PART B

PO -CH /GH/0103

PART B

Begins : ~~26/11/82~~ 17/1/83

Ends : ~~14/1/83~~ 19/1/83

CHANCELLOR'S MEETINGS
AND POLICY CONCERNING
THE G10 INDUSTRIALISED
COUNTRIES

PO -CH /GH/0103
PART B

PS

G10 MEETINGS: 17/18 JANUARY

1. There are various changes to the programme circulated under cover of my minute of 14 January.

2. The Chancellor of the Exchequer with the Governor of the Bank of England, Mr Littler, Miss Rutter (who replaces Mr Kerr throughout the programme) and Mr Hall will now return to London by special flight immediately after the Delors dinner. Transport will be re-arranged accordingly.

3. Only the Chancellor of the Exchequer, the Governor of the Bank of England and Mr Littler will attend the Delors dinner on 18 January.

4. The Governor of the Bank of England is dining out at 2030 on 17 January with Mr Paul Volcker at 7 Cochon d'Or, 192 Avenue Jean Jaurès, Paris 19e (telephone number if needed 607.23.13).

5. Mr Loehnis will not now be staying overnight on 18/19 January but will return to London on Flight BA 315 leaving Roissy at 1930 on 18 January.

6. A revised programme and revised transport programme are attached.

JM

17 January 1983 P J Hurr

cc: C(F)
Social Secretary
Miss Rutter
Mr Littler
Mr Hall
Mr Loehnis
Mr Dawson (Transport Officer)
Mr Reynolds (Duty Officer)
Mr Westmacott
Mr Underwood
Receptionist
SSO
Mr Stewart
Archivist
Minister) f.i.
H of C)
Mr Ferguson
Mr Duncan

G10 MEETINGS: 17/18 JANUARY

Outline Programme

Monday 17 January

0800	Bilateral Littler/Sprinkel (US) at 12 rue Weber.
1000 - 1800 (approx)	Meeting of G10 Deputies at the Kleber Centre attended by Messrs Loehnis, Littler and Bottrill.
1730	Chancellor of the Exchequer with Private Secretary (Miss Rutter), Mr Hall (Press Secretary) arrive Roissy.
1830	Governor of the Bank of England arrives Roissy.
1900 - 2000	Bilateral Chancellor of the Exchequer/ Japanese Finance Minister at HM Ambassador's Residence.
2030	Working Dinner at HM Ambassador's Residence.

Tuesday 18 January

0830	Bilateral Chancellor of the Exchequer/ M Delors at 93 rue de Rivoli. Chancellor accompanied by Messrs Littler and Garside.
1000 - 1800	Meeting of G10 Finance Ministers and Central Bank Governors at the Kleber Centre. Lunch at the Kleber Centre.
2000	Dinner given by M Delors at 93 rue de Rivoli. Chancellor of the Exchequer, Governor of the Bank of England plus Mr Littler to attend.
2330 (approx)	Chancellor of the Exchequer, Governor of the Bank of England, Miss Rutter, Mr Littler and Mr Hall return to London by charter flight.

G10 MEETINGS: 17/18 JANUARY

Transport Arrangements

17 January

1640	Two cars (one containing Mr Garside) from Embassy to Roissy II (VIP Lounge) to meet Flight AF 815, ETA 1730.
1700	One car on stand-by at Kleber Centre to bring Mr Littler and other officials from Kleber Centre to HM Ambassador's Residence, as necessary. This car to remain on call until 1930 in case other journeys are required to/from the Kleber Centre.
1730	One car with Mr Hurr from Embassy to Roissy I to meet Flight BA 316, ETA 1830.
1730	Two cars to bring Chancellor of the Exchequer, Miss Rutter (Private Secretary), Mr Hall (Press Secretary to the Chancellor) and Mr Garside from Roissy to HM Ambassador's Residence.
1830	One car to bring Governor of the Bank of England and Mr Hurr from Roissy I to Embassy.
2000	One car to take the Governor of the Bank of England from HM Ambassador's Residence to dinner at 7 Cochon d'Or, 192 Avenue Jean Jaurès, Paris 19e (Tel 607.23.13). To return the Governor to HM Ambassador's Residence after dinner.

18 January

0815	One car to take Chancellor of the Exchequer, Mr Littler and Mr Garside from HM Ambassador's Residence to Ministry of the Economy and Finance, 93 rue de Rivoli (Ministerial entrance, left-hand courtyard). Car to wait.

0930 (approx)	One car to take Chancellor of the Exchequer, Mr Littler and Mr Garside from 93 rue de Rivoli to Kleber Centre.
0940	One car to take Governor of the Bank of England, Mr McMahon, Mr Loehnis from HM Ambassador's Residence to Kleber Centre.
1000	One car to return Mr Garside from the Kleber Centre to the Embassy.
	(From 1000 until 1800, including the lunch period, one car to be on call at the Embassy in case it is necessary to run messages between the Embassy and the Kleber Centre.)
1700 onwards	Two cars at Kleber Centre to bring Chancellor of the Exchequer, Governor of the Bank of England, Mr Littler, Miss Rutter, Mr Hall to HM Ambassador's Residence.
1730	One car to be at the Kleber Centre (with Mr Loehnis's baggage) to take Mr Loehnis from the Kleber Centre to Roissy I to catch Flight BA 315, ETD 1930.
1945	One car to take Chancellor of the Exchequer, Governor of the Bank of England and Mr Littler (with baggage) from HM Ambassador's Residence to dinner at Ministry of the Economy and Finance, 93 rue de Rivoli (Ministerial entrance).
2230	One car to take Miss Rutter and Mr Hall from Embassy to Ministry of the Economy and Finance, 93 rue de Rivoli.
2245 (approx)	Two cars to take Chancellor of the Exchequer, Governor of the Bank of England, Mr Littler, Miss Rutter and Mr Hall from the Ministry of the Economy and Finance straight to Le Bourget Airport to catch charter flight to London (Gatwick). Party to be seen off by Mr Garside.

C(F)

cc: PS
Social Secretary
Miss Rutter
Mr Hall

RESIDENCE DINNER, 17 JANUARY

1. Those now attending the Ambassador's dinner in the Residence at 8.30 pm this evening are:

Chancellor of the Exchequer

Mr McMahon (Deputy Governor, Bank of England)

Mr Littler (2nd Permanent Secretary, HM Treasury)

Mr Loehnis (Bank of England)

Miss Rutter (Assistant Private Secretary to the Chancellor)

Mr Hall (Press Secretary to the Chancellor)

Mr Bottrill (Assistant Secretary, HM Treasury)

Mr Garside.

PJH

P J Hurr

17 January 1983

USEFUL TELEPHONE NUMBERS

Embassy (including HM Ambassador's Residence)	266.91.42
Kleber Centre	501.59.40
Ministry of the Economy & Finance	260.33.00
Mr Garside (Financial Counsellor)	551.23.25
Mr Hurr (First Secretary Economic)	745.01.38
Roissy Airport	862.12.12
British Airways (Flight Enquiries)	778.14.14
Air France (Flight Enquiries)	535.61.61 535.66.00

Chancellor

Miss Rutter

FRANCE: UNEMPLOYMENT

1. You might wish to know that the French unemployment figures for December, published today, show a further slight fall. On an unadjusted basis the fall was 1.4% to 2,131,400. On a seasonally adjusted basis the fall was 1.1% to 2,009,000. In both cases the rise over 12 months becomes 5.8%.

2. This is the second successive month in which there has been a slight drop in the unemployment total in France. Commenting on the figures French Ministers have made much of the fact that a complete quarter's seasonally adjusted figures for unemployment have fallen for the first time since 1974. The success is attributed to the beneficial effects of the solidarity contracts signed between the Government and employers and to the effects of the one hour reduction in the working week introduced in 1982.

3. You should know, however, that according to the main forecasting institutions, including the official National Statistical Institute (INSEE) the upward movement in the unemployment figures is likely to be resumed from January 1983 onwards, with most forecasters agreeing on a probable total of around 2.4 million by the middle of this year.

PJH

17 January 1983

P J Hurr

cc: C(F)

Mr ~~Bostwick~~

Could you have a look in case there are any howlers.

JR
19/1

Miss Rutter

Some minor amendments.

AB
20/1.

b/20/1

RECORD OF A CONVERSATION BETWEEN THE CHANCELLOR OF THE EXECHEQUER AND THE JAPANESE MINISTER OF FINANCE ON MONDAY 17 JANUARY 1983, IN HM AMBASSADOR'S RESIDENCE PARIS AT 7.00 P.M

Those Present : Chancellor of the Exchequer
Mr Littler
Mr Bottrill
x Mr Garside - Financial Counsellor, British Embassy Paris
Mr N Takeshita - Minister of Finance
Mr K Watanabe - Vice Minister of Finance
Mr Y Ezawa - Director of Division of International Institutions
Mr T Asami
Mr A Iida - Assistant Vice Minister of Finance

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1. Mr Takeshita said he was delighted to have this opportunity to meet the Chancellor. He had resigned shortly after the Venice summit, and the Chancellor was the only G10 Minister now still in office whom he had known. He was very glad that the South East Asian countries had given a favourable answer on the Chancellor's Interim Committee candidacy. He very much hoped that a successful conclusion would be reached at the Interim Committee meeting. The Chancellor thanked Mr Takeshita for the support given by the Japanese and for their efforts in enlisting support.

2. The Chancellor said he would like to look first at the world economy. It was taking a long time to restore the world economy's capacity for growth. Countries had to be patient and pursue success against inflation. But there was concern on the balance between the major economies particularly with the US. But there were also anxieties expressed about Japan. With its continuing success against inflation, its better growth record than the other industrialised economies, the Chancellor was anxious that as large a share as possible of

/Japanese

Japanese growth came from domestic demand. The Chancellor was encouraged to see steps toward higher growth. But he wondered whether Mr Takeshita considered that steps had gone far enough. The OECD forecast showed exports growing at twice the rate of imports and ~~two~~ one third~~s~~ ½ of growth coming from external demand. Despite the huge trillion Yen fiscal stimulus the general Government deficit was forecast to fall. Mr Watanabe said that in the Japanese view the OECD forecast of the current account surplus was too high. Mr Takeshita said that the Japanese Government were now forecasting real growth in fiscal 1982 at 3.1 per cent. That had been revised down from an initial forecast of 5.4 per cent, of which 4.3 per cent had been envisaged as coming from domestic demand. The forecast of 3.1 per cent was all based on expansion of domestic demand. Deteriorating ~~April~~ export performance meant that there ~~will~~ would be no stimulus from the external balance. For fiscal 1983 the Government forecast real growth ~~as~~ at 3.4 per cent, inflation ~~will~~ would continue to be favourable and another favourable factor was the recent performance of the Yen. The correction of the Yen rate and decline in long-term interest rates would lead to recovery of corporate profitability and private consumption ~~in~~ and investment. So the recovery in domestic demand will be sustained and would act as the engine of growth in the economy. When last Mr Takeshita had been Finance Minister the Yen rate stood at ~~1 dollar = 242 Yen~~ $1 = ¥242 on his appointment, and had appreciati~~on~~ed to ~~1 dollar = 219 Yen~~ $1 = ¥219 when he resigned. This time he has been appointed when the dollar rate was at ¥250 ~~Yen~~, now it stood at ~~230 Yen~~ ¥230. That was very important for the Japenes economy.

X X of what?

3. The Chancellor said that in the UK he was looking forward to modest growth of about 1½ per cent on GDP. He was worried though about the size of the prospective Budget deficit in the United States. He was convinced that until the Administration put the Budget deficit on a convincing downward path the

possibility of a rise in interest rates, which would ~~suffer at~~ stifle world recovery, could not be ruled out. He had made these points in conversation with Secretary Regan. Mr Takeshita said he fully shared the Chancellor's view. The continuation of the declin~~ing~~e in US interest rates was very important. He thought that they would go down further but was concerned that the deficit could jeopardise progress made. He thought the United States should reduce government expenditure and raise more revenue. Prime Minister Nakasone would be making these points in discussion with President Reagan. There was however one sensitivity in ~~adjusting these~~ Japanese relations with the US. Although Japanese defence expenditure would show a considerable increase compared to other items in the new Budget, the rise was still less than the US expected. That made the Japanese a little reticent in their criticism of the US. The Chancellor recognised the problem but said that he placed much value on countries "singing in harmony," whatever their own particular cause of hesitation.

4. Turning to the IMF the Chancellor stressed the need for success at the advanced Interim Committee meeting. The world needed to be confident of cooperation between Finance Ministers. An agreement would inevitably involve some degree of compromise but he thought it important that agreement should be reached on the increas~~ing~~e in quotas as well as related matters. There were two important issues: the size of the total increase - LDC expectations were coming down toward 100 billion SDRs, US remained formally at 85 billion SDRs. The Chancellor's own preference was for at least a 50 per cent increase to 92 billion SDRs. But in the event it might not prove too difficult to agree on the size. Mr Takeshita said that the Japanese wanted a total of over 100 billion SDRs. He thought compromise might be possible if the distribution problem was solved favourably. The Japanese believed that IMF quotas should reflect the position of the member country in the world economy and the Japanese would like to increase their share to as close as possible to their calculated quota. Mr Watanabe

had reiterated this basic position at the G10 deputies meeting. The Chancellor said that on distribution the UK had agreed with the Japanese starting point - that is favouring the pure Australian method. But it was necessary to recognise the need for some ~~equal proportion~~ equiproportional element because of the attitude of India and China and other ldcs. The outstanding question was the size of the ~~equal proportion~~ equiproportional element. Mr Takeshita said that from the Japanese point of view the lower the ~~equal proportion~~ equiproportional element the better. The Chancellor said that some LDCs were talking of an ~~equal proportion~~ equiproportional element of more than 50 per cent. ~~The Saudis thought a compromise was possible on about 50 per cent.~~

5. On the GAB the Chancellor and Mr Takeshita agreed on the importance of reaching an early agreement. Mr Littler asked what the Japanese position was on the participation of Saudi Arabia in parallel arrangements. Mr Watanabe said the Japanese would welcome the participation of ~~Sauid~~ Saudi Arabia in parallel arrangements but would wish to preserve the basic nature of G10 as an association of industrialised countries. So they would wish to differentiate between Saudi participation on questions of activation of the GAB and while ~~exceeding~~ excluding the Saudis ~~on~~ from the G10 when it ~~mattered a corpus~~ acted as a caucus of industrial countries. Mr Watanabe said that the Japanese were not attracted to special rules for the Saudis which would allow them to opt out. The Chancellor did not think that the Saudis would necessarily want to be associated with the G10 when it was discussing purely domestic business but they would want and we would want them to be involved in discussion on activation. There were potential problems eg where the GAB was being activated help was being directed at, for example, Israel or South Africa. In such circumstances the Saudis might wish to opt out. A right to contract out would be difficult to recognise but the Chancellor thought that some accommodation should be possible. Mr Takeshita said that he knew the Chancellor had been to Saudi Arabia and valued his opinion on this. The Chancellor said that the question of parallel arrangements might take longer to agree than the other

matters, but he would like to be able to announce in Washington the association of the Saudis with the GAB.

6. The Chancellor said he did not think that the measures being considered constituted a new Bretton Woods, but he did not want that. He thought that the measures would demonstrate the capacity of the major countries to take action to boost confidence and that in itself would be worthwhile. Mr Takeshita expressed his agreement and offered Japanese support for the Chancellor's future activities. The Chancellor said he would be particularly grateful if the Japanese could give him information and advice on particular problems they identified with particular countries. That could prove most helpful in the weeks ahead.

7. The meeting closed at 8pm.

JILL RUTTER

Distribution:

Sir Douglas Wass
Mr Littler
Mr Lavelle
Mr Bottrill
Mr Atkinson
Mr R R Garside - HM.Embassy Paris
Mr D Wright - HM.Embassy Tokyo
PS/Secretary of State for Foreign & Commonwealth Affairs
Mr Anson - UK Del. IMF IBRD Washington

MAP
You wanted this for Cabinet.
[illegible]

Press Communiqué of
the Ministers and Governors of the Group of Ten
Paris, January 18, 1983

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow (GAB) met in Paris on January 18, 1983 under the Chairmanship of Mr. Jacques Delors, Minister of Economy and Finance of France. The Managing Director of the International Monetary Fund (IMF), Mr. Jacques de Larosière, took part in the meeting, which was also attended by Mr. F. Leutwiler, President of the Swiss National Bank, Mr. E. van Lennep, Secretary-General of the Organisation of Economic Co-operation and Development (OECD), Mr. A. Lamfalussy, Assistant General Manager of the Bank for International Settlements, and Mr. F.-X. Ortoli, Vice-President of the Commission of the European Communities.

2. The Ministers and Governors heard a report by the Chairman of their Deputies, Mr. Lamberto Dini, on issues relating to the revision and expansion of the GAB and the Eighth General Review of Quotas of the IMF. They also heard a report by the Chairman of the Working Party No. 3 of the Economic Policy Committee of the OECD, Mr. Christopher McMahon, on the world economic outlook.

3. In addressing the world economic situation, the Ministers and Governors welcomed recent successes in the fight against inflation and prospects for further progress. They looked toward sound monetary and fiscal policies and appropriate moderation in the growth in incomes to encourage lower interest rates, expanding trade, higher employment, and durable economic growth. These desirable developments must not be thwarted by trade restrictions or by disruption of the international financial system. At the same time, it was recognized that soundly based growth would itself help ease current tensions. To these ends, the Ministers and Governors affirmed their support for a reinforced cooperation among industrialized countries on economic, financial and trade policies. They considered that a sustainable improvement in activity in the industrial countries in 1983 can make an important contribution to a lasting solution of the indebtedness problem of many developing countries and to limiting the unemployment problem in all countries. Therefore, they noted with satisfaction that the competent international organizations will examine whether further steps can be taken to ensure renewed and sustained growth, and will report to the next Ministerial councils, notably in the OECD and IMF framework.

4. Against this background, the Ministers and Governors discussed the international financial situation. They noted that, while strains remained in the system and the foreign debt problems of a number of countries were still a cause for real concern, governments and monetary authorities had been cooperating actively and effectively with international monetary institutions and commercial banks to reinforce the stability of the system. In order to ensure the continuing ability of the financial system to cope with existing strains and to facilitate the adjustment process, they strongly supported a substantial increase of resources available to the International Monetary Fund.

5. In light of the foregoing, the Ministers and Governors have decided, subject to the necessary legislative approval, that their aggregate credit commitments under the GAB should be promptly increased--from SDR 6.4 billion to SDR 17 billion (equivalent to an increase from $7.1 billion to about $19 billion). They welcomed the intention of Switzerland to become a full-scale participant in the GAB and decided that necessary adjustments in the Arrangements should be made so as to permit the participation of Switzerland at an early date. They also decided an adjustment of the participants' shares in the Arrangements so as to reflect better their size and role in the international economy and their ability to provide financial resources. A list of the new credit commitments that have been agreed is attached. They further agreed that in the future the GAB would be available not only for drawings by participants but also for purchases from the Fund for conditional financing for all its members, including members that are not GAB participants, when the Fund was faced with an inadequacy of resources arising from an exceptional situation associated with requests from countries with balance of payments problems of a character or of aggregate size that could pose a threat to the stability of the international monetary system.

6. The Ministers and Governors also looked forward to the conclusion of arrangements with other countries that might be willing and able to provide substantial resources to the Fund for the same purposes and on terms not unlike those agreed under the GAB. In this regard, the Ministers and Governors welcomed the recent contacts that the Chairman of the Group of Ten, and the Chairman of the Interim Committee and the Managing Director of the Fund, have had with the authorities of Saudi Arabia. They asked the Chairman of the G-10 Deputies, in collaboration with the Managing Director of the IMF, to resume such contacts as soon as possible.

7. The Ministers and Governors discussed the issues related to the Eighth General Review of Quotas. They agreed that a substantial overall increase was called for. They also recognized the need for a meaningful adjustment of quota shares in the Fund to bring these more in line with the relative position of member countries in the world economy.

8. The Ministers and Governors noted that substantial progress had been made on the Quota Review issues, and were of the view that the conditions were now present for reaching conclusions at the forthcoming meeting of the Interim Committee on February 10-11, 1983. They emphasized the desirability of having new quotas in effect by the end of 1983.

9. The Ministers and Governors expressed their gratitude to the French authorities for their cordial hospitality and for the excellent meeting arrangements.

ATTACHMENT

GAB Credit Commitments for G-10 Countries and Switzerland

	In millions of SDRs	Shares in per cent
United States	4,250.0	25.00
Germany	2,380.0	14.00
Japan	2,125.0	12.50
France	1,700.0	10.00
United Kingdom	1,700.0	10.00
Italy	1,105.0	6.50
Canada	892.5	5.25
Netherlands	850.0	5.00
Belgium	595.0	3.50
Sweden	382.5	2.25
Switzerland	1,020.0	6.00
TOTAL	17,000.0	100.00

CHANCELLOR

SUPPLEMENTARY POINTS FOR G10 MEETING

G.A.B. - Basic

Drafting of the new text was cleared by Deputies (as far as basic G10 arrangement is concerned - see below on Saudis). The two main problems are:

a) Size: Argue for SDR 20 billion (including Swiss). Sprinkel has so far refused to contemplate more than 15 billion excluding the Swiss, which will not do. Inflation on the 1961 G.A.B. of nearly 6½ billion points now to nearly 20 billion, ignoring the fact that the enlarged G.A.B. will have to accommodate two purposes.

b) Distribution: Work on second column of Dini's proposals. It could come near to commanding agreement as it stands. US must not be allowed less than 26% or so. Japan at 13% is too low. UK and France at 10% are at their limit. All this based on Swiss taking 6%. If Swiss or others complain, work on Japan, US and Germany, in that order.

G.A.B. - Switzerland

Welcome application to join fully. Urge earliest possible agreement. (If need of temporary new agreement before Switzerland formally joins IMF as they apparently intend, suggest temporary supplemental agreement, rather than recasting existing agreement to cater for any newcomers. This is my prejudice against a cumbrous distortion for what should be only a temporary transition.)

G.A.B. - Saudis

Aim to define area of possibilities. Main points are:-

a) Keep them out of G10 "Industrial Country Business"; admit them to G10 "G.A.B. business" (Broadly agreed, ? save French)

b) Given Saudi desire for freedom to opt out, there must be objections against full participation in G.A.B. (Strongly held by Germans - I think rightly.)

/c)

c) Go for simplest possible "parallel arrangement", which could consist of:-

   1) Separate (but similar to G.A.B.) Saudi arrangement with IMF

   2) Undertakings by G10 to consult (meetings as well as telexes) with Saudis over any activation of G.A.B., and relative amounts, etc.
   - This could be embodied in formal exchange of letters with G10 Chairman (a Delors letter to follow the Baumgastuco precedent!)

   3) Probably then dispense with clutter of references to parallel creditors in G.A.B. revised agreement

d) Try this basis on Saudis, in hope of agreement in principle by Feb 10/11.

IMF

On substance, nothing to add to main briefs.

On procedure, beware of attempts by Dini to canvass detailed passages for a G10 communiqué. No need - and serious disadvantages ahead of wider Washington discussions.

World Economy

After build-up of Delors statements and unfortunate Sprinkel press briefing, important to rein back any enthusiasm for locomotives. (See notes for talk with Delors).

J G Littler
18 January 1983

DRAFT

(PvP)

CHANCELLOR OF THE EXCHEQUER'S MEETING WITH M DELORS, PARIS: 18 JANUARY 1983

Participants

UK:	Chancellor of the Exchequer	
	J G Littler Esq, Second Permanent Secretary, HMT	
	R R Garside Esq, Financial Counsellor, British Embassy	
French:	M Jacques Delors, Minister of the Economy and Finance	
	M Michel Camdessus, Directeur du Trésor	
	M Philippe Lagayette, Directeur, Minister's Cabinet	

General Arrangement to Borrow

M Delors suggested that, leaving aside the outlook for the world economy, the highest priority item on the agenda for the G10 meeting later in the day was the General Arrangement to Borrow (GAB). On this the meeting should seek agreement. On the question of IMF resources, the meeting should aim at an informal and not-yet-conclusive agreement. It was important not to offend the developing countries which would be attending the Interim Committee meeting in Washington by adopting a fixed public position in advance.

The Chancellor agreed. He would like to see the G10 meeting reach agreement on GAB because this would be helpful in moving towards an agreement on IMF resources at the Interim Committee. It would be important for the G10 to avoid press headlines such as those which had greeted the Kronberg meeting, eg "Ministers fail to agree".

M Delors identified four main questions to be resolved concerning the GAB:

a) the amount of funds to be made available under the arrangement;

/b)

CONFIDENTIAL

b) the size of contributions to the funds;

c) Swiss membership of the GAB; and

d) the relationship of Saudi Arabia to the GAB.

Switzerland wished to be a full member, but she was not a member of the IMF. This would give rise to legal and administrative difficulties because the GAB was drawn up in a way that assumed IMF membership for its participants. If Switzerland were to seek membership of the IMF, she would have to hold a referendum among her citizens on whether to join this UN agency. Full membership of the GAB would give rise to a second problem: the Swiss franc was not acceptable under the GAB. However, Switzerland would be a very valuable member of the GAB. M Delors proposed that these questions be referred to the Fund. The Chancellor commented that Switzerland's intention to join the GAB was most welcom and he proposed that the G10 should accept it in principle.

On the relationship between Saudi Arabia and the GAB, M Delors said that associated status, such as Switzerland possessed, would not be appropriate to the Saudis because it obliged the associate to follow decisions of the GAB full members while denying it the right to vote. This was contrary to Saudi Arabia's intention, which was to acquire the right to vote while enjoying the freedom to opt out when the decisions of the GAB participants were inappropriate to Saudi Arabia's circumstances.

The Chancellor observed that there were a number of questions surrounding the Saudi relationship with GAB. First, the Saudi government was quite simply unfamiliar with the way the Group of Ten operated. Secondly, the Ten were all industrialised countries, whereas Saudi Arabia was oil producing, developing, rich but not industrialised. Saudi Arabia was willing to help stabilise the world economy and it was important not to neglect this positive intention on the part of the Saudis. The G10 should authorise a group to go to Riyadh before the Interim Committee meeting to discuss further with the Saudi government its possible association with the GAB so that a decision could be taken at the Interim Committee on

/the

the form of association to be offered to them. The Chancellor said that Saudi Arabia should be involved in GAB decision making and should accept the usual obligations on the provision of information. To give them a right to opt out would be more complicated. They would certainly want it on decisions concerning Israel and South Africa. This posed a considerable juridical problem.

Mr Littler said that at the G10 Deputies meeting on 17 January, he had the impression that agreement on the kind of association to be offered to the Saudis was coming closer. The range of alternatives was narrowing down. There was a general feeling among the Group of Ten that it would be wrong to seek to make a legal arrangement. It might be appropriate to combine an arrangement for provision of Saudi funds with an exchange of letters of the Baumgartner type which would express in broad terms the understanding arrived at on Saudi rights and obligations concerning the GAB.

M Delors said he thought the Chancellor would not wish to return to Saudi Arabia before the Interim Committee meeting, because of other preoccupations. In this situation the G10 might send Messrs Dini and Hoffenmayer and someone from the UK. It was important that the discussions should not drag on. He was attracted to the proposal of an exchange of letters which would allow the Saudis to be invited to join the G10 for discussions on the world economy, perhaps without the right to vote. It was important to reach a decision on the Saudi relationship before the Interim Committee met.

The Chancellor commented that there was ambiguity in the Saudi position: they wanted their importance to the world economy to be recognised (therefore associated status à la Switzerland was not enough) but they wanted to be able to opt out.

/M Delors

CONFIDENTIAL

M Delors then moved on to the question of the size of the GABs funds. He pointed out that there was a problem with the US, which had firmly indicated that 15 bn dollars (exclúding the Swiss contribtuion) was the upper limit of the fund that it could agree to. Mr Littler said that Mr Sprinkel had insisted to him the previous day that the US would not go beyond 15 bn dollars. Nevertheless, Mr Littler hoped very much that M Delors would make an effort to get Mr Regan to go higher. The Chancellor observed that all G10 governments had spoken in terms of the range of 15-20 bn dollars but the Saudis wanted their contribtuion to be in additoin to a fund of 20 bn dollars. The French and British should speak privately to Mr Regan. It might be worth exploring whether the US would find it easier to increase its offer on the GAB if the others accepted a measure of restraint on the size of increase of the IMF resources. M Delors took the view that the G10 should not waste its efforts on seeking a higher figure for the GAb if the US was opposed to it. It would be better to reach agreement that day and go to Washington with the best possible prospect of announcing a decision which would make an impact on world opinion. M Camdessus suggested that one might propose to the US a figure of 18 bn dollars for the GAB and 92 bn dollars for the IMF resources.

IMF Resources

M Delors said that the Japanese were linking the IMF Quota Review to agreement on the GAB. The French thought it better not to seek to change the order of countries in terms of quota size and voting rights at the IMF. But the Chancellor pointed out that the Japanese would be most reluctant to go beyond the Australian Method III in the direction of equi-proportionality. The Saudis had proposed that the Quota Review should be based 50% on equi-proportionality and 50% on Method III. Many developing countries would want more than 50% equi-proportionality. The Japanese wanted pure Method III but the Chancellor had gained the impression they were beginning to realise this was unrealistic. He thought they would accept some degree of equi-proportionality. M Delors

/rejected

rejected the Japanese linkage between GAB and a Quota Review.

Mr Littler asked whether it would not be wise to offer the Japanese a commitment to move in later reviews towards their position. Picking up this suggestion, M Camdessus said that there was a long tradition in the IMF of slow movement in a Japanese direction and the Interim Committee might point this out to the Japanese while offering them an arrangement now which was based on 60% selectivity and 40% equi-proportionality, coupled with a gentleman's agreement to move further in the direction of selectivity in the ninth review. The Chancellor concluded that the question would require further discussion in Washington.

On the question of an allocation of SDRs, the Chancellor observed that the Saudis, the French and the British felt there was now a stronger case to be made for an allocation. The US and West Germany would have to be persuaded. M Delors pointed out that UNCTAD would meet in June and would certainly call for one SDR allocation. He and the Chancellor agreed that it would be necessary for the Interim Committee meeting in Washington to make some commitment to an allocation. The Chancellor recalled that in Toronto the language on an allocation had been strengthened compared to previous references by the Interim Committee and in Washington it should be further strengthened. M Camdessus said he believed developing countries would say to UNCTAD that they needed a guarantee that the allocation would be of the same order as the increase in IMF quotas. It would be appropriate for the Interim Committee to make such a commitment in Washington. The Chancellor said that he had not thought that it would be possible to get the US to go that far in Washington. He added that another component of this question was the desire on the part of the smallest developing countries to have established a minimum quota. This would be small. He and M Delors agreed that it would cost little to give an assurance on this and it would please many countries.

/World Economic Outlook

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World Economic Outlook

M Delors said that with the OECD ministerial meeting, the Seven Power Economic Summit due to take place in May, the G10 should say something about the world economy. It would not be necessary to reach a conclusion on policies to be followed but it would be important to show public opinion that G10 governments had the will to continue the process of "assainissement", while using to the maximum the margin available for manoeuvre to regenerate growth. (To help the developing countries this involved agreement on the GAB and IMF resources and for the industrial countries it meant giving a push to growth.) The Chancellor replied that the G10 meeting's most important task was reaching agreement on the GAB and laying foundations for agreement on IMF resources. Mr Regan would leaving at 3.00 pm. M Delors said that they should discuss the GAB first. The Chancellor agreed that there should be discussion on the world economy but it would be wrong to take up a lot of time drafting a communiqué on this subject. They should share their views in preparation for the main meetings and should demonstrate their wish to promote sustainable and credible growth in the world economy without hampering the achievements in the fight against inflation. He wished to avoid endorsing any obligation on individular countries to push growth in a way which would undo the achievements in the fight against inflation. Mr Sprinkel's talk to the press the previous day had been unfortunate. The Chancellor was apprehensive of the locomotive theory which could push governments into imprudence.

M Delors said that they needed a sentence to put into the Communiqué and M Camdessus added that he believed they could find the elements for such a sentence in the Chancellor's own words. Mr Littler suggested that references should be made to the threats to the world economy posed by high level of debt and protectionism.

/The Chancellor

The Chancellor drew attention to the importance of the US fiscal deficit. Studies he had seen demonstrated that much of it was structural and this part of it was growing. This was the greatest source of anxiety about the world economy. The Chairman of the US Council of Economic Advisers was well aware of the problem but he was less sure about the views of Mr Shultz and Mr Regan. The French and British should continue to put pressure on the Americans. If the Americans put their deficit on the right road then it would be the greatest contribution they could make to the world economy. It would be the modern equivalent of the Marshall Plan. Europeans and others should point out to the Americans that countries in Europe and the Third World were accepting the pain of adjustment so it was only reasonable that the Americans should make some sacrifice too, for instance by putting up the price of petrol or by going back to 1979 living standards.

M Camdessus said that the agreement just announced in Washington by the Joint Commission of Congress on social security, for 20 bn francs of cuts in social security each year for the next seven years was a positive development. M Delors warned that in 1983 world trade might decline disastrously. Industrialised nations could not look to OPEC, the developing countries or Eastern Europe for growing export markets.

The Chancellor said that in 1983 the UK would increase its total demand by 3% and would itself only meet a fraction of this from its own production. It would therefore be making a small contribution to world trade. France would be in a similar position, but Britain and France together had only a small impact, the contribution of the US was very much needed. M Camdessus agreed and added that it was highly desirable that the Germans and Japanese should rely more on domestic growth.

/Managing Director of the IMF

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Managing Director of the IMF

The Chancellor and M Delors recalled that they had agreed in Toronto that M Larosière should be renewed in the office of Managing Director of the IMF but that no explicit agreement had been obtained from Mr Regan. They agreed to take this up with Mr Regan.

FROM: JILL RUTTER

DATE: 19 January 1983

MR LITTLER

cc PS/Chief Secretary
PS/Economic Secretary
Sir D Wass
Mr Lavelle
Mr Bottrill
Mr Hall
Mr Atkinson
Mr Towers

FINAL COMMUNIQUE OF THE GROUP OF TEN

I attach the final Communique issued at the end of the Group of Ten meeting in Paris on 18 January.

JLR

JILL RUTTER

Charles

Press Communiqué of
the Ministers and Governors of the Group of Ten

Paris, January 18, 1983

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow (GAB) met in Paris on January 18, 1983 under the Chairmanship of Mr. Jacques Delors, Minister of Economy and Finance of France. The Managing Director of the International Monetary Fund (IMF), Mr. Jacques de Larosière, took part in the meeting, which was also attended by Mr. F. Leutwiler, President of the Swiss National Bank, Mr. E. van Lennep, Secretary-General of the Organisation of Economic Co-operation and Development (OECD), Mr. A. Lamfalussy, Assistant General Manager of the Bank for International Settlements, and Mr. F.-X. Ortoli, Vice-President of the Commission of the European Communities.

2. The Ministers and Governors heard a report by the Chairman of their Deputies, Mr. Lamberto Dini, on issues relating to the revision and expansion of the GAB and the Eighth General Review of Quotas of the IMF. They also heard a report by the Chairman of the Working Party No. 3 of the Economic Policy Committee of the OECD, Mr. Christopher McMahon, on the world economic outlook.

3. In addressing the world economic situation, the Ministers and Governors welcomed recent successes in the fight against inflation and prospects for further progress. They looked toward sound monetary and fiscal policies and appropriate moderation in the growth in incomes to encourage lower interest rates, expanding trade, higher employment, and durable economic growth. These desirable developments must not be thwarted by trade restrictions or by disruption of the international financial system. At the same time, it was recognized that soundly based growth would itself help ease current tensions. To these ends, the Ministers and Governors affirmed their support for a reinforced cooperation among industrialized countries on economic, financial and trade policies. They considered that a sustainable improvement in activity in the industrial countries in 1983 can make an important contribution to a lasting solution of the indebtedness problem of many developing countries and to limiting the unemployment problem in all countries. Therefore, they noted with satisfaction that the competent international organizations will examine whether further steps can be taken to ensure renewed and sustained growth, and will report to the next Ministerial councils, notably in the OECD and IMF framework.

4. Against this background, the Ministers and Governors discussed the international financial situation. They noted that, while strains remained in the system and the foreign debt problems of a number of countries were still a cause for real concern, governments and monetary authorities had been cooperating actively and effectively with international monetary institutions and commercial banks to reinforce the stability of the system. In order to ensure the continuing ability of the financial system to cope with existing strains and to facilitate the adjustment process, they strongly supported a substantial increase of resources available to the International Monetary Fund.

5. In light of the foregoing, the Ministers and Governors have decided, subject to the necessary legislative approval, that their aggregate credit commitments under the GAB should be promptly increased--from SDR 6.4 billion to SDR 17 billion (equivalent to an increase from $7.1 billion to about $19 billion). They welcomed the intention of Switzerland to become a full-scale participant in the GAB and decided that necessary adjustments in the Arrangements should be made so as to permit the participation of Switzerland at an early date. They also decided an adjustment of the participants' shares in the Arrangements so as to reflect better their size and role in the international economy and their ability to provide financial resources. A list of the new credit commitments that have been agreed is attached. They further agreed that in the future the GAB would be available not only for drawings by participants but also for purchases from the Fund for conditional financing for all its members, including members that are not GAB participants, when the Fund was faced with an inadequacy of resources arising from an exceptional situation associated with requests from countries with balance of payments problems of a character or of aggregate size that could pose a threat to the stability of the international monetary system.

6. The Ministers and Governors also looked forward to the conclusion of arrangements with other countries that might be willing and able to provide substantial resources to the Fund for the same purposes and on terms not unlike those agreed under the GAB. In this regard, the Ministers and Governors welcomed the recent contacts that the Chairman of the Group of Ten, and the Chairman of the Interim Committee and the Managing Director of the Fund, have had with the authorities of Saudi Arabia. They asked the Chairman of the G-10 Deputies, in collaboration with the Managing Director of the IMF, to resume such contacts as soon as possible.

7. The Ministers and Governors discussed the issues related to the Eighth General Review of Quotas. They agreed that a substantial overall increase was called for. They also recognized the need for a meaningful adjustment of quota shares in the Fund to bring these more in line with the relative position of member countries in the world economy.

8. The Ministers and Governors noted that substantial progress had been made on the Quota Review issues, and were of the view that the conditions were now present for reaching conclusions at the forthcoming meeting of the Interim Committee on February 10-11, 1983. They emphasized the desirability of having new quotas in effect by the end of 1983.

9. The Ministers and Governors expressed their gratitude to the French authorities for their cordial hospitality and for the excellent meeting arrangements.

ATTACHMENT

GAB Credit Commitments for G-10 Countries and Switzerland

	In millions of SDRs	Shares in per cent
United States	4,250.0	25.00
Germany	2,380.0	14.00
Japan	2,125.0	12.50
France	1,700.0	10.00
United Kingdom	1,700.0	10.00
Italy	1,105.0	6.50
Canada	892.5	5.25
Netherlands	850.0	5.00
Belgium	595.0	3.50
Sweden	382.5	2.25
Switzerland	1,020.0	6.00
TOTAL	17,000.0	100.00