sustainable growth in the industrialised countries, is (we believe) the greatest contribution we can make to the welfare

and prosperity of the developing countries, to their economic development and to their ability to service their debts. But more than that is needed.

13. We have agreed to examine ways to improve the effectiveness of the development process and structural adjustment by assuring non-inflationary flows of private and public finance and investment to the developing countries, both bilaterally and through the international institutions. We urge the early ratification of agreements to increase the resources of the International Monetary Fund, through the increases of quotas and of the provisions of the General Arrangements for Borrowing. We reaffirm our commitments to provide agreed funding levels for the International Development Agency and the multilateral development banks, and agree on the importance of adequate replenishment of IDA for the future. [We do not believe that there can be any master-plan for dealing with the debt problems that face many developing countries:] the problems of each country are different, and have to be considered on their own. But we are agreed that our approach to these problems should be based on the following ~~strategy~~ *guiding principles*

- (1) the need for orderly and effective adjustment in the borrowing country;
- (2) the provision of balance of payments financing by the International Monetary Fund, subject to appropriate conditions;

- (3) the readiness of Governments and central banks to act quickly in response to ^{liquidity} debt emergencies, in advance of negotiations with creditors and the IMF;
- (4) the readiness of commercial banks to roll over or restructure existing debts and to increase their net lending to developing countries, subject to the limits of commercial prudence;
- (5) the achievement of sound and sustainable recovery in the industrialised countries, as a foundation for lower interest rates and increased trade between developed and developing countries.

14. We are agreed on the importance of official development assistance especially for poorer developing countries. We believe that these resources should be concentrated on such countries and should be related to the greatest extent possible to the development of indigenous food and energy production.

15. We welcome the openness to dialogue with the industrialised countries evinced at the recent conferences of the Non-Aligned Movement in New Delhi and the Group of 77 in Buenos Aires. We share their commitment to engage constructively in the forthcoming conference in Belgrade of the United Nations Conference on Trade and Development. We shall be ready at UNCTAD VI to discuss ideas on a desirable recovery and proposals to manage debt problems, facilitate adjustment, promote trade, ~~revive commodity markets~~ and

encourage more private investment in developing countries. We look forward to strengthening dialogue with the developing countries in this and other appropriate fora.

16. We have agreed to continue the work already in progress in various international bodies and fora to develop an agreed analysis of our economic relations with the countries of the Eastern bloc, with attention to our shared security concerns. On this basis we shall each pursue our own policy actions consistently with the agreed principles and analysis, reflecting the fact that our relations with these countries must be compatible with the basic values and security concerns of our own countries.

17. Finally, we have accepted the invitation of the Prime Minister of the United Kingdom to meet again in London next year.

UK GMT + 1

Williamsburg GMT - 4

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SUMMARY PROGRAMME

1983 ECONOMIC SUMMIT OF INDUSTRIALISED NATIONS

28-30 MAY 1983

WILLIAMSBURG

SATURDAY 28 MAY 1983

(All times local)

- 1215 Prime Minister and party depart LHR South Side in RAF VC-10.
- 1530 Prime Minister, Secretary of State and Chancellor arrive Langley Air Force Base in Virginia.
- 1535 Delegation depart Langley en route Market Square, Williamsburg by helicopter and cars.
- 1550 Arrive Market Square. Prime Minister accompanied by US Protocol Escort, boards carriage and is escorted to Governor's Palace. Secretary of State, Chancellor of the Exchequer and other members of delegation proceed by car to accommodation.
- 1555 Prime Minister arrives Governor's Palace. Greeted by President Reagan.
- Arrival Ceremony
Courtesy Meeting
- Prime Minister proceeds to Chiswell House
- 1845 (approx) Departure for Carter's Grove.
- 1900-2000 Carter's Grove reception for Head of Delegations, Ministers, and other Official Delegation Members.
(Group photograph to be taken)
- 2000-2130 Separate dinners for Heads of Delegation (discussion of INF), Finance Ministers, Foreign Ministers and Personal Representatives plus two. Others dine at Williamsburg hotels. Ministers may meet Heads of Delegation over coffee after dinner.

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SUNDAY 29 MAY 1983

- 0830-0845 Prayer for Peace Service, Bruton Parish Church (optional: Prime Minister will attend)
- 0900-1130 Heads of Delegations attend meeting, House of Burgesses, The Capitol. Discussion of approach to world economic recovery (Section I & II of US paper).

Finance Ministers meet, Williamsburg Inn. Foreign Ministers and Personal Representatives attend respective meetings, Williamsburg Lodge.
- 1130-1145 Heads of Delegation, Foreign Ministers, and one Personal Representative per Delegation attend meeting, House of Burgesses, The Capitol.
- 1200-1315 Heads of Delegations, Finance Ministers, and Personal Representatives have separate lunches at Colonial Williamsburg Taverns.

Foreign Ministers meanwhile attend briefing by Secretary Shultz at William and Mary Hall, then lunch at Williamsburg Inn.
- 1330-1700 Heads of Delegations, Ministers, and one note taker per Delegation attend Plenary Session, East Lounge, Williamsburg Inn.
- 1330 - Participants are seated
1345 - Meeting opens
1515 - Refreshments
1530 - Meeting reconvenes
1700 - Meeting adjourns
- Mr Shultz and Mr Regan to summarise Foreign and Finance Ministers' morning discussions. Discussion will then cover Sections III and IV of US thematic paper and East/West Economic Relations. Meanwhile Assistant Personal Representatives attend meeting at Williamsburg Lodge.

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SUNDAY 29 MAY 1983 (continued):

- 1700-1715 Heads of Delegations and one Personal Representative per delegation attend meeting, East Lounge, Williamsburg Inn. Summary of afternoon discussions; instructions to Personal Representatives to draft final statement.
- 1830 Prime Minister's Press Briefing (to be confirmed).
- 1900 Prime Minister's departure from Williamsburg (to be confirmed).
- 1900-2000 Reception at Governor's Palace for Heads of Delegations and Ministers.
Personal Representatives have working dinner, North Ballroom, Williamsburg Lodge.
- 2000-2200 Heads of Delegation Dinner, Governor's Palace
Ministers dine separately at Colonial Williamsburg Taverns.

MONDAY 30 MAY 1983

- 0900-1230 Heads of Delegations and Ministers plus one note taker attend Plenary Session, East Lounge, Williamsburg Inn.
Assistant Personal Representatives attend meeting in Joint Statement Drafting Room, Williamsburg Lodge.
- 1240-1410 Luncheon
Bassett Hall for Heads of Delegation
Ministers lunch at Williamsburg Inn.
Personal Representatives have working lunch, North Ballroom, Williamsburg Lodge.
- 1430 Joint Statement
William and Mary Hall
William and Mary College
UK Press Briefing (to be confirmed).
Secretary of State, Chancellor and official party depart by RAF VC-10 (time to be confirmed).

MONDAY 30 MAY 1983 (continued)

1900-2230

Official dinner - lounge suits (no spouses)
Rockefeller Folk Art Center
Sir O Wright attends for UK

Pwp

ADVANCE COPIES

ECONOMIC SUMMIT

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PS
PS/MR HURD
PS/MR RIFKIND
PS/LD BELSTEAD
PS/MR RAISON
PS/PUS
MR EVANS
MR HANNAY
MR THOMAS
MR HAYES

PS/NO 10 DOWNING STREET

PS/CHANCELLOR OF THE)
EXCHEQUER)
MR LITTLER) TREASURY
MR BOTTRILL)

SIR R ARMSTRONG
CABINET OFFICE

MR J CAINES)
MR E BESTON) DOT

MR MCMAHON BANK OF ENGLAND

MR BUIST ODA

MS BOYS DEPT OF ENERGY
MISS DICKSON DEPT OF ENERGY

HD/ERD (2)
HD/ECD (4)
HD/ES & SD (2)
HD/NAD
HD/WED
HD/FED
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HD/ESID (2)
RESIDENT CLERK

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GRS 60
CONFIDENTIAL
FM WASHINGTON 261641Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1485 OF 26 MAY

YOUR TELNO 895 : WILLIAMSBURG

1. I HAVE JUST HEARD FROM JUDGE CLARK'S OFFICE THAT THE MESSAGE FROM THE PRIME MINISTER IN YOUR TELEGRAM UNDER REFERENCE HAS BEEN RECEIVED. JUDGE CLARK'S OFFICE HAVE ASKED ME TO PASS ON TO THE PRIME MINISTER THAT THE PRESIDENT IS QUITE HAPPY TO ACCEPT THE PRIME MINISTER'S SUGGESTION OF A TETE-A-TETE, AND THAT HE FULLY UNDERSTANDS WHY SHE WISHES TO LEAVE ON SUNDAY EVENING.

WRIGHT

*ie no Regan + no Havel
(so there's now no terminus ad quem
for your bilateral with Regan on
Sat. at 9.30)*

NNNN

C
CAB/WTE 001/26

IMMEDIATE 260840Z MAY 83

FM CABINET OFFICE

TO WHITE HOUSE

BT
UNCLASSIFIED

FOLLOWING FOR PRESIDENT REAGAN FROM PRIME MINISTER.

BEGINS:-

DEAR RON,

THANK YOU SO MUCH FOR YOUR UNDERSTANDING MESSAGE OF
24 MAY.

I AM LOOKING FORWARD ENORMOUSLY TO SEEING YOU IN
WILLIAMSBURG. I HAVE CONSIDERED VERY CAREFULLY WHETHER
I COULD MANAGE TO STAY ON MONDAY AS WELL AND WOULD MUCH
LIKE TO BE ABLE TO HELP YOU. BUT I AM AFRAID THAT I
HAVE TO RETURN HERE OVER SUNDAY NIGHT FOR THE ELECTION
CAMPAIGN WHICH WILL BE ENTERING A CRUCIAL PERIOD ON MONDAY.

I SHALL OF COURSE DO EVERYTHING I CAN TO MAKE THE SUMMIT
THE SUCCESSFUL AND HARMONIOUS OCCASION WHICH YOU WANT.
I ENTIRELY AGREE WITH YOUR VIEW THAT WE MUST INSIST ON A
JOINT STATEMENT WHICH HAS A TONE OF REALISTIC OPTIMISM
AND THAT WE MUST RESIST ANY CALL FOR A NEW BRETTON WOODS
CONFERENCE. YOU CAN COUNT ON THE SUPPORT OF GEOFFREY HOWE,
FRANCIS PYM AND ROBERT ARMSTRONG AFTER MY DEPARTURE.

THANK YOU FOR THE ARRANGEMENTS THAT ARE BEING MADE FOR
ME TO TALK TO THE PRESS BEFORE MY DEPARTURE ON SUNDAY.
I AM GRATEFUL FOR THE DISPENSATION. IT WOULD NOT BE
UNDERSTOOD HERE IF I DID NOT DO THIS.

FINALLY, I QUITE APPRECIATE THAT MY TALK WITH YOU ON
SATURDAY AFTERNOON WILL HAVE TO BE A SHORT ONE. I WONDER
IF YOU WOULD AGREE TO OUR TALKING ALONE, WITHOUT ADVISERS,
ON THIS OCCASION. I FEEL THAT WE SHALL BE ABLE TO COVER
MUCH MORE GROUND THIS WAY - AND MORE FRANKLY THAN MIGHT
BE POSSIBLE IN A LARGE GATHERING. I SHALL OF COURSE FIT
IN WITH WHAT YOU WANT, BUT PERHAPS YOUR PEOPLE COULD LET
OUR AMBASSADOR KNOW WHETHER OUR TALK MIGHT BE TETE-A-TETE.

YOURS EVER
MARGARET.

ENDS

NNNN

1. Pl. copy immediate
to R. Hittler,
2. resubmit
JUL.

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THE SECRETARY OF THE TREASURY

WASHINGTON 20220

May 28, 1983

Dear Sir Geoffrey:

It would be my suggestion that we could discuss our agenda topics in the following order, but not try to hold ourselves too rigorously to a set timing:

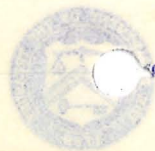
1. Policies and prospects for sustainable economic recovery in our countries.
2. Results of recent discussions among Trade and Finance Ministers.
3. Multilateral surveillance (including discussion of proposed annex on multilateral surveillance/economic convergence). See attachment.
4. Discussion of conditions for strengthening international monetary arrangements (including exchange of views on appropriate way for starting work on improvements of the international monetary system).
5. International debt issues.
6. LDC issues: aid, trade and investment.
7. Other issues (under this topic we would envision discussing, inter alia, IMF issues such as access, liquidity, charges and remuneration, the CFF, and SDR allocations).

I would propose discussing the first two topics at our Saturday dinner, and having a discussion of at least items three through six in the morning meeting and luncheon on Sunday. Remaining topics and other issues could be discussed at Sunday dinner.

Donald T. Regan

The Right Honorable
Geoffrey Howe, QC MP
Chancellor of the Exchequer
United Kingdom of Great Britain and
Northern Ireland

Attachment



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1. Policies and prospects for sustainable economic recovery in our countries.
2. Results of recent discussions among Trade and Finance Ministers.
3. Multilateral surveillance (including discussion of proposed annex on multilateral surveillance) economic convergence). See attachment.
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5. International debt issues.
6. LDC issues: aid, trade and investment.
7. Other issues (under this topic we would envision discussing, inter alia, IMF issues such as access, liquidity, charges and remuneration, the CPT, and SIZ allocations).

I would propose discussing the first two topics at our Saturday dinner, and having a discussion of at least items three through six in the morning meeting and lunch on Sunday. Remaining topics and other issues could be discussed at Sunday dinner.

Donald T. Regan

The Right Honorable
Geoffrey Howe, QC MP
Chancellor of the Exchequer
United Kingdom of Great Britain and
Northern Ireland

Attachment

EVALUATION AND PROPOSED IMPROVEMENTS

①

I - EVALUATION

SINCE 1956 THE GROUPS OF CREDITORS, I.E. THE PARIS CLUB AND THE VARIOUS 'AD HOC' GROUPS CREATED TO DEAL WITH THE SITUATION OF SOME PARTICULAR COUNTRIES HAVE IMPLEMENTED 47 RESCHEDULING AGREEMENTS CONCERNING 22 DIFFERENT COUNTRIES AND AMOUNTING TO NEARLY 20 BILLION DOLLARS.

IN MOST OF THESE CASES, THE RESCHEDULING AGREEMENTS HAVE BEEN CONCLUDED WITHIN A VERY SHORT DELAY, AT LEAST FROM THE DATE AT WHICH THE DEBTOR COUNTRY HAS REACHED A STAND-BY ARRANGEMENT WITH THE IMF. BOTH CREDITORS AND DEBTORS TOOK ADVANTAGE OF THE CELERITY AND THE FLEXIBILITY OF PARIS CLUB ACTION WHICH IS NOW BASED ON A WELL DEFINED JURISPRUDENCE AND WHICH GIVES THE POSSIBILITY OF REDUCING AS FAR AS POSSIBLE THE CRITICAL PERIOD DURING WHICH THE DEBTOR ACCUMULATES ARREARS AND MAY BE KEPT APART FROM THE INTERNATIONAL FINANCIAL COMMUNITY, WITH ALL POSSIBLE DAMAGE ON ITS ECONOMIC AND FINANCIAL INTERNATIONAL RELATIONSHIPS. THE INCREASING IMPORTANCE OF LDC'S DEBT PROBLEMS LED TO AN ACCELERATION OF PARIS CLUB MEETINGS RYTHM. HELD ON AN ANNUAL OR A SEMI-ANNUAL BASIS IN THE PAST, PARIS CLUB MEETINGS HAVE BEEN MORE AND MORE FREQUENT SINCE 1978 AND, ESPECIALLY, 1981. AT THE PRESENT TIME, THE PARIS CLUB HAS TO DEAL, NEARLY EACH MONTH, WITH A REQUEST FROM A DEBTOR COUNTRY AND TO REVIEW THE SITUATION OF COUNTRIES FACING DIFFICULTIES.

THE LINKS SO CREATED HAVE LED TO PERMANENT AND CLOSE CONCERNATION BETWEEN CREDITORS WHICH CERTAINLY CONTRIBUTED TO SMOOTH THE IMPACT OF RECENT CRISES AND TO LIMIT IT.

HOWEVER, IN SPITE OF THE FACT THAT SIGNIFICANT IMPROVEMENTS HAVE BEEN MADE BY THE PARIS CLUB IN ITS OPERATING RULES, FURTHER AMELIORATIONS HAVE TO BE MADE. THE PARIS CLUB IS ALREADY WELL SUITED TO GIVE SOME BREATHING-SPACE TO COUNTRIES FACING ACUTE, BUT TEMPORARY, PAYMENT DIFFICULTIES, PROVIDED THAT THEIR DEBTS ARE CONCENTRATED ON PUBLIC CREDITORS. THE RECENT CRISIS HAS AFFECTED NEW COUNTRIES AND HAS MADE IT NECESSARY TO CONTEMPLATE NEW PROCEDURES. MORE INTRICATE PROBLEMS ARISE FOR WHICH ADEQUATE SOLUTIONS HAVE TO BE FOUND, KEEPING IN MIND THE ABSOLUTE NECESSITY OF MAINTAINING THE CELERITY AND THE FLEXIBILITY OF THE SYSTEM.



II THE NEEDS

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FIVE DIFFERENT KINDS OF DIFFICULTIES HAVE ARISES :

A) REPETITIVE PROCEDURES

MORE AND MORE COUNTRIES NEED TO RESCHEDULE SEVERAL YEARS OF MATURITIES, UNDER AN ADJUSTMENT A PROGRAM APPROVED BY THE IMF WHICH MAY HAVE BEEN ESTABLISHED ON A PLURIANNUAL BASIS. THE CURRENT PRACTICE, WHICH IS TO ADOPT A CONSOLIDATION PERIOD OF ONE YEAR, IS NOT CONSISTANT WITH THIS PLURIANNUAL POLICY AND GIVE RISE TO LONG AND REPETITIVE NEGOTIATIONS, ESPECIALLY CONCERNING BILATERAL AGREEMENTS.

B) HEAVILY AFFECTED COUNTRIES

THANKS TO SOME WELCOME INITIATIVES, TAKEN IN PARTICULAR BY THE U.S.A., AIMED AT PROPOSING NEW AND GENEROUS TREATMENT FOR THE ACUTE CASE OF SUDAN, AN ADEQUATE SOLUTION HAS BEEN SET UP THIS YEAR TO TACKLE WITH THE PROBLEM OF THIS COUNTRY. METHODS OF IMPLEMENTATION OF SUCH EXCEPTIONNAL PROCEDURES SHOULD BE DEFINED WITHIN THE FRAME OF PRECISE GUIDE LINES.

C) COORDINATION WITH PRIVATE CREDITORS

THE LACK OF COORDINATION WITH COMMERCIAL BANKS APPEARS TO BECOME A SEVERE HANDICAP IN EXISTING RESCHEDULING PROCEDURES. THE YUGOSLAVIAN AND MEXICAN CASES DEMONSTRATED RECENTLY THAT SUCH A HANDICAP COULD DELAY THE IMPLEMENTATION OF THE SOLUTIONS AND EVEN LEAD SOME BANKS TO JEOPARDIZE DECISIONS TAKEN BY GOVERNMENTS.

D) NEW MONEY

EXCLUSIVE CONCENTRATION ON RESCHEDULING PROBLEMS DOES NOT ENABLE OUR COUNTRIES TO ATTACH SUFFICIENT IMPORTANCE TO NEW MONEY REQUIREMENTS AND TO THE NECESSITY OF RESTORING BORROWING CAPACITIES. THE NEW PRATICE OF DONNOR'S CLUBS HAS BROUGHT A SIGNIFICATIVE IMPROVEMENT BUT HAS TO BECOME MORE SYSTEMATIC AND ITS CONCEPT HAS TO BE WIDENED.

E) EMERGENCY PROCEDURE

THE MEXICAN AND BRASILIAN CASE ILLUSTRATE THE NECESSITY OF ESTABLISHING AN EMERGENCY PROCEDURE WHICH SHOULD BE FLEXIBLE, QUICK AND EFFICIENT. THAT IMPLIES WE SHOULD BE PROVIDED WITH PRECISE AND QUICK INFORMATION. THIS PROCEDURE IS STILL LACKING.

III - THE SOLUTIONS

CONSEQUENTLY, THE FIVE FOLLOWING PROPOSALS COULD BE EXAMINED AS A BASIS FOR IMPROVING THE WORKING PROCEDURES OF THE GROUPS OF CREDITORS.

A) CONSOLIDATION PERIOD

TWO PRINCIPLES HAVE TO BE CONCILIATED : EFFICIENCY AND MAINTENANCE OF A STRICT CONTROL. IT COULD BE CONTEMPLATED TO REVIVE THE PREVIOUSLY USED PRACTICE OF THE PARIS CLUB GRANTING A CONSOLIDATION PERIOD MORE CONSISTANT WITH THE PERIOD COVERED BY THE IMF ARRANGEMENT, WITH HOWEVER A TWO YEAR LIMIT. IN CASE THE IMF ARRANGEMENT WOULD BE CONCLUDED FOR 3 YEARS, A NEW MEETING OF THE CREDITORS SHOULD BE NEEDED TO EXTEND FOR A THIRD YEAR THE CONSOLIDATION PERIOD. A VERY STRICT SET OF CONDITIONS FOR SUCH A PROCEDURE HAS BEEN PROPOSED TO AND EXAMINED BY THE PARIS CLUB.

B) COORDINATION BETWEEN PUBLIC AND PRIVATE CREDITORS

A TASK FORCE COULD BE SET UP, ON A CASE BY CASE BASIS, WHICH WOULD INCLUDE, FOR EXAMPLE, THE MAIN PUBLIC CREDITORS, WITHIN THE PARIS CLUB, THE MAIN BANK CREDITORS, WITHIN THE STEERING COMMITTEE, AND THE IMF.

ORGANIZED ON A CASE BY CASE BASIS , SUCH A GROUP WOULD HAVE MAINLY TO EXCHANGE INFORMATION, ESPECIALLY ON TECHNICAL Schemes, COMPARABILITY CLAUSES ETC... IN SOME CASES, IT COULD CONTRIBUTE TO OUTLINE, IN ADVANCE, ADEQUATE SOLUTIONS. IT SHOULD NOT, IN ANY CASE, INCLUDE REPRESENTATIVES OF THE DEBTOR NOR BE CALLED ON THE REQUEST OF THE DEBTOR COUNTRY OR CHAIRED BY THE DEBTOR.

C) FRESH MONEY

THE CONCEPT OF DONNOR'S GROUP APPEARS EFFICIENT BUT , IN SOME RESPECT, TOO EXCLUSIVELY RESTRICTED SINCE IT DEALS WITH OFFICIAL DEVELOPMENT AID ONLY. THIS REDUCES THEIR EFFICIENCY.

ON A STRICLY CASE BY CASE BASIS IT COULD BE USEFUL TO TAKE ADVANTAGE OF THE MEETING OF THE PARIS CLUB WITH REPRESENTATIVES OF DIFFERENT TREASURIES AND EXPORT CREDIT AGENCIES TO SET UP JUST PRIOR TO THE RESCHEDULING, A FINANCING GROUP. THIS FINANCING GROUP COULD CONCENTRATE NOT ONLY ON O.D.A, BUT ALSO AND MAINLY ON EXPORT CREDITS. IT WOULD PERMIT AN EXCHANGE OF INFORMATION ON THE EXPORT FINANCING PROVIDED BY PARTICIPATING GOVERNMENTS OR CONTEMPLATED BY THEM. IF NECESSARY, NEW COMMITMENTS COULD BE TAKEN IN ORDER TO MEET WITH THE NECESSARY FINANCIAL NEEDS OF THE COUNTRY AT STAKE.

BEING SO BETTER INFORMED OF THE READYNES OF THE OTHER COUNTRIES TO PROVIDE FRESH MONEY TO THE INTERESTED COUNTRY, EACH OF US WOULD BE ENCOURAGED TO PROVIDE ADEQUATE AND APPROPRIATE FINANCING.

ONE OF THE MOST VPOSITIVE EFFECTS OF SUCH EXCHANGES OF INFORMATION COULD BE TO AVOID TOO GENEROUS RESCHEDULINGS DUE TO THE LACK OF INFORMATION ON AVAILABLE FINANCING.

D) COUNTRIES FACING EXCEPTIONAL DIFFICULTIES

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THE SUDAN CASE DEMONSTRATED THE POSSIBILITY OF ADAPTING THE MECHANISM OF THE CLUB IN ORDER TO TAKE INTO CONSIDERATION THE PAYMENT CAPACITY OF "BASKET COUNTRIES". HAVING IN MIND THE POSSIBILITY OF NEW SIMILAR CASES, IT HAS BEEN CONTEMPLATED TO PRECISE THE CONDITIONS OF SUCH OPERATIONS, WHICH MUST REMAIN EXCEPTIONAL, WITH A SET OF GUIDE-LINES TO BE USED AS A PRACTICAL REFERENCE. A DRAFT HAS BEEN CIRCULATED BASED ON THE FOLLOWING BASIC PRINCIPLES OF PRUDENCE : CASE BY CASE APPROCH, NECESSITY OF A CONSENSUAL AGREEMENT PRIOR TO SUCH A MEETING, SIMILAR EFFORT BY ALL INVOLVED INSTITUTIONS, POSSIBILITY OF A MULTI-YEAR APPROCH, ADEQUATE MONITORING, REQUEST OF A MINIMUM PAYMENT BY THE DEBTOR, AND EXCLUSION OF A CONCESSIONAL SETTLEMENT (BY DAC DEFINITION).

E) EMERGENCY PROCEDURE

BETWEEN OUR RESTRICTED GROUP OF 5, A FLEXIBLE AND IMMEDIATE EMERGENCY TEAM COULD BE SET OUT ., FOR THIS PURPOSE EACH OF OUR 5 COUNTRIES COULD APPOINT ONE OR TWO REPRESENTATIVES IN CHARGE OF "DEBT PROBLEMS", WHO MIGHT BE CONTRACTED AT ANY TIME ., ONE FROM THE MINISTRY OF FINANCE, AND IF NECESSARY, ANOTHER FROM THE CENTRAL BANK, PLUS AN OFFICIAL REPRESENTATIVE FROM THE IMF.

SUCH A GROUP, IN ADDITION TO ITS EMERGENCY FUNCTION, SHOULD SET UP WITHIN THE NEXT 5 MONTHS A STANDARD PROCEDURE FOR MUTUAL INFORMATION, INCLUDING IF POSSIBLE THE FOLLOW-UP OF THE SHORT TERM POSITION OF THE VARIOUS DEBTOR COUNTRIES AND THE LEVEL OF EXPORT CREDIT COVER CURRENTLY GRANTED. THE EXISTENCE OF THIS RESTRICTED GROUP SHOULD BE KEPT ABDOLUTELY CONFIDENTIAL. IT COULD FOLLOW IN ITS PROCEEDINGS THE ORDINARY PRACTICE OF OUR G5 MEETINGS.

262405 TRSY G
TRESOR 214700F

28/5/83

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IMF LIQUIDITY, ACCESS AND BORROWING

The Fund currently has about SDR 16 billion of loans outstanding and has committed a further SDR 16 billion for disbursement over the next two years or so. In addition, the Fund expects to commit a further SDR 10 billion in its current financial year to March 1984, by which time the Eighth Quota increase should be in place and the new GAB ratified. These new commitments will include programmes for Venezuela (SDR 2bn), Nigeria (SDR 2½ bn), Portugal (SDR 1 bn), Yugoslavia (SDR ½ bn), Turkey (SDR ½ bn) and Egypt (SDR ½ bn), as well as a number of follow-on standby programmes.

2. The Fund at present has about SDR 10 bn of uncommitted ordinary resources. It has no further borrowed resources available since the first two tranches of the SAMA loan, equivalent to SDR 8 bn, and the SDR 1.3 bn loan from industrial countries agreed in 1981, have both been committed. In fact, the Fund has already committed an extra SDR 2 bn of uncovered borrowed resources.

3. We cannot be sure of the exact split between ordinary and borrowed resources that are likely to be committed in the year to March 1984, but a prudent assumption would be SDR 4 bn of ordinary resources and SDR 6 bn of borrowed resources. The Fund, therefore, will have enough ordinary resources but seems likely to be short of about SDR 8 bn of borrowed resources.

4. This shortfall should be viewed alongside the likely demands on the Fund's resources over the following two financial years 1984/5 and 1985/6. These will depend importantly on the recovery of the world economy. A strong recovery would raise developing countries' export volumes, improve their terms of trade and help make them once more credit-worthy to commercial lenders. The present indications, however, are that the recovery will be modest and the revival of commercial lending gradual. A more optimistic outcome is of course possible but it seems prudent to plan on the basis that a number of major debtors among both non-oil and oil-producing countries will need continued Fund assistance.



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5. The extent of the Fund's commitments this period will reflect not only members' needs but also whatever decisions are taken on access limits. Fund estimates suggest that commitments in 1984/5 and 1985/6 could vary between about SDR 12 bn if nominal access is contained at present levels to SDR 18 bn if average access limits are raised by 25 per cent.

6. These estimates assume that members' with existing programmes augment them in such a way as to use the same proportion of their individual cumulative limits as at present. This, for example, would allow Brazil to draw an extra SDR ~~0.7~~ bn and Mexico an extra SDR ~~0.4~~ bn. If on the other hand, countries drew up to the maximum extent of their cumulative limits, this could add a further SDR 3-5 bn to Fund commitments.

7. The split between ordinary and borrowed resources will depend partly on how existing programmes are repackaged, but the Fund assumes broadly that ordinary and borrowed resources will be needed in the ratio 1:2. The total potential commitments between now and March 1986 are shown below:

	<u>1983/4</u>	<u>1984/5-1985/6</u>
Ordinary	4	4-6
Borrowed	6	8-12
Total:	10	12-18

8. The Fund will receive an increase of approximately SDR 15 bn in its usable resources early next year from the new quota payments. In addition, it can expect about SDR 5 bn of existing loans to be repaid by March 1986. It should therefore be able to meet the calls on its ordinary resources without difficulty. It might have a balance of SDR 7-10 bn of ordinary resources in hand by 1986 to meet calls during the rest of the Eighth Quota period. This would not be a generous reserve but the Fund might be entering a period of significant repayments then provided adjustment programmes had proved successful.

9. The shortage of borrowed resources, however, which is put at SDR 8 bn by next March could rise SDR 16-20 bn by 1986. There are considerations of both timing and sources of finance in deciding how to meet this potential gap.

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10. The Fund has asked for SDR 8 bn from official lenders to meet its commitments gap in the period to next March. This would include SDR 4 bn from SAMA and SDR 4 bn from industrial countries. The Saudis have made any further loan on their part conditional on new industrial country loans. The Fund has suggested the following allocation.

	<u>SDR million</u>	<u>% of reserves</u>
UK	280	3.5
France	200	1.5
Italy	180	1.5
Belgium	60	1.7
Netherlands	290	3.5
Denmark	30	1.5
Ireland	30	1.7
Germany	1,250	3.0
Japan	650	3.5
Canada	90	3.2
Switzerland	430	3.4
Norway	140	2.9
Austria	120	2.9
Australia	80	1.6
US	NIL	-
	<hr/>	
Total:	3,830	
	<hr/> <hr/>	

11. The Bank has suggested that the UK might be prepared to lend SDR 250 m. This would include SDR 150 m.

for rolling over the existing loan when it becomes due for repayment and SDR 100 m of new money. We have doubts about whether even this figure is attainable, particularly if the loan would be medium-term. *You can't at present commit your [nominal] successors; so we certainly can't say 'snap' now.*

12. The GAB will provide the Fund with SDR 18½ bn of new resources next year, but only perhaps SDR 10-12 bn of this might be usable. If the Fund was to need the full SDR 8-12 bn of borrowed resources in 1984/5 and 1985/6 and this was to be met from the GAB, then the GAB's resources would be fully committed.

CONFIDENTIAL

13. This picture is not encouraging. First, there must be doubts about whether the industrial countries will be prepared to lend this year on the scale envisaged by the Fund. Second, it must be questionable whether the GAB should be totally committed in this way, leaving nothing for any industrial country needing to turn to the Fund. The medium-term nature of the Fund's needs also makes less realistic the suggestion that any further official loan this year should be a bridging operation until the GAB can be activated, although some book-keeping changes might be envisaged.

14. The possible scale of the Fund's needs combined with probable reluctance by official lenders and reservations over fully committing the GAB, reinforce the case for urging the Fund to borrow in the markets. This would give the Fund a wider source of finance. It would tap funds of commercial lenders currently unwilling or unable to lend to LDCs. It would also reduce the degree of official involvement.

15. A final consideration which has not been much discussed is to urge the Fund to cut back on its level of commitments. In so far as this involved replacing EFFs with one-year standbys, this would merely postpone the problem as we are currently seeing with the rolling-over of standbys agreed in the past 18 months or so. We have also typically not been discontent with the conditionality that the Fund has been imposed. It would be difficult now to insist upon swifter adjustment in return for less Fund money.

16. Perhaps the main objectives at Williamsburg should be to try to secure some advance on access, recognise the potentially large needs of the Fund for borrowed resources and seek an agreement that market borrowing has an essential part to play in meeting them.

... I attach a set of points to make.

CONFIDENTIAL

Line to take

(i) Increase in average access limits by 25 per cent is needed to safeguard access of all members and to provide modest head-room for major borrowers from the Fund to augment their existing programmes. Review limits in 2 years' time.

(ii) Fund has a likely shortage of borrowed resources both for the short-term and the medium-term. The scale depends partly on how quickly the world economy recovers and partly on the decision on access, but it is still likely to be significant.

(iii) Ability of a number of industrial countries, including UK, to contribute to further official loans is limited. ^{UK could not} ~~if necessary,~~ ^{commit itself, during election period.}
~~/we could contribute SDR million, including rolling over the existing SDR 150 million.~~

(iv) We have doubts about fully committing the GAB quickly, but would be prepared to see modest use next year if the conditions for activation are met.

(v) The logic of this position persuades us that the Fund should be ready to borrow from the private markets.

(vi) We do not see a strong case for slowing the rate of Fund commitments. The needs of some of the likely new borrowers (eg Nigeria) are important. Conditionality is currently being applied satisfactorily.

28/5/83

STATEMENT AT WILLIAMSBURG

MAY 29, 1983

1. As leaders of our seven countries, it is our first duty to defend the freedom and justice on which our democracies are based. To this end, we shall maintain sufficient military strength to deter any attack, to counter any threat, and to ensure the peace. Our arms will never be used except in response to aggression.

2. We wish to achieve lower levels of arms through serious arms control negotiations. With this statement, we reaffirm our dedication to the search for peace and meaningful arms reductions. We are ready to work with the Soviet Union to this purpose and call upon the Soviet Union to work with us.

3. Effective arms control agreements must be based on the principle of equality and must be verifiable. Proposals have been put forward from the Western side to achieve positive results in various international negotiations: on strategic weapons (START), on intermediate-range nuclear missiles (INF), on chemical weapons, on reduction of forces in Central Europe (MBFR), and a Conference on Disarmament in Europe (CDE).

4. We believe that we must continue to pursue these negotiations with impetus and urgency. In the area of INF, in particular, we call upon the Soviet Union to contribute constructively to the success of the negotiations. Attempts to divide the West by proposing inclusion of the deterrent forces of third countries, such as those of France and the United Kingdom, will fail. Consideration of these systems has no place in the INF negotiations.

5. Our nations express the strong wish that a balanced INF agreement be reached shortly. Should this occur, the negotiations will determine the level of deployment. It is well known that should this not occur, the countries concerned will proceed with the planned deployment of the U.S. systems in Europe at the end of 1983.

6. Our nations are united in efforts for arms reductions and will continue to carry out thorough and intensive consultations. The security of our countries is indivisible and must be approached on a global basis. Attempts to avoid serious negotiation by seeking to influence public opinion in our countries will fail.

7. We commit ourselves to devote our full political resources to reducing the threat of war. We have a vision of a world in which the shadow of war has been lifted from all mankind, and we are determined to pursue that vision.

DRAFT STATEMENT

20/5/83

Strengthening Economic Cooperation for Growth and Stability

I. We have examined in the light of our experience the procedures outlined in the undertakings agreed at Versailles last year which seek to ensure greater monetary stability in the interest of balanced growth and progress of the world economy.

II. We reaffirm the objectives of achieving non-inflationary growth of income and employment, and promoting exchange market stability through policies designed to bring about greater convergence of economic performance in this direction.

III. We are reinforcing our multilateral cooperation with the International Monetary Fund in its surveillance activities, according to the procedures agreed at Versailles, through the following approach:

A. We are focusing on near-term policy actions leading to convergence of economic conditions in the medium term. The overall medium-term perspective remains essential, both to ensure that short-term policy innovations do not lead to divergence and to reassure business and financial markets.

B. In accordance with the agreement reached at Versailles, we are focusing our attention on issues in the monetary and financial fields including interaction with policies in other areas. We shall take fully into account the international implications of our own policy decisions. Policies and objectives that will be kept under review include:

(1) Monetary Policy. Disciplined non-inflationary growth of monetary aggregates, and appropriate interest rates, to avoid subsequent resurgence of inflation and rebound in interest rates, thus allowing room for sustainable growth.

(2) Fiscal Policy. We will aim, preferably through discipline over government expenditures, to reduce structural budget deficits and bear in mind the consequences of fiscal policy for interest rates and growth.

(3) Exchange Rate Policy. We will improve consultations, policy convergence and international cooperation to help stabilize exchange markets, bearing in mind our conclusions in the Exchange Market Intervention Study.

(4) Policies Toward Productivity and Employment. While relying on market signals as a guide to efficient economic decisions, we will take measures to improve training and mobility of our labor forces (with particular concern for the problems of youth unemployment) and promote continued structural adjustment, especially by:

-- Enhancing flexibility and openness of economies and financial markets.

-- Encouraging research and development as well as profitability and productive investment.

-- Continued efforts in each country, and improved international cooperation, where appropriate, on structural adjustment measures (e.g., regional, sectoral, energy policies).

IV. We shall continue to assess together regularly in this framework the progress we are making, consider any corrective action which may be necessary from time to time, and react promptly to significant changes.

RECORD OF DISCUSSION BETWEEN THE CHANCELLOR AND SECRETARY REGAN AT
6.15 P.M. ON 28 MAY 1983 IN WILLIAMSBURG

PRESENT:

Chancellor of the Exchequer	Secretary Regan
Mr Littler	Mr Sprinkel
Mr Kerr	Mr Leland

1. The Chancellor and Secretary Regan briefly reviewed the handling of discussions among Finance Ministers in the forthcoming Summit. They agreed in particular on the undesirability of any endorsement of the Mitterrand suggestion for a new Bretton Woods. Secretary Regan said that President Mitterrand had, at a bilateral meeting with President Reagan earlier on 28 May, distanced himself from the press coverage of his remarks on 9 May. In particular, he had acknowledged that the original Bretton Woods Conference had taken 4 years to prepare; and had denied that he had ever publicly or privately advocated a return to fixed exchange rates.

G.5

2. The Chancellor referred to the IMF issues likely to come before the executive board in June/July; and the interim committee in September. He saw some advantage in envisaging an additional G.5 ministerial meeting in late July to review progress. The SDR issue was one on which some co-ordination of views at ministerial level at that stage might be particularly useful. Secretary Regan agreed: a meeting in the last 10 days of July would be timely, particularly given the plan for a meeting of G.5 deputies on 8 July. Secretary Regan assumed that, since the meeting would not be in the 'surveillance' series, Larosiere would not be asked to attend. The Chancellor agreed.

/3.

Brazil

3. The Chancellor said that he had been disturbed by evidence that the Brazilians were not complying in full with the IMF adjustment programme. It might be valuable if the Americans, who carried the most clout with them, could press them to keep up to the mark. Secretary Regan warmly agreed, saying that Secretary Shultz had in fact written on 27 May to the Brazilians in strong terms pointing out that assistance of all kinds to Brazil would start to evaporate if the fund programme were seen to be set on one side. The US authorities would press the Brazilians "as hard as it takes": the next step, if more was required, would be a message from the President.

IMF Quotas

4. The Chancellor congratulated Secretary Regan on the progress through Congress of the Bill approving the increase in IMF quotas agreed on 8 February. Secretary Regan, while acknowledging that the Bill was making fairly rapid progress, expressed concern at some of the amendments which had been added to it. Mr Leland implied that some amendments - those affecting the commercial banks - were so unattractive as to raise the question of a possible veto. Secretary Regan demurred: the worst amendments had, he thought, been struck off. But there still were grounds for concern, particularly as the Administration objected to anything which encouraged commercial banks to reduce their lending abroad. He referred to a leak to the Wall Street Journal of an internal Lloyds Bank International paper on lending to developing countries: this implied that LBI would in future be taking a much more restrictive line. The Chancellor said that he had not seen the text.

Bilateral Issues

5. The Chancellor referred to the US/UK consultations on 23/24 May on the anti-trust actions against British airlines. His understanding was that these had gone well, and that a sensible programme of work had been agreed. This would of course require the US Justice Department to extend their subpoenas on the airlines. He emphasised that if the process of negotiation now in train were to break down, the resulting

/situation

situation would be very serious, and not just for British Caledonian. At issue was the fundamental principle that inter-governmental agreements, in this case air services agreements, should not be called in question by legal proceedings in national courts. Secretary Regan, claiming to be unsighted, instructed Mr Leland to look into the question. It was not one in which the US Treasury had hitherto been involved; but it sounded as if their involvement would be required.

6. The Chancellor then referred to the Export Administration Act, stressing the very difficult issues raised for HMG by the extra-territoriality issue. Secretary Regan claimed that the Bill as amended in the House would give the President powers to intervene only in respect of sales to the Soviet Union of equipment produced in the United States by US firms. The original version of the Bill would have extended also to foreign firms selling to the Soviet Union US-designed products produced abroad. He had initially resisted this. He was content with the version now before the House, but was very concerned by a rival version now in the Senate. It would give the President powers to block imports into the US of products produced anywhere, whether or not the sales to the Soviet Union by the firm in question, which were deemed to affect US security, were of US-designed equipment. His hope was that the compromise version which eventually emerged would be closer to that in the House than that in the Senate.

US Deficit

7. The Chancellor expressed renewed concern about the prospect of rising US deficits in future years, and the impact in the markets, visible in very high real interest rates. Secretary Regan said that the alleged causal relationship between high deficits and high interest rates was a grey area: he remained unconvinced. If the Chancellor would like to send a British economic expert to work through the arguments with his people, that would be very welcome. Clearly there

/was

was some relationship between levels of government borrowing and levels of real interest rates, but he did not believe that it was as straightforward as foreign commentators currently suggested. Mr Littler argued that Federal deficits absorbing 85% and more of US domestic savings must be bound to put upward pressure on interest rates: Mr Sprinkel however maintained that, with rapid growth now envisaged, resources for private sector investment would be generated from profits, rather than borrowing.

Mr Sprinkel added that the Administration's growth forecasts earlier in the year had been far too modest. With an improved growth performance, the deficit problem would diminish. Each extra percentage point of GNP growth would take \$100 billion off the deficit. *

8. The Chancellor drew attention to the importance of market perceptions. What mattered, for interest rates, was whether the markets expected the deficit to remain high. Clearly they did. We in the UK had faced a rather similar situation in 1980/81, and had resolved it in the 1981 Budget, when, at the depth of the recession, we had imposed sharp real increases in indirect taxation, and had not increased income tax allowances/thresholds at all. The Chancellor showed Secretary Reagan a chart illustrating the impact of the 1981 Budget on the UK PSBR as a proportion of GNP, and comparing US and UK performance. Secretary Regan said that if the US deficit remained above 3% of GNP in 1985, increases in direct taxation would take effect. His guess was that the proportion in 1985 would in fact be between 3 and 4%. The Chancellor wondered whether it might not make sense to envisage some increases in indirect taxation before then. Our experience in 1981 had demonstrated the value of convincing the markets of one's determination to put one's borrowing on a declining path. Secretary Regan referred to difficulties in Congress.

9. The Chancellor said that concern about the prospective levels of the US deficit would underlie much of the Summit discussion. What worried him and his European and Japanese colleagues was the prospect that world-wide real interest rates would remain high, given the dominant
/influence

influence of US financial markets. Secretary Regan said that the latest evidence suggested that monetary policy would be likely to have more effect on interest rates than fiscal policy. In the last three weeks interest rates in New York had started to edge up in response to money supply increases. Reining in money supply growth might change the picture again. The Chancellor thought that both fiscal and monetary policy were important; and that the climb out from world recession would be bound to decelerate if interest rates remained high. But he welcomed Secretary Regan's offer of discussions on these issues among experts; and suggested that he might ask Mr Burns to visit the Treasury at Washington. Secretary Regan said that Mr Burns would be very welcome.

10. The meeting ended at 7 p.m.

Jpk.

29.V.83

Distribution:

PS/Chief Secretary
 PS/Financial Secretary
 PS/Economic Secretary
 Mr Middleton
 Mr Burns
 Mr Littler
 Mr Unwin
 Mr Carey
 Mr Lavelle
 Mr Odling-Smee
 Mr Ridley
 Mr Kemp
 Mr Bottrill

Mr Coles (No 10)
 Mr Fall (FCO)
 Mr Rhodes (DOT)
 Sir O Wright (HMA Washington)
 Mr Evans (FCO)
 Mr Wicks (UKDEL IMF/IBRD W'ton)
 Mr Hatfield (Cabinet Office)

* (para 7)

Mr Sprinkel subsequented 'clarified' his calculation; explaining to Mr Littler that 1% per year extra growth for 5 years might reduce the deficit by \$100B in the fifth year.

Jpk.

J O KERR

28/8/83

WILLIAMSBURG: MEETINGS OF FINANCE MINISTERS

The programme envisages the following meetings of Finance Ministers (it is not at present clear whether they will be accompanied by Deputies, but I imagine we shall be readily accessible, if not present):

Agenda
(below)

- dinner on Saturday;
- meeting 9.0 a.m. - Noon on Sunday;
- lunch on Sunday;
- dinner on Sunday (we are expecting the Foreign Secretary to take the Prime Minister's place that evening; if the agenda changed and you had to do so instead, I would presumably deputise for you).

2. Your agenda will be a combination of responses to the Summit discussions (the final dinner in particular seems likely to be concerned with what should go into the public declaration) and particular Finance Minister subjects for which Secretary Regan has offered a framework agenda. The following notes take that agenda in order.

Multilateral Surveillance

A. ...
3. You will want to look at the text prepared by Deputies, which you have already seen and liked (I attach a spare copy), with an eye to its suitability for publication with the final declaration. I think the text goes about as far as we can reach with agreement, and it would be a pity to lengthen it, or qualify it. As far as drafting goes, therefore, I suggest you aim to hold on to the general structure and substance, and merely accept any presentational polishing.

4. I remind you that there is always the problem of surveillance applying to five only out of the Summit Group. I hope we can avoid argument. If there is any move by Canada and Italy to want participation, I recommend you to resist it, but be ready to offer to keep both countries in close touch.

5. In the margins, among the G.5, it would be sensible to settle at least provisionally arrangements for a next meeting. In general, I think that two or three surveillance meetings per year would be about right (autumn and spring, or something like September, January, May). On any count the right occasion for the next meeting will be

ATTACHMENT: POLITICAL SITUATION

The program will be a continuation of progress in the following areas of Finance Ministers (it is not at present clear whether they will be accompanied by Deputies, but I imagine we will be readily successful. It is possible):

- other on account
- meeting 9.30 a.m. - noon on Monday
- 10.00 on Monday
- dinner on Monday (we are expecting the foreign secretary to take the Prime Minister's place that evening. It is quite possible that you had to be so late, I would be extremely grateful for you).

Your success will be a continuation of progress in the Finance Ministers (the final dinner is particularly severe likely to be concerned with what should be done in the public consultation) and particular Finance Ministers (I think I should like to see that you have offered a first-year report. The necessary notes take that in order.

Multilateral Agreements

You will want to look at the text prepared by Deputies, with your own strategy and ideas (I attach a spare copy), with an eye to the possibility of publication with the final agreement. I think the text goes about as far as it can go with agreement, and it would be a pity to have any more changes. I suggest you try to get the text, therefore, I suggest you try to get the text, and a personal, and many other (any personal) political.

I think you feel there is always the prospect of surveillance applying to five days out of the week. I hope you can avoid it. It is there in any case by itself and I think to offer participation. I recommend you to make it. It is ready to offer to help you. Another is also better.

In the evening, I think it would be possible to settle at least provisionally at least. I think it is possible to settle. I think that two or three days of the week would be possible. I think that two or three days of the week would be possible. I think that two or three days of the week would be possible. I think that two or three days of the week would be possible.

in the margins of the IMF/IBRD Annual Meetings in Washington in September.

Results of Recent Discussions Among Trade and Finance Ministers

6. Our general line on trade and protectionism is in the main Williamsburg Brief No.5. The lines of agreed or possible future action which emerged from the informal meetings in Paris are the following:

- (A) - the IMF to continue, in informal but close contact with the GATT, discreetly to develop its leverage over borrowing countries, and over others in Article IV consultations, to urge sensible liberalisation of import policies;
 - (B) - the OECD to carry out a study on the costs of protection to consumers, and keep in close contact with the GATT and the IMF;
 - (C) - the GATT to explore further possibilities of inhibiting protectionist measures and encouraging more open policies as the recovery proceeds;
- probably work towards another GATT Ministerial meeting in two or three years time;
 - probably hold another meeting of Trade and Finance Ministers on some appropriate future occasion (the US hankering after bringing in two or three developing countries as well, and widening the circle generally, but others more reserved).

7. I think the last point is the one most likely to be pursued among Finance Ministers at Williamsburg. I think the suggestion which I and others offered in Paris is probably the most promising: that there will be a meeting of G.10 Finance Ministers in the margins of the Annual IMF/IBRD meetings, and Trade Ministers of the same countries could be invited to join in. There are a couple of difficulties to be borne in mind:

- somebody may remember that the G.10 has an obligation to invite Saudi Arabia to join in at some stage: I think the answer is not yet, because the agreement with Saudi

Arabia does not become effective until after the GAB enlargement has been agreed;

- ✓ - more important, Delors is currently Chairman of the G.10 (he would be replaced at the meeting in September on normal rotation), and the question of French participation will need to be handled delicately anyway.

Conditions for Strengthening International Monetary Arrangements

8. This could well cover three related questions:-

(a) Jurgensen and the Summit declaration: there have been hints of a move by France to "improve" the end-April statement on Jurgensen for the purposes of the Summit. I am sure this would be sterile territory, and that you should urge that we stick to what we have agreed (the Press would have a field-day with exegesis of subtly different wording).

(b) Follow-Up to Jurgensen: at the meeting of Deputies, we shall be discussing arrangements to pursue co-operation and coordination in relation to market conditions and actual use of intervention. I think we shall have to keep this fairly informal for the time being, partly on banking channels, partly in regular review by meetings of Deputies and Ministers. I shall report after our meeting.

(c) "New Bretton Woods": the signs are that the United States may be looking for some formula to deal with President Mitterand's proposal, which rejects the idea of immediate plans for a high-level conference, but commissions Finance Ministers to begin consideration of the circumstances and arrangements for some such conference at an unspecified future date. There must be great danger here of inability in any reasonable time-scale to reach agreement. I would therefore urge that we should avoid setting up any special Working Party or Study Group, known to exist publicly, and instead use the existing Groups of Finance Ministers and Deputies without giving specific commitments or dates. (You will be conscious that there could be particular danger here in saddling ourselves with a problem for the Summit under UK Presidency next year.)

International Debt Issues

9. For discussion of generalities, you have the main Williamsburg Brief No.3, paragraphs 23 - 28, and the background note I am sending to you separately with this brief. For the current situation and individual countries, you have the latest report which Mr. Unwin has put forward, and which will have gone on also to the Prime Minister. On individual countries, it may be worth asking Secretary Regan to give any further information he can about Latin American countries, particularly Mexico and Brazil, with which he has particularly close contact.

10. There is also a series of particular questions, of general management of the debt situation through the IMF and otherwise, which we shall be discussing in the meeting of ^[pm on Saturday]Deputies. In advance of my report from that, you might find the following list and comments helpful:-

C. --- (a) Coordination on debt problems: I attach a copy of the paper which Camdessus has circulated for discussion among Deputies. It covers the ground well and helpfully. One of our main problems is going to be how to reconcile the value of secrecy in some respects with the value of letting it be known publicly that we are doing our best to keep on ^{unwin's part} the ball.

D. --- (b) IMF liquidity, access and borrowing: I attach an analysis of the numbers and a provisionally suggested line to take.

(c) Remuneration and Charges: I think this is now pretty straightforward: all G.5 countries, plus Belgium and Canada (we are not sure about Italy) would like to raise remuneration to the full SDR rate of interest, but defer the decision until after UNCTAD VI. This has in effect been arranged in the Executive Board. I think we shall need to do no more than confirm.

E. --- (d) Access by oil exporters to CFF: this is a vexed question. As background, I attach the telegram of briefing which we recently sent to

Mr. Wicks for Executive Board discussion next week.

In relation to IMF issues generally, you will remember the agreement we reached at the G.5 meeting in Washington, to which I think we should hold, that we should defer reaching conclusions on individual IMF issues until after the UNCTAD meeting has ended, both in order to avoid giving offence by any unwelcome decisions, and to avoid giving away in advance any welcome ones.

Policies and Prospects For Sustainable Economic Recovery

11. I cannot think that there is anything to be discussed under this heading which is not already covered in the general Williamsburg briefs, but it could be an opportunity to check that we are all still in line against locomotives, and possibly a chance to probe Secretary Regan on the prospects for US budget developments in Congress.

Other Issues

12. Two other subjects which you will want to keep in mind:-

(a) SDR allocation: this cannot be the occasion for carrying further the discussion of substance. We are now waiting for the IMF analysis (and for what it is worth the separate Community analysis). For Williamsburg, the question is what mention, if any, there should be of the subject in the final declaration. Sir Robert Armstrong's draft makes no mention, in a passage on developing countries which is otherwise reasonably warm. If there is to be mention, it should be confined to noting that the subject is one which is being studied urgently, as agreed at the IMF Interim Committee and Development Committee meetings.

(b) International bank supervision: this was discussed at some length at the G.5 meeting in Washington on the morning after you left, with Lord Richardson playing a leading role in the discussion. A great deal of work is going on, and indeed has already been done, cultivating closer links between the main central banks. A major worry for all remains the question whether the US Congress will attach to the IMF Bill some excessively onerous or disruptive requirements on US banks. Latest signs are not discouraging, but there are still several hoops to go through. If

CONFIDENTIAL

opportunity arises, Secretary Regan might be asked to give his assessment.


26/5/83

28/5/83

MEMORANDUM:

- ① CANT EXCLUDE NEED TO TACKLE SOCIAL PROBLEMS, UNEMPLOYMENT: WE'RE NOT JUST ECONOMISTS
- ② WANT DATE TO ARRIVE V.S. JMD RAYS USED / TACKLE DEFICIT NOW, IN M.I.D.A '83.
BUT DO UNDERSTAND US HIGH RATES ARE V. HIGH
DO WHAT YOU CAN
- ③ \$ IS > A NATIONAL CURRENCY OF INTS, YOU HAVE YR OWN INTERESTS BUT V.S TOO.

When things go well, \$ UP
" " " " BADLY, \$ UP

- ④ INTERNATIONAL LIQUIDITY
- ⑤ NORTH / SOUTH

ALERT WITH PROBLEMS
- ATTACH ANKBY
BUT NOTHING HERE re N/S.
- IDA / INDIA
- SDR
- IMF RESOURCES:

- ⑥ INTERNATIONAL TRADE

① Gen. Discussion w Economics

② TRADE:

NOTES (A) - J.C.C.

(B) - ..

(C) -

DISCUSSED WHATS BEEN TAUGHT IN AMER

AMERICAN STUDIES EMPOWERING THE U.S.C.

NO FORM ACTING: NO NEW FORMS, GROUP

~~THE REC / NOTES / PAPER~~

③ DEMO STRATEGY

DEMONS: MESSAGES WHOSE LIKE

TO HAVE ATTENTION, BUT WHO

EMPHASIZE KEY POINTS IN STRATEGIES

E.G. (1) INT. RATES, EXCH. R.S.

(2) ARE WE NOT MAKING TOO MUCH

OF \$ - RESV, RESERVE

(3) IS THE DEMO STRATEGY IN WORK

- SDS etc.

EVER IF WE KNOW PRO → WOULD NON. CONN

AN ITEM? SET UP PAPER LIKE J. MATHS



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HOW COURT IN STATE SUPREMACY

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- Don't ARGUE INSTANT LITIGATION.

- 'new' in the country with
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- JAMES IDENTIFIED A ISSUE

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AND APPROXIMATE ANSWER

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B.W. CENTER

Journal

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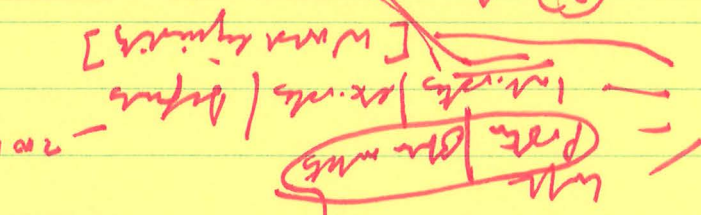
(4) U.S. interests - key: "ungr"

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ADMAE JERS
ADMAE JERS
Dem. mts
- Ex. col





1983 Summit of Industrialized Nations

Williamsburg, Virginia 23187
May 28-31, 1983

FOR IMMEDIATE RELEASE

MAY 30, 1983

WILLIAMSBURG DECLARATION ON ECONOMIC RECOVERY

Our nations are united in their dedication to democracy, individual freedom, creativity, moral purpose, human dignity, and personal and cultural development. It is to preserve, sustain, and extend these shared values that our prosperity is important.

The recession has put our societies through a severe test, but they have proved resilient. Significant success has been achieved in reducing inflation and interest rates; there have been improvements in productivity; and we now clearly see signs of recovery.

Nevertheless, the industrialized democracies continue to face the challenge of ensuring that the recovery materializes and endures, in order to reverse a decade of cumulative inflation and reduce unemployment. We must all focus on achieving and maintaining low inflation, and reducing interest rates from their present too-high levels. We renew our commitment to reduce structural budget deficits, in particular, by limiting the growth of expenditures.

We recognize that we must act together and that we must pursue a balanced set of policies that take into account and exploit relationships between growth, trade, and finance, in order that recovery may spread to all countries, developed and developing alike.

In pursuance of these objectives, we have agreed as follows:

(1) Our governments will pursue appropriate monetary and budgetary policies that will be conducive to low inflation, reduced interest rates, higher productive investment and greater employment opportunities, particularly for the young.

(2) The consultation process initiated at Versailles will be enhanced to promote convergence of economic performance in our economies and greater stability of exchange rates, on the lines indicated in an annex to this Declaration. We agree to pursue closer consultations on policies affecting exchange markets and on market conditions. While retaining our freedom to operate independently, we are willing to undertake coordinated intervention in exchange markets in instances where it is agreed that such intervention would be helpful.

(3) We commit ourselves to halt protectionism, and as recovery proceeds to reverse it by dismantling trade barriers. We intend to consult within appropriate existing fora on ways to implement and monitor this commitment. We shall give impetus to resolving current trade problems. We will actively pursue the current work programs in the General Agreement on Tariffs and Trade (GATT) and Organization for Economic Cooperation and Development, including trade in services and in high technology products. We should work to achieve further trade liberalization negotiations in the GATT, with particular emphasis on expanding trade with and among developing countries. We have agreed to continue consultations on proposals for a new negotiating round in the GATT.

(4) We view with concern the international financial situation, and especially the debt burdens of many developing nations. We agree to a strategy based on: effective adjustment and development policies by debtor nations; adequate private and official financing; more open markets; and worldwide economic recovery. We will seek early ratification of the increases in resources for the International Monetary Fund and the General Arrangements to Borrow. We encourage closer cooperation and timely sharing of information among countries and the international institutions, in particular between the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the GATT.

(5) We have invited Ministers of Finance, in consultation with the Managing Director of the IMF, to define the conditions for improving the international monetary system and to consider the part which might, in due course, be played in this process by a high-level international monetary conference.

(6) The weight of the recession has fallen very heavily on developing countries and we are deeply concerned about their recovery. Restoring sound economic growth while keeping our markets open is crucial. Special attention will be given to the flow of resources, in particular official development assistance, to poorer countries, and for food and energy production, both bilaterally and through appropriate international institutions. We reaffirm our commitments to provide agreed funding levels for the International Development Association. We welcome the openness to dialogue which the developing countries evinced at the recent conferences of the Non-Aligned Movement in New Delhi and the Group of 77 in Buenos Aires, and we share their commitment to engage with understanding and cooperation in the forthcoming meeting of the United Nations Conference on Trade and Development in Belgrade.

(7) We are agreed upon the need to encourage both the development of advanced technology and the public acceptance of its role in promoting growth, employment and trade. We have noted with approval the report of the Working Group on Technology, Growth and Employment which was set up at Versailles last year, and commend the progress made in the 18 cooperative projects discussed in that report. We will follow the implementation and coordination of work on these projects, and look forward to receiving a further report at our next meeting.

(8) We all share the view that more predictability and less volatility in oil prices would be helpful to world economic prospects. We agree that the fall in oil prices in no way diminishes the importance and urgency of efforts to conserve energy, to develop economic alternative energy sources, to maintain and, where possible, improve contacts between oil-exporting and importing countries, and to encourage the growth of indigenous energy production in developing countries which at present lack it.

(9) East-West economic relations should be compatible with our security interests. We take note with approval of the work of the multilateral organizations which have in recent months analyzed and drawn conclusions regarding the key aspects of East-West economic relations. We encourage continuing work by these organizations, as appropriate.

(10) We have agreed to strengthen cooperation in protection of the environment, in better use of natural resources, and in health research.

Our discussions here at Williamsburg give us new confidence in the prospects for a recovery. We have strengthened our resolve to deal cooperatively with continuing problems so as to promote a sound and sustainable recovery, bringing new jobs and a better life for the people of our own countries and of the world.

We have agreed to meet again next year, and have accepted the British Prime Minister's invitation to meet in the United Kingdom.

Annex

STRENGTHENING ECONOMIC COOPERATION FOR GROWTH AND STABILITY

I. We have examined in the light of our experience the procedures outlined in the undertakings agreed at Versailles last year which seek to ensure greater monetary stability in the interest of balanced growth and progress of the world economy.

II. We reaffirm the objectives of achieving non-inflationary growth of income and employment, and promoting exchange market stability through policies designed to bring about greater convergence of economic performance in this direction.

III. We are reinforcing our multilateral cooperation with the International Monetary Fund in its surveillance activities, according to the procedures agreed at Versailles, through the following approach:

A. We are focusing on near-term policy actions leading to convergence of economic conditions in the medium term. The overall medium-term perspective remains essential, both to ensure that short-term policy innovations do not lead to divergence and to reassure business and financial markets.

B. In accordance with the agreement reached at Versailles, we are focusing our attention on issues in the monetary and financial fields including interaction with policies in other areas. We shall take fully into account the international implications of our own policy decisions. Policies and objectives that will be kept under review include:

(1) Monetary Policy. Disciplined non-inflationary growth of monetary aggregates, and appropriate interest rates, to avoid subsequent resurgence of inflation and rebound in interest rates, thus allowing room for sustainable growth.

(2) Fiscal Policy. We will aim, preferably through discipline over government expenditures, to reduce structural budget deficits and bear in mind the consequences of fiscal policy for interest rates and growth.

(3) Exchange Rate Policy. We will improve consultations, policy convergence and international cooperation to help stabilize exchange markets, bearing in mind our conclusions on the Exchange Market Intervention Study.

(4) Policies Toward Productivity and Employment. While relying on market signals as a guide to efficient economic decisions, we will take measures to improve training and mobility of our labor forces, with particular concern for the problems of youth unemployment, and promote continued structural adjustment, especially by:

-- Enhancing flexibility and openness of economies and financial markets.

-- Encouraging research and development as well as profitability and productive investment.

-- Continued efforts in each country, and improved international cooperation, where appropriate, on structural adjustment measures (e.g., regional, sectoral, energy policies).

IV. We shall continue to assess together regularly in this framework the progress we are making, consider any corrective action which may be necessary from time-to-time, and react promptly to significant changes.



Williamsburg Texts.

Attached are the two
economic texts agreed this
week-end.

J.D.C.
30/11.

Ps/CST

Ps/EST

Ps/FST

Ps/MST(C)

Ps/MST(R)

Mr. Riddetson

Mr Burns

Mr Kitter

Mr Bailey

Mr Unwin

Mr Byatt

Mr Olling-Smee

Mr Lavelle

Mr Peretz

Mr Beasfull

Mr Sedgwick

Mr Ridley

Mr Kemp

Mr Carey

Mr Hedley-Perkins

Mr Bottrell

Mr Houston

Mr Hall

Mr Hague.



10 DOWNING STREET

EXCHEQUER	
DATE	31 MAY 1983
ACTION	✓
COPIES TO	Mr Hitler.
	Mr BITCATT.
30 May 1983	

From the Private Secretary

X Bmw

cc. PS/CST Mr Middleton
PS/FST Mr Burns
PS/EST

J.P.
31/5

Dear Brian,

PRIME MINISTER'S DISCUSSION WITH PRESIDENT REAGAN

On 28 May the Prime Minister had two conversations with President Reagan - the first during a brief courtesy call immediately after her arrival in Williamsburg, the second during her bilateral meeting with the President at 1820 hours. Both of these conversations were tete-a-tete.

The Prime Minister told me afterwards that President Reagan had immediately launched into the question of a possible Summit statement on INF. The Prime Minister had told the President that she herself favoured a broader statement on the strength and unity of the West and its interest in pursuing genuine arms control and disarmament negotiations. She believed that the Summit should inject a new note of urgency into the relevant negotiations. The INF should of course be mentioned but the statement should not be confined to this particular negotiation. The President had responded positively to these ideas (the subject was then taken up at the dinner for Heads of State and Government in the evening).

The President had made it clear that he wanted some steps to be taken to alleviate the plight of the developing countries though he had not been specific as to the measures he envisaged.

The Prime Minister raised with the President the question of the US budget deficit. The President had replied to the effect that he was convinced that the American economic recovery was linked to his tax cuts. If these cuts were not fully implemented, the recovery would be aborted. The implication of economic recovery was that national income would rise and this process would by itself bring the deficit down substantially in 1985/86.

X (The Prime Minister has reached the conclusion that there is little point, in the light of these arguments, in pressig the Americans further about the budget deficit). ||

Mrs. Thatcher told President Reagan that she was very concerned about the Export Administration Act which would cause immense problems in Europe. The President pointed out that there was one bill before the House of Representatives and another before the Senate. The former was better from our point of view and he did not believe that it would in the end cause us much trouble. His powers under this legislation would of course be discretionary.

/ The Prime Minister's

S E C R E T

-2-

The Prime Minister's general comment on her meetings with President Reagan was that his health seemed much better and he was also much better informed than on previous occasions.

I am copying this letter to John Kerr (HM Treasury), John Rhodes (Department of Trade) and Richard Mottram (Ministry of Defence).

John Kerr

John Rhodes.

Brian Fall, Esq.,
Foreign and Commonwealth Office.

S E C R E T



10 DOWNING STREET

From the Private Secretary



PSYCHEQUER	
REC	31 MAY 1983
ACTION	Mr Litterer
COPIES TO	Mr Unwin
	Mr Lavelle
31 May 1983	
Mr Bottrell	
Mr Carey	
Mr Beestall	

I attach a copy of a letter from the President of the World Bank which awaited the Prime Minister on her arrival at Williamsburg on Saturday.

I should be grateful if you would let me have a draft reply for the Prime Minister's signature, if possible by Tuesday 7 June.

I am sending a copy of this letter and its enclosure to John Kerr (HM Treasury).

M. C. SCHOLAR

Chris Greenwood, Esq.,
Foreign and Commonwealth Office.

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

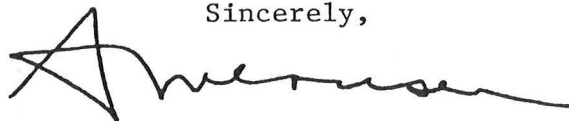
May 20, 1973

Dear Madam Prime Minister:

I am writing to thank you for taking the time to see me during my visit last month to the United Kingdom. I was glad to be able to discuss with you some of the problems we face in the Bank and in IDA. I welcome the emphasis which you place on effective use of aid and the need for appropriate economic policies on the part of recipient countries. That has been the consistent approach of The World Bank, with each of its loans strictly supervised and monitored throughout its life. IDA is dependent, of course, on grant money from Governments, but the Bank, which raises its funds on the financial markets, is very proud of its unique record of never having suffered a financial loss and of the quality of its projects.

I should like to repeat the plea I made to you that the present difficulties in the financing of IDA might once again be tackled in the same spirit as that which led, under your leadership, to the breaking of the deadlock in IDA financing a year ago.

Sincerely,



The Rt. Hon. Mrs. Margaret Thatcher, P.C., M.P.
Prime Minister
10 Downing Street
London, S.W.1, England

The best idea is on p1 of the Monday chunk.

1. ~~NOT~~
FB.

2. (PWP)

Jul

Ref. A083/1557

MR COLES

As you will know, I was the notetaker for the plenary sessions of the Economic Summit at Williamsburg. Thanks to the miracles of modern technology, I was able as the discussion went along to make notes which were instantly transmitted to our delegation office and there transcribed.

2. I doubt whether it is necessary for me to prepare a note for record beyond these notes, which may I hope serve as sufficient record of the proceedings.

3. I attach copies of the notes herewith.

4. I am sending copies of this minute and of the notes to the Private Secretaries to the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

1 June 1983

EXCHEQUER	
- 2 JUN 1983	
ACTION	EST-FSI-EST
COPIES TO	Mr Litter. Mr Urwin Mr Middleton Mr Burns Mr Lovelle. Mr Hall Mrs Hodley-Miller. Mr Carey.

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NOTES TAKEN AT A PLENARY SESSION OF THE ECONOMIC SUMMIT
CONFERENCE AT THE WILLIAMSBURG INN, WILLIAMSBURG, ON
SUNDAY 29 MAY 1983 AT 2.30 pm

RR: Back to economy. We agreed this morning. Laid foundations for recovery. Recovery on way. Halt protectionism. Pursue steady broad gauge progress to balanced growth. Turn to immediate actions. Ask Regan to speak.

Regan: Finance Ministers have had a thorough review of economies. As to multilateral surveillance Finance Ministers have met twice with Managing Director of IMF. We have better understood each other's policies. But we need public affirmation on need for convergence. Finance Ministers have worked on agreed statement; not sure what you want to do with it. We spent many hours on interest rates and implications. We need more surveillance, less protectionism. Exchange markets have sometimes been volatile. Convergence would reduce instability. Interventionism study very useful. Some have asked for new monetary conference. Most see no possibility. It would be premature. No new forum needed; use IMF and G10.

Lambsdorff:

1. Main problem is unemployment.
2. Regan reported US situation on interest rates and deficits. We weren't convinced.
3. Export Administration Act is bone of contention. We must express our concern.
4. We would go along with need to reduce protectionism particularly at time of recovery and particularly in relation to ldc's.

Canadian Finance Minister: Both Reagan and Regan referred to trading system. I would expect Summit to make a statement on protectionism which would be credible. We failed to get dismantling at GATT Ministerial; got not further than saying "no new protectionist measures". At OECD Ministers more courageous: "dismantle existing measures as recovery proceeds". A problem of credibility; despite GATT Ministerial, protectionist measures had increased. We need a meaningful commitment. Can it be politically obligatory? Can we

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monitor trade performance? People don't notify GATT when they undertake border measures which are protectionist in nature. Recovery will depend on maintaining open markets. Two ways of doing this:

1. Strengthen GATT, or
2. Ask Trade Ministers to consider alternative.

RR: Last night HSG agreed we must face up to fact we were all engaged in protectionist measures.

HK: Recovery has a great deal to do with interest rates. We should like US comments. Given interest rates in US, recovery in Europe more difficult. You spoke about silver lining. Is it real, or grey-silver?

Regan: I am not so bullish as I was. MI going up rather rapidly. Interest rates going up. Increasing MI would not bring interest rates down. If we can bring MI down, interest rates could come down. The linkage between interest rates and size of deficits has not been made. However we agree that deficit is a psychological impediment to getting interest rates down. If no progress, tax increases in 1985.

RR: Sizable deficits 1983 and 84. Then a decline. Half deficit is due to recession: 1 per cent on unemployment equals \$27 billion on deficit. Other half of deficit is structural. Programmes with automatic built-in increases. Congress won't act. I will use my veto power on any appropriation which exceeds what we have asked for. A limit to how much you can reduce a deficit by savings or tax increases. Deficit a symptom not a cause. The only answer is recovery. Every extra 1 per cent on forecast recovery = \$100 billion of the deficit. 2 per cent extra would produce a balanced budget. So we aim at solid sustainable recovery. Recovery visible in construction - 77 per cent increase in housing permits - automobiles, appliances, furniture. All typical of recovery. 11,000 small businesses went bankrupt in 1982, but 600,000 started.

Chancellor of the Exchequer: Agrees Regan analysis. Useful to annex our statement to Summit declaration. Agree Lambsdorff stress on unemployment. Agree L on Export Administration Act. Key things to tackle for sustainable growth:

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1. Keep inflation going down.
2. Resist and repel protectionism - but don't commit ourselves to what is not credible.
3. Get interest rates down.

? | High interest rates retarding recovery: effect on debts of ldc's, and on domestic interest rates in Europe. The fact that deficits and interest rates are high. Agree attempt at eventual reduction in deficit is counter-productive. But show markets not where you are but where you are going; down. Otherwise apprehension in markets will continue.

RR: I recognise interest rates a problem. More psychological than anything else. We have had difficulty in persuading Congress to go along with our programme, but interest rates and inflation have come down.

PT: Nominal interest rates, not real.

RR: We agree that this is a target. Course has been steadily downwards. It's up to Congress. The battle will be on entitlement programmes. We have done what we can to reduce cost of Government. We have reduced increase in costs of one programme from \$116 billion to \$50 billion.

Shultz: No need for us to be defensive. Interest rates down by 50 per cent since 1981. We are making progress. Only reason why people react to high interest rates is because President has been so fantastically successful in getting inflation down. Markets will respond to sound policies pursued with persistence and resolution. Deficits bigger than President wants: but tax increase now would be crazy: stop recovery in its tracks. The President has been very courageous and has been doing a hell of a job. Real growth rate of 6 per cent from 4th quarter of 1982 to 4th quarter of 1983. A quick fix would be a catastrophe. Trade: put some meat on the bones:

1. Perhaps we should change trade officials with specific plans to fulfil OECD Ministerial. Perhaps monitoring.
2. Get discussions going on trade liberalisation, particularly between developed and developing countries, who are very protectionist.

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3. Strengthen GATT.
4. Working on agricultural trade.
5. Need for better rates on trade in services and high technology products.
6. Look forward to a new trade liberalisation round in GATT.
7. Trade and finance two sides of coin: have occasional meeting of trade and finance people together.

Lambsdorff:

1. We would be happy for Finance Ministers' statement to be annexed to declaration.
2. We discussed whether meeting of Trade and Finance Ministers should take place. We agreed no new fora: do it in OECD.
3. On deficits and interest rates, Regan not able to convince us that they are not connected. I fear that interest rates will go up, not down, and perhaps we should say so.
4. Deal with protectionism, through strengthened GATT.
5. Say something about Export Administration Act. Mentioned three times here: no US response.

Italian Finance Minister:

1. Agree annex statement to declaration.
2. Two small observations on statement - keep for another occasion.
3. We are leaving here with substantial convergence of views on objectives, but with greater confusion on what is needed to make the development of recovery sustained. Not convinced by Regan. Three contradictory elements:
 1. Regan says deficit gets worse if economic conditions get worse and vice versa. But economic conditions are improving and deficit getting bigger.
 2. Confused about relationship between deficits and interest rates.
 3. A lack of US willingness to reduce rates or an inability to do so? It's not clear.

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RR: No lack of willingness on our part. When we started, interest rates were at record high. I took over Carter's budget. Could not start to do anything until budget 82-83. Even when I had signed tax cut law, it would take a long time for tax cuts to have stimulation effect; and tax cuts were in three instalments. We had inherited the highest tax increases ever under Carter; and in same period deficits soared. Our tax cuts have not until July 1983 brought the level of taxes down below what it was. We are victims of our own success. The reduction of inflation has meant that tax yields don't increase as much as are expected. Interest rates went down to 10½, 10 per cent or lower. Further reductions waiting for July tax cuts. Opposition pressing to cancel tax cuts, but we won't; we need the incentive. But we want to bring interest rates and deficit down. We have not done badly, and we won't let up. When markets see we are going to stay the course, rates will come down.

PT: Energy: we should put our hands out to the oil-producing countries. Discuss future with them. We need security of supply, they need steadiness of prices.

Nakasone: Relations with South. They let me know what they expect of Williamsburg:

1. Maintain free trade, oppose protectionism.
2. Industrial countries to open markets to developing countries.
3. International financial institutions to increase aid to ldc's.

FM: At last we have come to main point, on basis of worthwhile text. A few comments and suggestions, on omissions from thematic paper.

1. When one talks of convergence, be clear what it means. One has to have convergence in struggle against inflation. France ardently engaged in struggle. From 14 per cent in 1981 to 8 per cent in 1983 and 5 per cent in 1984. We don't want to be separated from others.
2. Social convergence: coping with unemployment. Convergence means we support recovery. But we cannot act solely as economists.
3. Won't add anything on interest rates to what has been said by Germans and Italians. Which of us would impose on US in mid-1983 to adopt new taxes or reduce deficits or suddenly change

- interest rates. Markets not at beck and call of US Government. But only natural to say to US leaders - be careful. Real interest rates in US range from 5 to 7 per cent at short end to 8 per cent at long. Unprecedented levels. So ask US to contribute as they can and understand the burden of interest rates.
4. The dollar is the world reserve currency. Not just your domestic problem. Whichever way things go, well or badly, dollar goes up. Think of effect on us having to purchase things for dollars. Let's try to bring a little order into this. International liquidity.
 5. As far as currency is concerned, agree subject to some reservations. But only chance references to ldc. We are accountable to them, and many others not here. Send them a signal, Deng said to me: "There are some idiots who prefer poor communism to rich capitalism". Threat of unemployed workers. Don't let Soviet win ideological war. We need an open approach. Talk about food, energy. India has reached food self-sufficiency. We ought to stabilise commodity prices, but the world isn't ready for that yet. Make use of increases in IMF resources. We could do more.
 6. Necessary for us to commit ourselves on the question of intervention as agreed at Versailles. Bring our whole weight to bear to steady exchange rates. Not talking about fixed rates; bring order. Be inspired by Bretton Woods: not just do what BW did. Agree conference not possible now, but work towards it. We want to find middle ground, recognising need to move towards greater international monetary order.
 7. Let's set up a working group to analyse where protection is occurring, and deal with it. We want society not to crush but to serve the individual. Don't issue statements devoid of meaning. I shall be vigilant tomorrow morning.

AF: I am concerned that our Summit should consolidate expectations and hopes for recovery. We should add credibility to our decisions, so that public opinion will be aware of them and believe in them. Therefore we cannot put aside problems caused by disorder or monetary

system. No question of going back to Bretton Woods. Examine difficulties we have met in last 10 years, and learn lessons. They have prevented linkage between north and south. We are at beginning of third industrial revolution:

1. Steam.
2. Electricity and oil.
3. Nuclear, and advanced technology.

Advanced technology will produce more unemployment. A new type of unemployment because it's a transferring from one thing to another. Try and see how we can intervene. Can we just remain attached to a system that does all the things that this has done?

A 7 point plan.

1. ?
2. Recovery.
3. N/S. ~~7~~-3=4.

RR: Sum up for Sherpas. Keep it short: 3 double spaced pages.

1. Shared values of freedom and democracy.
2. Domestic policies - recovery under way, but no flights of fancy.
3. Interest rates and deficits.
4. Unemployment, structural as well as cyclical.
5. Ldc: revive trade to ease debt problems.
6. Trade: reverse protectionism and try for further liberalisation.
7. Balanced approach to international financial system.
8. Continue multilateral surveillance for exchange rate stability.
Annex statement by Finance Ministers.

PT: Five lines on energy please.

HK: When do we eight meet again?

RR: 1955 for 2000. Sliding the schedule 30 minutes.

HK: What tomorrow?

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Regan: International debt. Support for IFI. East/West economic relations. Plus the statement.

HK: Sherpas to reflect the issues, including the controversial issues. Find a middle road. Include thoughts I don't necessarily hold.

Nakasone: Science and technology. Turn this into concrete plans. I am especially interested in cancer and recombinant DNA.

PT: Ask Sherpas to use thematic paper for inspiration.

RR: Agree. Foreign Ministers to go to press for INF statement.

Shultz: I will brief generally on economic side.

THE END

NOTES TAKEN AT A PLENARY SESSION OF THE ECONOMIC SUMMIT
CONFERENCE AT THE WILLIAMSBURG INN, WILLIAMSBURG, ON
MONDAY 30 MAY 1983, AT 9.30 am

RR: Start with joint statement. [I will go off the air for a bit.]

Mitterrand: is defending his proposal for a high level international monetary conference. [It's in.]

[Continuing to get on peacefully, but slowly, with the drafting points.]

1055 [The declaration is approved.]

We resume at 1120.

RR: Discuss science and technology cancer and DNA.

Nakasone: We endorse contents of report of Versailles meeting and look forward to progress. Interested in attempts to overcome cancer. A worldwide scourge. Great improvements in research into cancer. Interferon? Need for international co-operation. A 10-year programme in Japan. Hope that all of you will co-operate. Not for inclusion in the declaration, but refer to experts to consider ways of promoting co-operation. Recombinant, DNA, euthanasia, abortion, cloning. Questionable whether decisions in these areas can be left to individual countries. Encourage experts to think deeply about gene reprogramming: perhaps need for international understanding, and co-operative efforts to avoid threat to human dignity.

RR: Has there ever been attempt to see that we were not duplicating cancer research? We may be closer than we think to a break-through on cancer.

Fantani
AF: I understand that they have discovered a means of reproduction that does not involve the intervention of the male.

Refracted
FM: That is the worst news all day.

RR: Eminently appropriate that Prime Minister of Japan should bring this to our attention: endorse. All speak to our own people about more international co-operation and avoidance of duplication of research. Euthanasia etc, a very difficult and delicate problem.

US constitution confers right to life, liberty and the pursuit of happiness. Not for us to take decisions at that early stage of life. [A little anecdote.]

Nakasone: We have other problems: test tube babies. Universities have their own ethical codes. Genetic engineering going ahead. Cloning; what about the appearance of 10 Nakasones? You can already do it with mice. Wise men should get together internationally and co-operatively to discuss and if possible agree upon ethical problems.

Stoltenberg: How to proceed? Universities do already co-operate very closely. Ask Ministers of Science in next 12 months to put together a report on where improvements could be made.

RR: I could go along with this.

Pym: There is already very full and helpful co-operation and exchange of information; do we need more?

RR: Let's all follow up in our own countries to make sure we are doing all we can in that regard. Switch to international debt problems.

Regan: Debt situations have been so far handled in an orderly fashion. More countries may need baling out. Finance Ministers oppose new institutional arrangements. Existing arrangements cope. The five-point strategy which Heads of State and Government have now endorsed. We agreed on more exchange of information among creditors, more monitoring.

PT: Should we introduce all these conditions? It is an enormous list. Some of them are appallingly difficult to fulfil. Very large figures required. Need for ratification of IMF quotas. We can "view with great concern" the possibilities and risks of default. Not only big debtors: dozens of small ones. I agree not new institutions. Arrangements have coped, with the great help of the US. We have done it, and can do it again; but at great risk.

Regan: Yes. Great problems could arise if a group of countries took precipitate action. Watch cash flow of IMF. The falling off of commercial banks, not only in US, is worrying. We should urge the banks to be more forthcoming, so that we don't need to replace commercial with sovereign money. Not enough.

GT: The situation is very serious. Size, structure and distribution of debt very worrying. Growing tendency of ldc to restrict imports, with bad effects on our trade. People have illusions about another Kennedy round. Not much more we can do, though we could benefit if lds reduced barriers. IBRD should support, as well as IMF. Role of private banks very important, but loans on modest conditions not sufficient at this time. We understand your position on IDA 7. But support you in your struggle for the future. We cannot envisage a reduction of aid at this time. Situation particularly serious in Africa. Catastrophe possible in next ten years. Need for more surveillance and control and contingency planning for worst cases.

Colombo: Debt problem has primary importance. But don't see and deal with problems in same way. There are differences. With big debtors only a case by case approach. On the other hand we have 4th world countries - the poorest. In Paris we agreed to subscribe. In between - 3rd world - a difficult judgement. They are insolvent, but we don't consider reasons for it. A case by case approach can't work. We need to discover a method. Not necessarily unconditional: they should be conditional. But don't abandon them, or leave them to case by case approach.

Howe: Endorses Regan's report. Inclined to continue to bless case by case approach. We may have surmounted a crisis, but we face a series of serious problems. We have developed an effective system fo co-operating (bow to Volcker and Regan). Importance of increase in IMF resources (bow to Delors). Situation may be more manageable than it looks. A number of issues in Interim Committee. Approach them wisely. Replenishment of IDA would be helpful, though we understand US difficulties. Much work being done to improve the case by case approach, and make it as effective as we can. But we must not establish an "international entitlement programme".

loss of credit

Delors: International community shaken by series of crises. We coped as firemen not as architects. A tribute to Volcker. Excessive pressure on commercial banks could lead them into irresponsibility and difficulties. Improvements can be made to firefighting. We need a firetower from which to see conflagrations coming. When you see it, that's too late. We need a fire control officer: one man who collects and collates information. The Paris Club procedure can help, but may not be adequate. Give more thought to the future. A difficult debate ahead at UNCTAD. Not just finance and trade; add:

1. more ODA needed
2. high levels of interest rates. Until 1980 real growth rate higher than real interest rates for ldc. That now reversed.
3. liquidity: was growing too much in 1981 but in 1982 it dropped. No wonder a high dollar rate.

Is IMF conditionality too tough and demanding in some cases?

Too rapid adjustment can lead to political disorder. Need to align IMG and IBRD.

Shultz: East-West trade. Refers to para in declaration. There's a lot to note with approval. Out of much discussion has emerged the view that we should look at EWER against security considerations. Work on IEA, COCOM, OECD progressive and valuable and a continuing process. Heart of the matter is COCOM on transfer of technology. Soviets have done very well, by purchase, theft, etc. COCOM being strengthened. Some scepticism about some of proposed extensions; hope people will listen to us. IEA study taken ahead and moving forward. We welcome statement in OECD Ministerial communique. Trade should follow market considerations: no special preferences for Soviet Union. Versailles call to OECD going forward: very constructive. NATO umbrella study going forward: a good basis for looking at this. We keep Japs fully informed. All in all a great deal of progress is being made, and it's not controversial among us.

McEachean: Take satisfaction from progress. The subject difficult. La Sapiniere gave an impetus to this work. Tribute to leadership of Shultz. Our understanding has been broadened, to point where we can deal with the matter in a constructive way. Carry on.

Nakasone: Endorse Schultz. EWER tied in with security of West: unity very important. Japan will continue to co-operate. Look forward to continuing consultation with NATO.

RR: Exchange of youth programme. Williamsburg will give message of confidence and hope. No quick fixes. But united in determination to secure economic growth.

Howe: Invites next Summit to UK, on behalf of Prime Minister.

Trudeau: Tribute to Reagan. We have had a Summit that was unstructured informal, unprecooked. In that respect the Summit a great success; has led to better discussions among us. An unmitigated success. We can differ, but reconcile our differences. Hospitality superb. Preparations meticulous.

General applause.

Nakasone: echoes tribute.

RR: Thank you.

Mitterrand: Exchanges sometimes harsh, but always frank and open throughout. President Reagan has brought us together.

THE END.

CANDIDATE

Handwritten marks and scribbles at the top of the page.

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

Handwritten signature or initials in the center of the page.

CONFIDENTIAL



pm

10 DOWNING STREET

From the Private Secretary

2 June 1983

EXCHEQUER	
REC.	- 20 JUN 1983
ACTION	Mr Linder
COPIES	Mr Unwin
	Mr Lavelle
	Mr Hall

Dear Brian,

WILLIAMSBURG

We discussed on the telephone the possibility of the Prime Minister sending short messages to the other participants in the Economic Summit, given in particular the fact that owing to her early departure while the discussions were still in progress Mrs. Thatcher was not able to bid farewell properly to her colleagues with the exception of President Reagan.

I enclose a series of messages signed by the Prime Minister. I should be grateful if you would arrange for the texts to be telegraphed and delivered as soon as possible and for the signed versions to be delivered as soon as possible thereafter.

I am copying this letter and enclosures to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

John Kerr
Th Coles
 pp John Coles

Brian Fall, Esq.,
 Foreign and Commonwealth Office.

CONFIDENTIAL



10 DOWNING STREET

THE PRIME MINISTER

2 June 1983

Dear Ron,

Thank you so much for all the arrangements which made my visit to Williamsburg at once so enjoyable and so rewarding.

It gave me the greatest pleasure to see you and talk with you again. Thank you for setting time aside for our private discussions and thank you for conducting the formal talks towards such a successful outcome. The Summit's conclusions on economic questions and its statement on defence and disarmament will do much for the vitality, cohesion and strength of the free world in the years ahead. I hope they bring to the United States and to you personally encouragement and support in your leadership of the Western Alliance. We in Britain remain deeply indebted to America and its President.

Finally, may I thank you for your handsome gift. This elegant bowl captures so well the beauty and calm of Williamsburg which will remain in my mind for years to come.

Congratulations on a highly successful and memorable occasion.

Yours ever

Ronald Reagan

The President of the United States of America.



10 DOWNING STREET

THE PRIME MINISTER

2 June 1983

My dear Chancellor,

I am so sorry that owing to the need for me to return to London before the Economic Summit was over I was not able to say goodbye to you properly at Williamsburg.

It was as always a pleasure to see you. It is a great encouragement to me that our views on all the fundamental issues are so close and I remain most grateful for the understanding which you have shown in recent months.

Provided that the Conservative Party is successful in the elections, I shall look forward to meeting you again in Stuttgart and helping you to make the European Council the success for Europe that we both desire.

Yours sincerely

Margaret Thatcher

His Excellency Herr Dr. Helmut Kohl



10 DOWNING STREET

THE PRIME MINISTER

2 June 1983

My dear Prime Minister,

I am so sorry that owing to the need for me to return to London before the Economic Summit was over I was not able to say goodbye to you properly at Williamsburg.

I much enjoyed meeting you again and am particularly glad that we were able to have a good talk together on the day of my arrival. I hope that we shall have another opportunity to meet soon. I send you my best wishes.

Yours sincerely
Raymond Storer

His Excellency Mr. Yasuhiro Nakasone



10 DOWNING STREET

THE PRIME MINISTER

2 June 1983

Pierre Rivie

I am so sorry that owing to the need for me to return to London before the Economic Summit was over I was not able to say goodbye to you properly at Williamsburg.

It was good to see you again and nonetheless so because some of our discussion was on the lively side! I am sure that the final statement on economic matters and the statement on defence and disarmament were useful and well worthy of the occasion.

I send you my best wishes.

James Callaghan

The Rt. Hon. Pierre E. Trudeau, P.C., M.P.



10 DOWNING STREET

THE PRIME MINISTER

2 June 1983

My dear Prime Minister,

I am so sorry that owing to the need for me to return to London before the Economic Summit was over I was not able to say goodbye to you properly at Williamsburg.

I much enjoyed meeting you again and am only sorry that because my stay in Williamsburg was too short we did not have time for a full bilateral meeting. Provided that the Conservative Party win the elections on 9 June, I shall look forward to seeing you again at Stuttgart.

Every good wish,

Yours sincerely

Raymond Delisle

His Excellency Senator Amintore Fanfani



10 DOWNING STREET

THE PRIME MINISTER

2 June 1983

Dear Mr. President,

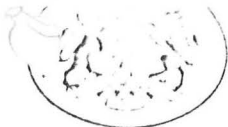
I write to let you know how sorry I was that owing to my need to return to London for the Election Campaign, I was unable to bid you goodbye properly at Williamsburg.

I am equally sorry that the continuation of the Summit's proceedings after the appointed time on Sunday made it impossible for us to have our bilateral meeting, to which I had been much looking forward.

I hope you had a pleasant return journey from the United States. If the Conservative Party wins the elections on 9 June, I shall look forward to seeing you again at the European Council on 17 June. Meanwhile, I send you my best wishes.

Yours sincerely
Margaret Thatcher

His Excellency Monsieur Francois Mitterrand



→ ACTION
 -6 JUN 1983
 CST

Foreign and Commonwealth Office
 London SW1A 2AA

CHIEF SECRETARY	
REC.	-7 JUN 1983
ACTION:	MR Beastall
COPIES TO	(PPS) FST EST
	MST(C) MST(R)
	MR Middleton
	MR Witter

3 June 1983

MR Unwin
 MR Carey
 MR Turnbull
 JPH

Dec Jantzen

Suralaya Power Station, Indonesia

Mr Jenkin wrote to Mr Pym on 20 May about the case for an aid offer to be made in support of British bids for this power station.

I understand that it has been agreed between officials that developments in Indonesia have removed the necessity for a decision before the Election. However, we are nevertheless considering the case urgently so that the British firms involved can be in a position to bid should the Indonesians decide to go ahead with the project.

I am copying this to the Private Secretaries to the recipients of Mr Jenkin's letter.

Your ever

(J E Holmes)
 Private Secretary

Dr J P Spencer
 Department of Industry

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND CHANCELLOR KOHL
AT WILLIAMSBURG AT 1730 HOURS ON SATURDAY 28 MAY 1983

Present:

Prime Minister

Chancellor Kohl

Mr. Coles

Mr. Teltschick

Interpreter

Interpreter

* * * * *

Chancellor Kohl enquired as to the progress of the election campaign in the United Kingdom. He said that he had believed for months that the result would be of great importance to the Western Alliance and that Andropov would not start to negotiate seriously about arms control until the outcome was known. The Soviet Union was currently going through a bad period both for economic reasons and because the collapse of Communist ideology was clear - events both in Poland and the German Democratic Republic demonstrated this. Ideology had been replaced by naked power politics. But the Russians remained extremely powerful. Following the UK election, the West would be set on a clear course for some years ahead. The Italian elections would not lead to substantial change in defence policy. German defence policy was soundly established as well. All this was important, particularly in view of the less satisfactory attitudes adopted by Denmark and Sweden. It was important for the United States to have loyal allies, but the Americans had to understand that we were not dependants.

The Prime Minister said that she believed that the Americans did understand that point. It was most important that the Williamsburg Summit should be successful, both in its economic message and in demonstrating the unity of the Alliance on defence issues.

In response to a question from the Prime Minister, Chancellor Kohl said that he would not describe the German economic recovery as rapid; but there was a steady upward movement. The climate of opinion had changed and people were more optimistic. However, the process of reducing unemployment would be a long haul. The trade unions were now in a reasonable frame of mind. He had the

/ day

day before approved a wage settlement for public sector employees which would last for 18 rather than 12 months. They would get an average annual salary increase of only 2.5%. The Prime Minister commented that this was a remarkable achievement. Chancellor Kohl said that for 2 years the salaries of civil servants had risen by only 2%. Inflation was now a little less than 3.5%. If Germany was very lucky, it could be down to 2.9% by December. The Prime Minister observed that unemployment was now the overriding problem. This could be discussed at Stuttgart along with the EC budget problems.

Chancellor Kohl said that it would be very helpful if action could be taken to bring interest rates down, but that largely depended on the US budget deficit. The Prime Minister said that she understood that the US Congress was more interested in tax cuts than in bringing down the deficit, though the latter would be the biggest single measure of assistance to the world economy. Chancellor Kohl agreed, and said that this must be discussed frankly with President Reagan during the Summit. Turning to Japan, he said that he had told the Japanese Prime Minister that he was prepared to support Japan's position on SS20 deployment, but he would be looking for some reciprocal concession on trade. Our markets were open to Japan - Japan's markets should be open to us. The Prime Minister agreed, but observed that Japan had a different culture; Japanese people did not easily contemplate buying foreign goods. The Japanese economy was run in such a way as to promote exports. Japan's balance of payments would create acute problems for the rest of the world this year and next. These matters were brought up with Japan at every Economic Summit. But on each occasion the participants stopped short of applying real pressure. Chancellor Kohl observed that there was now a change in the situation. Japan needed the help of its Western partners on the question of INF missiles and wanted Japanese interests to be borne in mind in the Geneva negotiations. In that case Japan must take account of our trading concerns. The Prime Minister said that she agreed with the Japanese position that arms limitations should be of global application. But the problem remained that Japan exported a narrow range of products that did harm to our own industries while

we could not effectively penetrate the Japanese market. We should need to continue to take action in the GATT. Chancellor Kohl commented that the West should not be lethargic in the face of Japanese trading behaviour. The Manager of Siemens had recently told him that his firm had no reason to fear the Japanese whose achievements were limited to a narrow sector. In the past 2 years Siemens had made good progress in Japanese markets. Europe still needed to know more about Japan. We should send many more students to study there.

The Prime Minister said that the agenda for the Stuttgart European Council was very full. We needed to make substantial progress on the question of long-term financing and also devise an interim solution for the British budget problem. If we could agree on a timetable and procedure for solution of the long-term problem, we should be more likely to obtain an interim solution.

Chancellor Kohl said that he agreed with these views. He thought that final decisions on the entry into the European Community of Portugal and Spain should be taken at the latest in the first half of 1984 under the French Presidency. The Prime Minister commented that if Spain wanted to enter the Community it must completely remove its restrictions on the border with Gibraltar. The Spanish Government was now reluctant to carry out the Lisbon Agreement. Chancellor Kohl said that he had discussed this question with Senor Gonzales. He thought that if the Prime Minister talked directly to Gonzales about it, there was a chance of a solution, for he was extremely keen to see Spain enter the European Community.

President Mitterrand very much wanted the negotiations on enlargement to be concluded during the French Presidency, the actual date for Spanish and Portuguese entry being set for 1986. This was an important point for Germany. Germany would have to pay more towards the Community. But he would only agree to do so if he could present a convincing political case for this. Enlargement of the Community would be understood in Germany as a sufficient reason. But he was not prepared to agree to current ideas about increasing the proportion of VAT contributions to 1.4%.

/ The Prime Minister



EXCHEQUER	
DATE	- 3 JUN 1983
ACTION	Mr Lither 3.6
COPIES TO	Mr Ummi
	Mrs Hedley-Niles,
	Mr Carey
	Mr Lambie,
	Mr Hawke,
	Mr Mann.

Foreign and Commonwealth Office

London SW1A 2AH

(PWT)

3 June 1983

Dear John,

Williamsburg: Messages to the Prime Minister

// The President of Colombia and the President of UNICE (Employers) each wrote to the Prime Minister before the Economic Summit at Williamsburg. I enclose draft replies to these messages together with copies of the messages themselves for ease of reference. The replies have been cleared with the Treasury. Mr Pym has not been able to see the drafts himself yet, but I will let you have any comments he may have immediately after the weekend.

I am copying this letter to John Kerr (Treasury).

*Yours ever
J E Holmes*

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

DRAFT LETTER

From: Prime Minister

To: G Carli
President
UNICE (Employers)

THE WILLIAMSBURG ECONOMIC SUMMIT

Thank you for sending me a copy of your message to Summit participants. It arrived so soon before the Summit itself that I thought it would be more helpful to reply after the Williamsburg meeting.

2. You will by now have seen the text of the Williamsburg Declaration on Economic Recovery. I think you will find in it commitments and agreements which cover the action points set out in your message. As the Chancellor of the Exchequer said in his Press Conference after the formal meetings at Williamsburg had ended, the United Kingdom believes that growth can come and is coming from the renewed vitality and confidence of business and industry. This is particularly true of business in those countries like the United Kingdom which have had some considerable success in reducing inflation. In our concern to sustain the recovery, to promote convergence of economic performance and greater stability of exchange rates and to pursue balanced fiscal and monetary policies, the Summit has reached agreements which should prove of lasting value to business and industry. I think you will welcome the commitment to halt and reduce protectionism as the economic

recovery gathers strength. In this context we believe that the benefits of the recovery should be shared by developing countries through a strengthening of the open trade system and a general increase in the level of world trade. This process is also vital for the future of exporters in Europe.

3. I do not share the view that the structure of the international financial system is fragile. There is, of course, no room for complacency in view of the strains which international indebtedness have imposed over the recent past. Nevertheless I hope that the confidence, which the Summit participants were able to express in the emerging recovery, will be a source of encouragement and incentive to your members.

recovery gathering... In this context we believe that
the priority of the recovery should be shared by developing
countries through a strengthening of the open trade system
and a general increase in the level of world trade. This
process is also vital for the future of exporters in Europe.

I do not want the view that the structure of the
international financial system is fragile. There is, of
course, an need for strengthening in view of the strains which
international imbalances have imposed over the recent
past. Nevertheless I hope that the confidence which the
summit participants were able to express in the emergency
recovery, will be a source of encouragement and incentive to
your members.

DRAFT LETTER

From: Prime Minister

To: His Excellency
Belisario Betancur
President of Colombia

THE WILLIAMSBURG ECONOMIC SUMMIT

Thank you for your message to the participants at the Williamsburg Economic Summit. It was useful to have your personal reflections which also reflected those of the Summit of Latin American and Caribbean economic experts. It arrived so soon before the Summit itself that it seemed more helpful to reply to you once the Summit had taken place.

2. I fully share your view of the interdependence of the world economy. The Williamsburg Summit was not of course intended to design a plan for global recovery. But it did consider and agree upon the overall framework within which the emerging recovery in the industrialised nations can be sustained and spread to other parts of the world. We believe that from the standpoint of the developing countries, and Latin America in particular, it is vital that the recovery in the developed nations should be sound and that its benefits should be shared widely through an increase in international trade and a strengthening of the open trading system. I am sure that you and your colleagues in the Latin American Economic System will agree with this.

3. To achieve this aim the Williamsburg Summit reached a series of important agreements and commitments which are relevant to the points of concern which you mention in your letter. The Summit considered the conditions for improving the international financial system including the part which might in due course be played by a high-level monetary conference. Your proposals will of course be a timely contribution to this task.

4. The Summit participants believe that the Williamsburg Declaration enunciated a coherent strategy which will bring the benefits of recovery to the world economy. Conditions of more stable exchange rates, lower inflation rates and public deficits should nurture the emerging recovery. On more detailed points the Summit recognised the importance of the role of new technology in achieving economic growth and also the need for continued action to reduce dependence on oil. It was not the purpose of the Summit to lay down specific policies in these areas but rather to agree on general policy directions.

5. I believe that the principal message from Williamsburg is one of new confidence in the prospects for recovery. The participants were very conscious of the need to spread the benefits of this recovery more widely to the developing

countries by strengthening the open trading system. I am grateful to you for sharing your thoughts with me and I am confident that the outcome of the Summit will be seen to have been positive and constructive.

GRS 1500

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FM BOGOTA 271700Z MAY 83

TO IMMEDIATE FCO

TELNO 106 OF 27 MAY

AND TO IMMEDIATE WASHINGTON

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INFO SAVING EC POSTS

MIPT; WILLIAMSBURG; CENTRAL AMERICA AND THE CONTADORA GROUP

BEGINS

I HAVE THE HONOUR TO ADDRESS YOU ON THE OCCASION OF YOUR MEETING WITH OTHER DISTINGUISHED CHIEFS OF STATE FOR THE PURPOSE OF PRESENTING THEM IN A CONSTRUCTIVE SPIRIT WITH SOME REFLECTIONS ON THE WORLD ECONOMY AND SOCIAL SITUATION AND IN PARTICULAR THAT OF LATIN AMERICA AND THE CARIBBEAN.

THE ECONOMY AND SOCIAL WELFARE OF THE 375 MILLION INHABITANTS OF THIS REGION DEPENDS IN GREAT MEASURE ON THE MACROECONOMIC POLICIES OF THE STATES WHICH YOU REPRESENT.- THIS WAS ONE OF THE REASONS WHICH MOVED PRESIDENT OSVALDO HURTADO OF ECUADOR TO STIMULATE A LATIN AMERICAN SUMMIT OF HIGH LEVEL EXPERTS FROM THE MAJORITY OF THE LATIN AMERICAN AND CARIBBEAN COUNTRIES TO DISCUSS THE CHOICES BEFORE THE CONTINENT IN THE INTERNATIONAL SITUATION.

AT THIS MEETING WHICH TOOK PLACE IN BOGOTA LAST WEEK, ORGANISED BY ECLA AND THE LATIN AMERICAN ECONOMIC SYSTEM (SELA) THERE WAS AN ANALYSIS OF THE CAUSES OF THE WORLD RECESSION AND THE WAY IN WHICH THE DOWNWARD SPIRAL HAS BEEN TRANSMITTED TO THE DEVELOPING COUNTRIES. ECLA, SELA AND OTHERS PARTICIPATING SUGGESTED TO THE PRESIDENT OF COLOMBIA THAT HE SHOULD RESUME IN A MESSAGE TO THE MEETING AT WILLIAMSBURG THE CONCLUSIONS THEY HAD ADOPTED WHICH EXPRESSED THE GENERAL STATE OF MIND IN LATIN AMERICA AND THE CARIBBEAN.

I HAVE AGREED TO SEND IN MY PERSONAL CAPACITY THESE REFLECTIONS - FOLLOWING FROM THOSE WHICH SOME MONTHS AGO I PRESENTED TO PRESIDENT MITTERAND, WHEN HE SPOKE FOR THE FIRST TIME ABOUT THE WILLIAMSBURG MEETING - BECAUSE EVERY DAY OUR PROBLEMS ARE SO INTERDEPENDANT, AND THAT THE RECESSION, UNEMPLOYMENT AND INFLATION ON THE INTERNATIONAL LEVEL ARE THE CONSEQUENCES OF THE DIS-EQUILIBRIUM BETWEEN PRIMARY AND INDUSTRIAL PRODUCTION ON THE WORLD SCALE. IN THE PAST TEN YEARS WE HAVE EXPERIENCED FLUCTUATIONS IN THE MARKET FOR PRIMARY PRODUCTS WHICH HAVE AFFECTED THE GROWTH OF THE WORLD ECONOMY, IN WHICH THE EXPORTS OF LATIN AMERICA AND THE CARIBBEAN HAVE BEEN AFFECTED BY CYCLES OF OVER PRODUCTION AND FIGURES OF INSTABILITY. THE LACK OF COORDINATION IN THE STRATEGIES OF THE NORTH AND SOUTH ARE OBVIOUS, CONDITIONS WHICH HAVE HAD A HIGH COST FOR ALL.

/LATIN

Back to me, pl.

LATIN AMERICA AND THE CARIBBEAN ARE PASSING THROUGH ONE OF THE MOST DIFFICULT PERIODS OF THE LAST 30 YEARS. THE DETERIORATION OF THE TERMS OF TRADE, THE STRENGTHENING OF PROTECTIONISM, THE RISE IN REAL INTERNATIONAL RATES OF INTEREST, THE TIGHTENING OF THE PERIOD FOR AMORTIZING FOREIGN DEBT AND THE APPLICATION OF EXCESSIVELY RIGID ECONOMIC IDEAS HAVE CAUSED DEFICITS IN THE BALANCE OF PAYMENTS AND IN PUBLIC FINANCE AND REDUCED THE EXPANSION OF THE REGIONAL ECONOMIES THUS INCREASING UNEMPLOYMENT AND INFLATIONARY PRESSURES.

LATIN AMERICA AND THE CARIBBEAN ARE NOT BANKRUPT. OUR HUMAN AND NATURAL RESOURCES AND OUR CAPITAL FORMATION AMOUNT TO A CREDIT SEVERAL TIMES GREATER THAN THE DOLLARS 300,000M WHICH THE REGION NEEDS. WHAT IS NEEDED IS (FOLLOWING UNDERLINED) TO WIDEN THEIR ACCESS TO THE MARKETS OF TECHNOLOGY, CAPITAL AND GOODS, STRENGTHEN THE AGREEMENTS ON BASIC PRODUCTS, ACCELERATE THE RELOCATION OF MULTILATERAL RESOURCES OF CREDIT AND SYNCHRONIZE THE FLOWS OF FUNDS. (END UNDERLINING.) THIS POINT IS FUNDAMENTAL IN THAT IN 1970 AROUND 20 PER CENT OF LATIN AMERICAN AND CARIBBEAN DEBT WAS CONTRACTED ON MORE THAN FIVE YEARS, BUT TODAY LITTLE MORE THAN 4 PER CENT IS LONG TERM AS A CONSEQUENCE OF THE WEAKENING OF THE INTERNATIONAL BANKING SYSTEM FOR DEVELOPMENT.

FOR THIS REASON IT IS NECESSARY TO MODIFY THE INTERNATIONAL ECONOMIC ORDER, THE DIVISION OF WORK REQUIRES A CHANGE OF COURSE SINCE THE DEVELOPING COUNTRIES HAVE THE CAPACITY TO COMPETE IN VARIOUS FIELDS OF MANUFACTURING INDUSTRY, FOR WHICH REASON IT DOES NOT MAKE SENSE TO PROTECT INDUSTRIES OF MEDIUM LEVEL TECHNOLOGY WHICH ARE OPERATING IN THE COUNTRIES OF THE NORTH AT LOW LEVELS OF EFFICIENCY. TO MAKE PROGRESS IN THIS INTERNATIONAL DIVISION OF LABOUR IT WOULD BE APPROPRIATE TO CONVENE A NEW ROUND OF GATT NEGOTIATIONS WHICH WOULD HELP THE PROGRESS OF THE EXPORTING POTENTIAL OF THE DEVELOPING COUNTRIES. ONE COULD ARGUE THAT IN THE TOKYO ROUND SOME PROGRESS WAS MADE IN THIS DIRECTION, UNFORTUNATELY THE DEVELOPING COUNTRIES DID NOT SUCCEED IN MEETING THEIR ASPIRATIONS IN THESE NEGOTIATIONS AND WHAT HAS OCCURRED IS A REVIVAL OF PROTECTIONISM.

AS REGARDS LIQUIDITY THERE IS A NEED TO PROVIDE THE INTERNATIONAL ECONOMY WITH GREATER RESOURCES FOR THE BENEFIT OF THE DEVELOPING COUNTRIES WHICH AFTER ALL REPRESENT MORE THAN 75 PER CENT OF THE WORLD POPULATION; FOR EXAMPLE BETWEEN 1970 AND 1974 INTERNATIONAL RESERVES WERE CREATED AT MORE THAN DOLLARS 100,000M AND OF THIS HUGE SUM THE POOR COUNTRIES RECEIVED LESS THAN 4 PER CENT.

(BEGIN UNDERLINING) ONE MECHANISM TO BE STUDIED WOULD BE THAT THE MULTILATERAL CREDIT ORGANISATIONS SHOULD ISSUE RECONSTRUCTION AND DEVELOPMENT BONDS IN THE INTERNATIONAL MARKET AND THAT THE COUNTRIES OF THE NORTH SHOULD UNDERTAKE TO PURCHASE THEM IN PROPORTION TO THEIR WEALTH(UNDERLINING ENDS).

PERSONALITIES SUCH AS DR KISSINGER OF THE UNITED STATES AND DR SCHMIDT OF THE FRG HAVE RECOGNISED THAT REACTIVATING THE DEVELOPING COUNTRIES WOULD HAVE A HEALTHY EFFECT ON THE ECONOMY OF THE NORTH; IN 1982 LATIN AMERICA ALONE ACHIEVED IMPORTS OF MORE THAN DOLLARS 85,000M, THE GREATER PART COMING FROM THE US AND EC. THEREFORE IF WE DO NOT FIND MECHANISMS WHICH WILL HELP THE DEBT SERVICE OF THESE COUNTRIES, THIS FLOW WILL DIMINISH CAUSING LOSSES FOR ALL THE MEMBERS OF THE INTERNATIONAL ECONOMIC SYSTEM. FOR THIS REASON (BEGIN UNDERLINING) WE NEED TO CREATE AN INTERNATIONAL EMERGENCY FUND OF AT LEAST DOLLARS 40,000M (ADDITIONAL TO THOSE OF THE IMF), WHICH WILL COMPENSATE FOR THE FALL OF EXPORT INCOMES AND WILL ALLOW THAT PART OF THE RATE OF INTEREST WHICH EXCEEDED NORMAL LEVELS TO BE COVERED. (END UNDERLINING).

MADAM PRIME MINISTER

THE MOMENT HAS COME TO PUT IN HAND A DEVELOPMENT STRATEGY WHICH CANNOT EXCLUDE EITHER THE ARAB OR SOCIALIST COUNTRIES. IN THE CASE OF THE ENERGY MARKET FOR EXAMPLE A WIDE AGREEMENT ON INTERNATIONAL COOPERATION COULD BE OF INTEREST, BECAUSE WE ARE AWARE THAT PETROLEUM IS A SCARCE AND VALUABLE RESOURCE WHICH SHOULD BE USED EFFICIENTLY; IT WOULD BE HIGHLY DESIRABLE TO EMPLOY A MECHANISM WHICH AVOIDED SUDDEN CHANGES OF THE COSTS OF ENERGY EITHER UP OR DOWN.

NOW IS THE MOMENT TO RECOGNISE THAT ALL THE MEMBERS OF THE INTERNATIONAL ECONOMY SHOULD ACCEPT ADJUSTMENTS AND SACRIFICES. IT WOULD NOT MAKE SENSE TO GO ON TRANSFERRING THESE ADJUSTMENT COSTS TO THE POOR COUNTRIES. IF WE CANNOT ENCOURAGE THIS COORDINATION, THE WORRYING PROJECTIONS OF THE CLUB OF ROME, WHOSE PRESIDENT HAS JUST VISITED COLOMBIA, WILL GET DANGEROUSLY CLOSE TO REALITY.

LATIN AMERICA AND THE CARIBBEAN TRUST THAT THE WILLIAMSBURG
DIALOGUE WILL BE FRUITFUL AND WILL TAKE ACCOUNT OF THESE REALITIES.
THE EYES OF THE WORLD ARE FIXED ON SUCH EXALTED SPIRITS AND
ON SUCH CLEAR GUIDES.

VERY RESPECTFULLY,
BELISARIO BETANCUR
PRESIDENT OF COLOMBIA

ENDS.

FCO PLEASE PASS ALL AND SAVING EC POSTS

ROBSON

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Back to me, pl.

DESKBY 271900Z FCO AND WASHINGTON
FROM UKREP BRUSSELS 271814Z MAY 1983
TO IMMEDIATE FCO
TELEGRAM NUMBER 2151 OF 27 MAY 1983
AND TO IMMEDIATE WASHINGTON

WILLIAMSBURG

1. FOLLOWING IS TEXT OF LETTER FROM G CARLI PRESIDENT UNICE
(EMPLOYERS) WHICH WE HAVE BEEN ASKED TO BRING TO ATTENTION OF
PRIME MINISTER:

BEGINS

BUSINESS IN THE EUROPEAN COMMUNITY IS FOLLOWING WITH THE
GREATEST INTEREST THE PREPARATION OF THE MEETING OF HEADS
OF STATE AND GOVERNMENT OF THE SEVEN WESTERN COUNTRIES
WHICH WILL TAKE PLACE AT THE END OF MAY AT WILLIAMSBURG.
IT IS CONVINCED OF THE NEED FOR WESTERN COUNTRIES TO ADOPT
CLOSELY CONCERTED AND COHERENT POLICIES TO PROMOTE SUSTAINED
AND STEADY GROWTH IN ORDER TO REDUCE THE PRESENT VERY HIGH LEVELS
OF UNEMPLOYMENT.

I AM SENDING YOU HEREWITH A STATEMENT UNANIMOUSLY ADOPTED BY
UNICE, WHICH COMPRISES ALL THE INDUSTRIAL AND EMPLOYERS'
FEDERATIONS OF THE MEMBER COUNTRIES OF THE EUROPEAN COMMUNITY
AND THE OTHER COUNTRIES OF WESTERN EUROPE.

I THANK YOU IN ADVANCE FOR THE ATTENTION YOU MAY KINDLY RESERVE
THE PRESENT COMMUNICATION.

ENDS

2. WIFT GIVES TEXT OF UNICE STATEMENT. COPIES HAVE ALSO GONE
TO PRESIDENT OF EUROPEAN COUNCIL AND PRESIDENT OF COMMISSION.
ORIGINAL CORRESPONDENCE FOLLOWS BY BAG TO GREWE FCO.

FCO ADVANCE DESKBY TO:-

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NO 10 - DUTY OFFICER

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MR ADAMS

ADDITIONAL DISTRIBUTION

ECONOMIC SUMMIT

(ADVANCED AS REQUESTED)

EXCHEQUER	
DATE	31 MAY 1983
ACTION	21/
COPIES TO	Mr. Butler
	Mr. Morrison
	Mr. Lavelle
	Mr. Mall.

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cc also to Mrs. Healey - Miller / Mr. Edwards

Jul.

the (pwp)

10 DOWNING STREET

From the Private Secretary

30 May 1983

Dear Brian,

WILLIAMSBURG: BILATERAL MEETING BETWEEN THE PRIME MINISTER AND CHANCELLOR KOHL

I enclose a copy of the record of the conversation between the Prime Minister and Chancellor Kohl which took place at Williamsburg at 1730 hours on Saturday 28 May.

I am copying this letter and its enclosure to John Kerr (HM Treasury), Richard Mottram (Ministry of Defence), John Rhodes (Department of Trade) and Richard Hatfield (Cabinet Office).

I should be grateful if you and they would circulate the record only to those who have an operational need to know of its contents.

Yours ever

John Colles.

Brian Fall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

The Prime Minister commented that we should be working for a completely different system of financing the Community. This would be even more important after enlargement. Chancellor Kohl agreed that the basic system would have to be changed. Indeed, his willingness to pay more was conditional both on enlargement and on a change in the current financing system.

He was not yet clear as to President Mitterrand's views on future financing. But we should take into account the French mentality. If Mitterrand could claim that the question of enlargement had been settled under his Presidency, he might be more reasonable on other matters. The interim solution depended on progress towards the long-term solution. The Prime Minister said that an interim solution remained of crucial importance to us. In the election campaign she had argued that Britain would obtain a solution, and quickly. In the week following polling day, there would have to be rapid action to prepare the final solution. It might be necessary for her to send an emissary to see Chancellor Kohl about this - or he could send someone to London. Chancellor Kohl said that this was worth considering.

The Prime Minister said that the Brussels conclusions must be honoured. Chancellor Kohl said that at Stuttgart the Prime Minister would have her election behind her. The Prime Minister replied that in that case she would be expected to deliver her promises. We had to obtain a clear solution under the German Presidency. Chancellor Kohl said that he understood that.

The Prime Minister said that she intended to raise with President Reagan the question of the Export Administration Act which could cause great trouble in Europe. Chancellor Kohl said that he was glad to hear this. This legislation was not acceptable to Germany in any way.

The discussion ended at 1805 hours.

A. J. C.



post

10 DOWNING STREET

From the Private Secretary

EXCHEQUER	
DATE	- 8 JUN 1983
NO	6 June, 1983.
NO	Mr LITTLER
COPIES TO	Mr Unwin
	Mrs Medley Miller
	Mr Carey, Mr Lavelle
	Mr Hawtin, Mr Hall

Messages to the Prime Minister

Thank you for your letter of 3 June to which you attached draft replies to the President of Colombia and the President of UNICE.

The Prime Minister has approved these two messages, and I would be grateful if you could arrange for their despatch.

I am sending a copy of this letter to John Kerr (HM Treasury).

M. C. SCHOLAR

J.E. Holmes, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL



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(PWP)

10 DOWNING STREET 20 JUN 1983

From the Private Secretary

EXCHEQUER	
ACTION	17 June 1983
COPIES TO	Mr LITNER
	Mr Lavelle
	Mr Unwin
	Mr Hall
	Mr Carey

The Prime Minister has received the attached message from President Reagan. I should be grateful for your advice on whether a reply is needed and if so for a draft as soon as possible.

I am sending a copy of this and the enclosure to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

TIM FLESHER

John Holmes, Esq.,
Foreign and Commonwealth Office.

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Dear Margaret,

Before our experience at Williamsburg is engulfed by the day-to-day problems that awaited us on return to our respective capitals, I want to thank you for the excellent spirit of cooperation which prevailed at the Summit meetings.

I particularly appreciated your taking time out from your busy campaign schedule to come to Williamsburg. Your firm support and leadership were vital in translating the broad areas of agreement which we found in our private discussions into a strong message of unity among the world's largest industrialized democracies. That message, both in its economic and political dimensions, was crucial at this time of questioning in our own countries and of challenge from the Soviet Union and its allies. Thanks to your contribution during Saturday's dinner discussion of INF, we were able, in our statement, to send the Soviets a clear signal of allied determination and unity.

The "Williamsburg Declaration on Economic Recovery" was a victory for the future. Your government's economic policies have proved the wisdom of the key principles laid out in the declaration: non-inflationary growth, open markets, adequate liquidity and economic stability. I am certain that under your continued leadership, Britain will experience sustained economic growth. I sincerely believe the words I used to conclude the press statement: "Our meeting has shown a spirit of confidence, optimism and certainty--confidence that recovery is underway, optimism that it will be durable, and certainty that economic policy and security ties among us will be strengthened in the future."

You have my solemn assurance, so far as the United States is concerned, that I shall now do everything in my power to translate the commitments we made together at Williamsburg into tangible legislative action. With that end in mind, I met with the bipartisan leadership of the Congress on June 8 and urged early progress on anti-protectionist measures, increasing our IMF quotas, and further limits on the growth of federal expenditures as a means to reduce budgetary deficits.

*but no tax increases
(or deferment of tax cuts)*

CONFIDENTIAL

CONFIDENTIAL

-2-

Friday
24 June

I know that Vice President Bush is looking forward to meeting with you in London and continuing our productive dialogue. We greatly value your advice and counsel. The Vice President also wishes to extend personally our warmest congratulations on your splendid victory. As I said on the telephone, I am overjoyed. Your landslide win certainly gives a positive shot in the arm to the Western alliance.

Margaret, I greatly appreciate your kind remarks about my handling of the Summit's chair. I know that hosting the next meeting will be a burden for you, but I am reassured that this important role will be in such capable hands. I hope that in these Summit gatherings we can continue to strive for small and informal settings.

Sincerely,

/s/

Ron

CONFIDENTIAL

6/17/83



(P)

EXCHEQUER	
NO.	22 JUN 1983
ACTION	Mr Hitler.
COPIES TO	Mr Lavelle
	21 June 1983
	Mr Umwin
	Mr Hall
	Mr Carey.

10 DOWNING STREET

From the Private Secretary

During the visit to Stuttgart last weekend, the Prime Minister said more than once how greatly she appreciated the support which she had received from all the officials concerned. Perhaps you would pass this on to all involved in the preparation and in the event itself.

I am copying this letter to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

23 June 1983

EXCHEQUER	
RWC	23 JUN 1983
ACTION	Mr Kitterer
COPIES TO	Mr Lavelle
	Mr Urwin
	Mr Hall
	Mr Carey

Dear Tim,

Message to the Prime Minister from President Reagan

Thank you for your letter of 17 June.

We recommend that the Prime Minister should reply to President Reagan's message of 17 June. The Prime Minister has already sent a message of thanks to President Reagan for the successful arrangements for the Williamsburg Economic Summit. Nevertheless it would seem right to reply to a personal message which is couched in such warm terms and which touches upon points of substance. I enclose a draft.

I am copying this letter to the recipients of yours.

Yours ever

(J E Holmes)
Private Secretary

Tim Flesher Esq
 10 Downing Street

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MESSAGE

DSR 11 (Revised)

DRAFT: ~~XXXXXXXXXXXXXXXXXXXX~~

TYPE: Draft/Final 1+

FROM: PRIME MINISTER

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO: PRESIDENT OF THE UNITED STATES OF AMERICA

Your Reference

~~Top Secret~~

~~Secret~~

Confidential

~~Restricted~~

~~Unclassified~~

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you so much for your message of 17 June about the results of the Williamsburg Economic Summit.

CAVEAT.....

I share your judgement that the Williamsburg Summit was above all a successful demonstration of the unity and purpose of the major Western economies. Like you, I believe that the statement on INF was signal proof of the determination of our governments to resist Soviet attempts to drive a wedge between us. I also share your view that the confidence in the rightness of our economic policies and in the prospects for recovery which the Summit showed was both timely and very encouraging.

I want to assure you that my government will play its full part in translating the commitments made at Williamsburg into practical action. I was interested to see from your message that you have been meeting with the bipartisan leadership of Congress to seek early progress on anti-protectionist measures, the IMF quota increases and further limits on public expenditure. We

Enclosures—flag(s).....

/shall

CONFIDENTIAL

shall take all the necessary action in the new Parliament to fulfil our part of the commitments which we made.

May I say once again how much I enjoyed the Summit at Williamsburg, which we all considered was a great success thanks largely to your leadership. I look forward to seeing George Bush later this week. Meanwhile, we are now beginning work on the preparations for the 1984 Summit and will be in touch on this through our Personal Representatives.

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10 DOWNING STREET

THE PRIME MINISTER

EXCHEQUER	
27 JUN 1983	✓
Mr Little	
Mr Unwin	
27 June 1983	
Mr Lovelle	
Mr Hall	
Mr Carey	

(PMP)

Dear Ron.

Thank you so much for your message of 17 June about the results of the Williamsburg Economic Summit.

I entirely agree that the Williamsburg Summit was above all a successful demonstration of the unity and purpose of the major Western economies. Like you, I believe that the statement on INF was clear proof of the determination of our governments to resist Soviet attempts to drive a wedge between us. I also share your view that the confidence in the rightness of our economic policies and in the prospects for recovery which the Summit showed was both timely and very encouraging.

I assure you that we shall play our full part in translating the commitments made at Williamsburg into practical action. I was interested to see from your message that you have been meeting with the bipartisan leadership of Congress to seek early progress on anti-protectionist measures, the IMF quota increases and further limits on public expenditure. We shall take all the necessary action in the new Parliament to fulfil our part of the commitments which we made.

/May I say

May I say once again how much I enjoyed the Summit at Williamsburg, which we all considered was a great success thanks largely to your leadership. Meanwhile, we are now beginning work on the preparations for the 1984 Summit and will be in touch on this through our Personal Representatives.

Y
Louswa
Raycut

P.S. I was so pleased to see George Bush yesterday - we had a long and interesting talk. His visits are most- valuable, as well as most- enjoyable.

11.

