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PREM 19/723

PART 7

M.T

235

CONFIDENTIAL FILING

Versailles Economic Summit

June 1982

Economic

Policy

Part 1 May 1979

Part 7 March 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
8-5-82							
16-3-82							
17-3-82							
18-3-82							
1-4-82							
28-4-82							
10-5-82							
17-5-82							
-ends-							

PREM 19/723

PART 7 ends:-

Aw to Mes 2.6.82

PART 8 begins:-

Ho to ATC 3/6/82

CONFIDENTIAL

Prime Minister

(2) *Esmond*

MR. SCHOLAR

*You were asking for this.
We await the Chancellor's views.*

Ken Couzens and I agreed the enclosed Briefing Note for the Prime Minister on the United States Deficit and Interest Rates. It is entirely consistent with the first draft I sent to you on 1 June. In particular it does not mention or indeed imply that the President should consider increasing taxes or not pursuing his policy of reducing taxes. MS 2/6

The Chancellor has not yet seen it. But Ken Couzens thinks that he will, perhaps with reluctance, accept the omission of the issue of taxes. But this seems to me to be an absolute sticking point.

2 June 1982

ALAN WALTERS

CONFIDENTIAL

BRIEFING NOTE FOR THE PRIME MINISTER ON THE UNITED STATES
DEFICIT AND INTEREST RATES

1. We continue to stand four square behind the efforts of the U.S. Administration to reduce inflation and believe the success ^{of} of those efforts will be/the first importance for the United States, for the Alliance and for the whole of the free world. We applaud the notable progress which is being achieved in reducing the U.S. inflation rate. We shall continue to express our support publicly for U.S. policy on this.

2. We support your methods as well as your objectives. We approve whole-heartedly your determination to maintain

- ① tight control of the growth of the money supply; to cut public
- ② expenditure; and to reduce progressively the federal budget
- ③ deficit.

3. We wish you success in your efforts in Congress to secure agreement on federal budgets showing a declining rate of deficits over the next 3 fiscal years. We very much sympathise with your wish to achieve this to the largest extent possible through public expenditure reductions, and with the smallest possible public sector. But we cannot try to tell you what is or is not possible in these matters.

4. What we do feel is that it is urgent to settle the question of the deficits as soon as possible. We believe that a settlement on the kind of declining path you have been seeking would

reassure markets and opinion generally, and would help reduce interest rates. We know that you, like we, want lower interest rates. At this stage in our counter inflation policies we can be powerfully helped by a belief that inflation is coming down for good, and greatly hindered by continued doubts about whether our achievements will endure. And we want people to believe that declining deficits will free resources within the monetary targets for an expansion of the private sector, which has always shown so much vigour in the United States.

5. We don't suggest that reducing the deficits will end all the problems. Nor do we suggest that that would remove all the interest rate problems of other countries, which may be attributable to their own national policies. We all have our own responsibilities. We do believe it would help however and would improve the chance of a lasting victory over inflation both in the United States and elsewhere.

CONFIDENTIAL

GRS 170

CONFIDENTIAL

FM FCO 021735Z JUN 82

TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 1104 OF 2 JUNE
INFO IMMEDIATE PARIS, ROME, BONN
INFO SAVING UKREP BRUSSELS, UKDEL NATO.

SECRETARY OF STATE'S MEETING WITH THE US AMBASSADOR ON 2 JUNE:
EAST/WEST CREDITS AND JOHN BROWN

1. AFTER THE DISCUSSION OF FALKLANDS MATTERS (RECORD BY BAG TO WASHINGTON ONLY) I RAISED WITH LOUIS THE CONNECTION BETWEEN THE UNBLOCKING OF EXISTING CONTRACTS AND CREDIT RESTRICTIONS ON THE USSR. I REFERRED TO THE TWO LETTERS FROM THE PRIME MINISTER TO THE PRESIDENT WHICH, AS YET, HAD NOT BEEN ANSWERED. HMG STOOD READY TO GIVE A POLITICAL COMMITMENT. BUT THE US HAD LINKED THE ISSUE OF CREDITS WITH EXISTING CONTRACTS. JOHN BROWN WAS FACING AN INCREASINGLY CRITICAL PROBLEM.

2. WE POINTED OUT THAT THE 27 MAY DISCUSSION IN PARIS SUGGESTED THAT THERE WERE REASONABLE PROSPECTS FOR A SETTLEMENT OF THE ISSUE AT VERSAILLES ACCEPTABLE TO THE AMERICANS.

3. LOUIS SAID THAT HE THOUGHT WE SHOULD HAVE AN ANSWER BEFORE THE VERSAILLES SUMMIT. HE WOULD ESTABLISH WHERE MATTERS NOW STOOD.

PYM

[COPIES SENT TO NO 10 DOWNING STREET]

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MFJ

2 June 1982

Versailles Summit: Letter to the
Prime Minister from the CFTD

I enclose a letter which the Prime Minister has received from M. Jacques Chereque of the above organisation. I should be grateful if you would arrange for an appropriate reply to be sent by the Embassy in Paris (with a copy to us for our records).

✓ the letter sent
22/6/82

JC

Francis Richards Esq
Foreign and Commonwealth Office

KM

MFJ

2 June 1982

I am writing on behalf of the
Prime Minister to thank you for your
letter of 21 May.

Your letter is receiving attention
and a reply will be sent to you as soon
as possible.

JC

Monsieur Jacques Chereque



10 DOWNING STREET

From the Private Secretary

2 June 1982

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

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

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

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

A. J. COLES

John Rhodes, Esq.,
Department of Trade.

RM



10 DOWNING STREET

From the Private Secretary

2 June 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 28 May. I will place this before her and you will be sent a reply as soon as possible.

A. J. COLES

Sir Campbell Fraser

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

From
Sir Campbell Fraser
President

CBI
CONFEDERATION OF
BRITISH INDUSTRY

Prime Minister

To note.

A.J.C. $\frac{2}{6}$ 2 June 1982

Versailles

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

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

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

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

...../

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

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

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

*Yours sincerely,
Campbell.*

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

Copy to : **A.J. Coles Esq.**

SECRET



CABINET OFFICE
70 WHITEHALL
LONDON SW1A 2AS

01-XXXXXXXXXX 233 8378

2nd June 1982

Ref: B06511

AR
h-a.

Dear Andrew,

Falklands: Briefing for Versailles Summit

This letter is simply to confirm Robert Wade Gery's telephone conversation with you this morning.

Contrary to earlier indications No. 10 have today told us that they would like briefing provided for the Prime Minister's use at Versailles covering the attitude of each of our six Versailles partners to the Falklands crisis. This should be supported by relevant documents, eg the text of Security Council resolutions, Haig proposals, etc. There is no need to cast it in the normal form of a brief, and a Line to Take will not be necessary. To save time it should not be processed through our numbered briefing series here but might conveniently take the form of a private secretary letter from the Foreign and Commonwealth Secretary's office to No. 10, with copies to the Ministry of Defence and Cabinet Office.

Such a letter will of course need clearance in advance with the Ministry of Defence and should, for the Prime Minister's convenience, include material which is primarily on their side of the house, eg facts about United States military and logistic assistance and about French and other help with countering Argentine efforts on arms procurement.

from evc

David

A D S GOODALL

R A Burns Esq.
Foreign and Commonwealth Office

cc Mr Coles, No. 10
Mr Webb, MOD
Mrs McGraffin

PRIME MINISTER

TERRITORIAL DISPUTES

I have commissioned a paper from the Foreign Office which will be available before you leave for Versailles.

You wanted a short list of Latin American territorial disputes before your various media interviews today. Here are eight:

- (a) Venezuela/Guyana
- (b) Guatemala/Belize
- (c) Argentina/Chile (Beagle Channel)
- (d) Ecuador's claim to part of Northern Peru
- (e) Nicaragua's claim to two islands occupied by Colombia
- (f) Colombia/Venezuela: a minor dispute over the position of the land boundary which, however, affects the maritime boundary
- (g) Bolivia's claim to a piece of land lost to Chile in the nineteenth century. Peru is also involved in a minor way
- (h) The claim of Honduras to the Sapodilla Cays (small islands off Belize)

AJC

2 June 1982

Versailles

CONFIDENTIAL

AND PERSONAL Prime Minister (2)

PRIME MINISTER

Alan Walters is preparing a speaking note for Versailles for you - in conjunction with Ken Cozzens.

1. Today I had lunch with Leonard Silk, the Chief Economic Columnist of the New York Times. He had seen a number of people in Europe and the Chancellor and Treasury people here.
2. Silk made it perfectly clear that, in his opinion, one of the main aims of the Summit is for the European countries to tell Reagan to increase his tax rates. He had gathered that this was the policy from talking to a number of European countries and presumably, also from the Treasury. It was clear that the censure on President Reagan was being strongly promoted by the opposition to the President in the United States.
3. Although Silk is a rather stupid man, I have every reason to believe that what he said was correct. You may well feel, and indeed I do, that we should not join the United States opposition in such a venture.

ms 1/6

CONFIDENTIAL

AW

1 June 1982

ALAN WALTERS

CONFIDENTIAL

AND PERSONAL



dl

10 DOWNING STREET

From the Private Secretary

1 June 1982

I enclose a copy of a letter which the Prime Minister has received from Mr. Lionel Murray, General Secretary of the TUC.

I should be grateful if you could provide a draft reply for the Prime Minister to send to Mr. Murray, to reach us by 11 June.

I am sending a copy of this letter and enclosure to Peter Jenkins (HM Treasury).

W. F. S. RICKETTS

Francis Richards, Esq.,
Foreign and Commonwealth Office.



DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the
Minister for Trade

Prime Minister

To note.

A J Cole Esq
Private Secretary
10 Downing Street
London SW1

A.J.C. 1 June 1982

Dear John,

VERSAILLES ECONOMIC SUMMIT

At the Prime Minister's meeting on 27 May, the Minister for Trade mentioned counterfeiting as one of the issues on which we would like to see progress made in the GATT.

Counterfeiting is the practice of affixing false or similar trade marks to commercial products or of copying designs or models without authority. In recent years counterfeiting has become a growing problem and imitations of British goods have appeared on the market in the UK and other countries, damaging the business of the manufacturers of the genuine product. Examples of products counterfeited include chemicals, drugs, electronic equipment, motor vehicle and aircraft spares and textiles. Far Eastern countries, notably Taiwan, are prominent among sources of counterfeit goods. HMG advises UK companies to protect their own trade mark and design rights under international intellectual property law and to seek redress in local courts as necessary. Where companies are unsuccessful in obtaining redress we have made representations on a government to government basis.

A draft Agreement on measures to discourage the importation of counterfeit goods was introduced by the United States late in the Tokyo Round of the GATT Multilateral Trade Negotiations but it was not concluded. Since the end of the Tokyo Round in 1979, US and EC negotiators have continued to work on developing a draft Agreement in order to gain a wider measure of support for its introduction. It seems clear, however, that many developing countries regard counterfeiting as a problem which they will not need to tackle for a very long time, if ever, and see resistance to the proposed Agreement as a useful bargaining counter.



The US is currently circulating a revised paper in Geneva which we have yet to study. We would welcome the conclusion of an Agreement in time for endorsement at the GATT Ministerial Meeting in November, provided the price for developing country cooperation is not too high. Failing that, we should support its inclusion in the post-Ministerial Meeting work programme of the GATT.

If appropriate, the Prime Minister could say: "Counterfeiting is damaging and expensive. It can also be dangerous. A GATT agreement would be a useful counter-measure. We hope progress can be made at Geneva."

Mr Rees also promised the Prime Minister an up to date note on the URSUS tractor project. This is attached.

I am copying this letter to Francis Richards (FCO), Peter Jenkins (Treasury), Jonathan Spencer (Industry) and David Wright (Cabinet Office).

Yours ever,

Nicholas McInnes

N McINNES
Private Secretary to the
Minister for Trade (PETER REES)



POLAND: THE URSUS TRACTOR PROJECT

The URSUS project involves the construction of facilities centred on Warsaw for the production of Massey-Ferguson-Perkins (MFP) type tractors and engines. Begun in 1974 and due for completion in 1980/81 the project has been partly financed by three ECGD guaranteed lines of credit, two in sterling and the third in US dollars, with a total value of some £275m. By the end of 1981 some £140m had been drawn of which £21m had been repaid.

The project has been running about 4 years late and the Poles have now rescheduled it for completion in 1988. On 12 November 1981 Ministers instructed that of the £135m undrawn from the loans already in place a further £30m might be used in 1982. Signature of the necessary agreements was however prevented by the imposition of martial law on 13 December and release of the £30m was placed in abeyance following the meeting of the North Atlantic Council on 3 February.

Subsequently, in order to safeguard the interests of MFP in accordance with its contractual obligations and consistently with the then Lord Privy Seal's parliamentary statement of 5 February 1982, Ministers agreed on 11 February to release £6.8m which remained in an existing sterling line of credit.

This decision, which implied that a good proportion of the £6.8m would go to MFP as payment of fees for services provided, was met with opposition from the Polish authorities, which wished to use most of this credit to buy new capital equipment. Agreement was eventually reached on 30 April although the Poles are still applying pressure to MFP (by refusing to sign the qualifying certificate which would enable them to receive their fees) in the hope of obtaining unrestricted use of the balance (ca £3.8m) which would be left. It has been made clear to the Poles that this money can only be used for existing contracts.

Department of Trade

OT4/1

28 May 1982



1 JUN 1982



dl

10 DOWNING STREET

From the Private Secretary

1 June 1982

I am writing on behalf of the Prime Minister to acknowledge your letter of 28 May. I will place this before her and you will be sent a reply as soon as possible.

W.F.S. RICKETT

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



Foreign and Commonwealth Office

London SW1A 2AH

1 June 1982

Prime Minister

I believe you asked

for this.

A.J.C. 1/6.

Dear Sir,

You asked this morning for a list of former US Colonies, and I explained that there might be problems of definition. The attached paper bears this out but I hope that it will be useful.

Yours ever,
[Signature]

(B J P Fall)
Private Secretary

A J Coles Esq
10 Downing Street

FORMER UNITED STATES TERRITORIES

The Philippines

Ceded to the United States by Spain in 1899. Governed by the United States until independence in 1946 although limited self-government (as a Commonwealth) was granted in 1935. Occupied by the Japanese 1941-44.

PRESENT UNITED STATES OVERSEAS TERRITORIES

(a) Self-governing Areas

Puerto Rico A 'Commonwealth', freely and voluntarily associated with the United States. Formerly an incorporated territory of the United States after being ceded by Spain after the Spanish-American War.

Guam The largest of the Mariana Islands. (W. Pacific). Acquired by the United States from Spain in 1898. The government of Guam is supervised by the United States Department of the Interior.

(b) Non-Self-governing Territories

American Samoa (administered by the United States Department of the Interior);

Baker, Howland and Jarvis Islands (Uninhabited. Part of the National Wildlife Refuge Association);

Canton and Enderbury Islands (jointly administered by the United States and the United Kingdom);

Johnston Atoll (A Naval Defence Sea Area and Airspace Reservation under the jurisdiction of the Defence Nuclear Agency);

Kingman Reef (A Defence Sea Area and Airspace Reservation);

Midway Islands (A Naval Defence Sea Area);

US Virgin Islands (Purchased by the United States from Denmark in 1917.) Since 1931 administered by the Department of the Interior ;

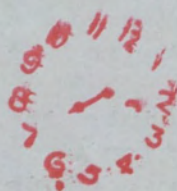
Wake Island (Administered by United States Air Force under the jurisdiction of the Department of the Interior).

(c) Trust Territory of the Pacific Islands (Micronesia)

More than 2,000 islands including the Northern Mariana, Caroline and Marshall Islands. In 1947, the United Nations Security Council approved a Trusteeship agreement proposed by the United States under which the Northern Mariana, Caroline and Marshall Islands became a Strategic Trust Territory under the administration of the United States. The Department of the Interior took over the administration of the Islands in 1962. In 1978 the Northern Marianas became a Commonwealth under American Sovereignty but remain legally a part of the Trusteeship until the future status of the Trust Territory is decided. The termination of the Trusteeship was scheduled for 1981. In 1980, a Compact of Free Association was initialled by the United States and the Micronesian Political Status Commissions.



1 JUN 1982



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TO IMMEDIATE F C O

TELEGRAM NUMBER 1976 OF 1 JUNE

VERSAILLES SUMMIT: LATEST U.S. POSITIONS.

1. THE FOLLOWING IS A SYNTHESIS OF OFFICIAL VIEWS ON THE EVE OF PRESIDENT REAGAN'S DEPARTURE TO EUROPE. DISCUSSION IN THE WHITE HOUSE IS CONTINUING UP TO THE LAST MINUTE. WE WILL REPORT ANY FURTHER MODIFICATIONS IF NECESSARY.

CREDITS FOR THE SOVIET UNION AND EXISTING CONTRACTS
2. THIS STILL SEEMS LIKELY TO BE THE MOST DIFFICULT ISSUE. THE AMERICANS FEEL THAT THE TONE OF THE LAST ROUND OF OFFICIAL DISCUSSIONS IN PARIS ON 27 MAY WAS AN IMPROVEMENT ON ITS PREDECESSORS. BUT THEY ARE DISAPPOINTED AT THE LACK OF AGREEMENT ON A MECHANISM FOR CONTROLLING CREDITS TO THE SOVIET UNION. MR HAIG HAS NOW SENT A FURTHER LETTER TO HIS COLLEAGUES (WHICH WE HAVE NOT SEEN HERE). THE PRESIDENT WILL RAISE THE MATTER HIMSELF AND MAY WELL TABLE THE DRAFT PROTOCOL WHICH HIS OFFICIALS PUT FORWARD ON 27 MAY. THE MINIMUM THE AMERICANS COULD ACCEPT WOULD BE A VERY FIRM AGREEMENT IN PRINCIPLE, AND FURTHER WORK BY MINISTERS OF FINANCE (PARAGRAPH 5 (A) OF PARIS TELNO 551 TO F C O)). INDIVIDUAL ACTION BY GOVERNMENTS WOULD BE INADEQUATE. WITHOUT AGREEMENT, THE AMERICANS WOULD - OUR CONTACTS SAY - BE BOUND TO ACT IN WAYS THEIR PARTNERS FOUND UNPLEASANT.

GOVERNMENTS WOULD BE INADEQUATE. WITHOUT AGREEMENT, THEY
WOULD - OUR CONTACTS SAY - BE BOUND TO ACT IN WAYS THEIR PARTNERS
FOUND UNPLEASANT.

3. ON EXISTING CONTRACTS THE ISSUE REMAINS OPEN. HAIG AND REGAN
(WHO WILL BE AT VERSAILLES) AND BALDRIGE ARE IN FAVOUR OF
FLEXIBILITY. WEINBERGER IS AGAINST AND MRS KIRKPATRICK ARGUED IN THE
N S C ON 24 MAY THAT FLEXIBILITY WOULD BE QUOTE IMMORAL UNQUOTE. ONE
STATE DEPARTMENT OFFICIAL HAS COMMENTED THAT THIS ISSUE CANNOT NOW
BE RESOLVED WITHIN THE WASHINGTON BUREAUCRACY. HE BELIEVES THAT
ONLY A DIRECT APPEAL BY THE PRIME MINISTER WHEN SHE MEETS THE
PRESIDENT WILL DO THE TRICK.

O E C D EXPORT CREDIT CONSENSUS

4. THE AMERICANS WILL PROBABLY RAISE THE CONTINUING ABSENCE OF
AGREEMENT, BUT WOULD OBJECT TO LINKING THIS WITH THE ISSUE OF
CREDITS FOR THE SOVIET UNION.

MACRO-ECONOMIC POLICY AND EXCHANGE RATE MANAGEMENT

5. THE AMERICANS SEE VERSAILLES AS AN IMPORTANT OPPORTUNITY TO
RE-STATE OF THE COMMON THEMES SET OUT AT THE ORIGINAL RAMBOUILLET
SUMMIT. OFFICIALS ARE ENCOURAGED BY GREATER FLEXIBILITY IN AMERICAN
ATTITUDES, AND BY A CORRESPONDING FRENCH REALISM. THEY ARE HAPPY
WITH THE DRAFT LANGUAGE FOR THE SUMMIT TO ADOPT AS IT NOW STANDS.
THEY EXPECT SOME CRITICISM OF THEIR DOMESTIC ECONOMIC POLICIES, BUT
ARE LIKELY TO OPPOSE SUGGESTIONS THAT SCHEDULED TAX CUTS BE CANCELLED
THAT PLANNED INCREASES IN DEFENCE EXPENDITURE BE CUT TO THE POINT
OF DIMINISHING U.S. SECURITY, OR THAT THE U.S. MONEY SUPPLY SHOULD
BE EXPANDED RAPIDLY TO BRING DOWN INTEREST RATES. THEY ARE LIKELY
TO CONTINUE WARNING OTHER COUNTRIES AGAINST THINKING THAT A
REDUCTION IN U.S. INTEREST RATES WILL BRING DOWN INTEREST RATES
ELSEWHERE, UNLESS OTHER COUNTRIES ADOPT SUITABLE COUNTER-
INFLATIONARY POLICIES THEMSELVES. THEY ARE UNEASILY AWARE THAT THE
PRESIDENT'S FAILURE TO GET A BUDGET AGREEMENT WILL WEAKEN HIS HAND,
THOUGH THE PRESIDENT WILL DOUBTLESS BLAME THIS ON CONGRESSIONAL
POLITICS.

6. ON INTERNATIONAL MONETARY CO-OPERATION, THE AMERICANS ARE CONTENT
WITH THE LANGUAGE THAT HAS ALREADY BEEN AGREED.

TRADE

7. THOUGH THE AMERICANS WANT THE SUMMIT TO SPEAK UP FOR FREE TRADE
AND TO SUPPORT INITIATIVES AT THE NOVEMBER G A T T MINISTERIAL
MEETING ON SERVICES AND INVESTMENT, THE PRESIDENT IS UNLIKELY TO
MENTION THAT THE JAPANESE

TRADE

7. THOUGH THE AMERICANS WANT THE SUMMIT TO SPEAK UP FOR FREE TRADE AND TO SUPPORT INITIATIVES AT THE NOVEMBER G A T T MINISTERIAL MEETING ON SERVICES AND INVESTMENT, THE PRESIDENT IS UNLIKELY TO MAKE DETAILED PROPOSALS. THE AMERICANS THINK THAT THE JAPANESE TRADE MEASURES OF 27 MAY REPRESENT A SUBSTANTIAL STEP ESPECIALLY ON INDUSTRIAL GOODS THOUGH LESS SO ON AGRICULTURE. THEY BELIEVE THAT THE JAPANESE ANNOUNCEMENT WILL DEFUSE WHAT COULD HAVE BEEN A DIFFICULT SITUATION. INSTEAD, THEIR ATTENTION MAY FOCUS ON EUROPE, ESPECIALLY AGRICULTURE AND STEEL (NO SETTLEMENT ON THE LATTER IS LIKELY BEFORE THE SUMMIT). BUT ON THE WHOLE THEY FEEL TRADE WILL NOT BE A DIFFICULT ISSUE.

GLOBAL NEGOTIATIONS

8. THE CONFUSION DESCRIBED IN WASHINGTON TELNO 1927 CONTINUES. BASIC AMERICAN ATTITUDES ARE UNCHANGED. BUT THE STATE DEPARTMENT THINK THAT HORMATS (AND PERHAPS HAIG) BUT NOT THE PRESIDENT MAY PROPOSE LANGUAGE IN VERSAILLES SHOWING GREATER FLEXIBILITY ON PROCEDURE, WHILE REMAINING FIRM ABOUT THE INDEPENDENT ROLE OF THE SPECIALIZED AGENCIES. OTHERWISE, THE AMERICANS FEAR, THE EUROPEANS WILL MOVE AWAY FROM THEM TOWARDS ACCEPTANCE OF THE G.77'S BEDJAQUI TEXT. BUT THE TACTICS STILL REMAIN TO BE DECIDED BY THE PRESIDENT.

YOUTH EXCHANGES

9. THOUGH IT HAS ACHIEVED LITTLE PUBLIC PROMINENCE HERE, THE WHITE HOUSE TELL US THE PRESIDENT (AND MR WICK) STILL WANT THE SUMMIT TO ENDORSE THE PROPOSED INITIATIVE.

F C O PLEASE ADVANCE TO PS, PS/PUS, BRIDGER, EVANS, BAYNE AND GOWLLAND (T R E D)

HENDERSON

NNNN



10 DOWNING STREET

*Mr 2/6
h.a.*

Sir Robert Armstrong, KCB CVO,
Cabinet Office,
Whitehall,
London, SW1.

1 June 1982

Dear Robert,

VERSAILLES SUMMIT MEETINGS

I wonder if you would be kind enough to take note of some of the difficulties I have had in the various Summit briefing sessions. As you know, the Prime Minister asked that I be involved in preparing the macro-economic paper and indeed I did have some input into this.

However, I was omitted from the list of those invited to the Summit Briefing Session last Thursday. I discovered that one was taking place accidentally on Wednesday. When I made enquiries I found that I was in fact required to go. I did not receive the papers literally until five minutes before the meeting. Clearly the Prime Minister was anxious that I attend and indeed kept me for a considerable while afterwards.

Since I am Economic Adviser to the Prime Minister and since she was chairing these sessions, I should have thought that it would be advisable to put me on the list of those who attend.

Alan Walters

Alan Walters

ALAN WALTERS

copy filed on
Argentina At 22 Relations



10 DOWNING STREET

1 June 1982

From the Private Secretary

FALKLANDS: OTHER TERRITORIAL DISPUTES

The Prime Minister was impressed by a remark made by President Reagan on television recently to the effect that, if the aggressor had his way over the Falklands, there would be serious implications for some fifty other territorial disputes. Since then, I understand that Mr. Eugene Rostow has referred to one hundred such disputes which could be exacerbated if Argentina succeeds in its aims in the South Atlantic.

The Prime Minister expects to have to spend a good deal of time on the Falklands in conversation with our allies during the various forthcoming international meetings. She would like to be armed, before she goes to Versailles, with a comprehensive list of territorial disputes with, in each case, a very brief description of their cause and the present situation. I emphasise that this could be very much in the form of a list with no more than two or three sentences relating to each dispute. Could this possibly be produced by close of play on 3 June?

B. HOLMES

John Holmes, Esq.,
Foreign and Commonwealth Office.



Richards

10 DOWNING STREET

From the Private Secretary

1 June 1982

VERSAILLES ECONOMIC SUMMIT

I enclose a copy of a letter which the Prime Minister has received from the Chairman of the British National Committee of the International Chamber of Commerce. I have acknowledged the letter and will bring the enclosure to the attention of the Prime Minister. If you or other recipients of this letter consider that the Prime Minister should receive further briefing for the Summit, in the light of this letter, I should be grateful if it could reach me by 3 June.

I am copying this letter and enclosure to John Rhodes (Department of Trade), John Kerr (H.M. Treasury) and David Wright (Cabinet Office).

A. J. COLES

Francis Richards, Esq.,
Foreign and Commonwealth Office.

[Handwritten signature]



Fleth

10 DOWNING STREET

From the Private Secretary

1 June 1982

I write to thank you for your letter of 27 May enclosing, on behalf of your National Committee, a statement for submission to the Heads of State and Government attending the Versailles Summit. I am bringing your letter and the statement to the attention of the Prime Minister.

A. J. COLES

Sir Peter Macadam.

JH

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FM WASHINGTON 012135Z JUN 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 1977 OF 1 JUNE

INFO IMMEDIATE MODUK (FOR P/S S OF S AND CD5).

FALKLANDS: WHAT USA SUPPORT HAS MEANT.

1. IT IS NOW A LITTLE MORE THAN A MONTH SINCE THE ADMINISTRATION MADE ITS PUBLIC DECLARATION OF U S SUPPORT IN THE FALKLANDS CRISIS AND PROMISED MATERIEL ASSISTANCE. THE DECISION ANNOUNCED BY HAIG ON 30 APRIL WAS NOT AUTOMATIC GIVEN OTHER U S INTERESTS AT STAKE. AS WILL BE EVIDENT FROM THE ACCOUNTS WE HAVE SENT YOU OF THE DIFFERENCES WITHIN THE U S ADMINISTRATION, IT WAS NOT ARRIVED AT WITHOUT DIFFICULTY. ON THE OTHER SIDE THERE WERE THOSE WHO ATTACHED GREAT IMPORTANCE TO THE PRESERVATION OF U S RELATIONS WITH LATIN AMERICA: THE NEED TO GIVE THE RUSSIANS AND CUBANS NO OPPORTUNITIES IN THIS HEMISPHERE: THE GENERAL ANTI-WAR SENTIMENT IN THE AFTERMATH OF VIETNAM: AND THE WIDELY HELD VIEW, HOWEVER UNREASONABLE, THAT THE FALKLANDS ARE A QUOTE COLONIAL UNQUOTE PROBLEM. ALL THESE FACTIONS WOULD HAVE PREFERRED THE U S TO CONTINUE TO SIT ON THE FENCE. PRESERVING ITS ROLE AS A MEDIATOR.
2. THE U S ADMINISTRATION HAVING TAKEN ITS DECISION HAS STOOD FIRMLY BY IT, THOUGH MRS KIRKPATRICK AND THE LATIN AMERICAN SPECIALISTS IN THE STATE DEPARTMENT AND THE NSC HAVE CONSTANTLY AND MORE OR LESS PUBLICLY QUESTIONED THE WISDOM OF CONTINUING PUBLIC SUPPORT. U S PUBLIC OPINION WHILE GENERALLY VERY SUPPORTIVE HAS ON OCCASIONS SHOWN SOME SIGNS OF WAVERING, WITH CONCERN ABOUT THE LOSS OF LIFE AND DAMAGE TO U S INTERESTS. HAIG PUT UP A COURAGEOUS PERFORMANCE IN THE OAS LAST WEEK WHERE U S POLICY WAS UNIVERSALLY DENOUNCED. THE PRESIDENT HAS REMAINED FIRM IN SUPPORT OF HIS DECISION, THOUGH SOME OF THOSE AROUND HIM HAVE NOT. U S SUPPORT HAS BEEN ESSENTIALLY ATTRIBUTABLE, HOWEVER TO THE EFFORTS OF HAIG AND WEINBERGER.

3. HAIG HAS I REALISE AN EXTREMELY DISCONCERTING TENDENCY TO SHIFT HIS POSITION FROM DAY TO DAY. HE IS HYPERACTIVE AND ANXIOUS TO GET INTO THE ACT AND EVER READY TO COME UP WITH SOME PLAN. THE CONTRADICTIONS WE GET IN HIS THINKING ARE ALSO A FUNCTION OF HIS CONCERN TO CONFIDE IN US AT EVERY STAGE, EVEN WHEN HIS IDEAS ARE HALF-FORMED.

4. AGAINST THIS BACKGROUND IT IS I THINK IMPORTANT TO BEAR IN MIND THAT U S ASSISTANCE SHOULD NOT BE TAKEN FOR GRANTED: THAT IT REQUIRES CONSTANT WORKING ON THE U S ADMINISTRATION, CONGRESS AND PUBLIC OPINION TO KEEP THEM IN THE RIGHT POSITION: AND THAT ITS VALUE TO US IS VERY GREAT.

5. I DO NOT NEED TO GO INTO DETAILS ABOUT THE VALUE OF THE INTELLIGENCE COOPERATION WHICH HAS BEEN GIVEN, THE FULL EXTENT OF WHICH IS WELLKNOWN TO THE JIC. SO FAR AS COMMUNICATIONS FACILITIES ARE CONCERNED, THE AMERICANS HAVE MADE ESPECIALLY AVAILABLE SATELLITE COMMUNICATION CHANNELS AT CONSIDERABLE COST TO THEIR OWN OPERATIONS, COMMUNICATION SETS FOR OUR SPECIAL FORCES ON THE ISLANDS, SECURE SPEECH FACILITIES WITH THE FLEET AND SATELLITE WEATHER INFORMATION. SO FAR AS EQUIPMENT IS CONCERNED, WE HAVE OVER THE LAST MONTH PROCURED AT LEAST DOLLARS 120 MILLION OF U S MATERIEL MADE AVAILABLE AT VERY SHORT NOTICE AND FREQUENTLY FROM STOCKS NORMALLY EARMARKED FOR U S OPERATIONAL REQUIREMENTS. THIS EQUIPMENT HAS INCLUDED THE LATEST AIR TO AIR SIDE-WINDER MISSILES URGENTLY REQUIRED FOR USE BY THE HARRIERS, THE VULCAN PHALANX ANTI-MISSILE GUN SYSTEM FOR HMS ILLUSTRIOUS, 4700 TONS OF AIRSTRIP MATTING FOR PORT STANLEY AIRPORT ONCE IT HAS BEEN RECAPTURED, CONVERSION OF THE SS STENA INSPECTOR FOR USE AS A REPAIR SHIP IN THE SOUTH ATLANTIC, SHRIKE MISSILES FOR USE BY THE VULCANS, HELICOPTER ENGINES, SUBMARINE DETECTION DEVICES FOR USE BY THE SEA KING HELICOPTERS, TEMPORARY ACCOMMODATION ON A LARGE SCALE FOR ASCENSION ISLAND FOR OUR FORCES, STINGER GROUND TO AIR MISSILES (ALREADY USED SUCCESSFULLY AGAINST ARGENTINE AIRCRAFT), AS WELL AS THE USUAL ARRAY OF WEAPONS AND AMMUNITION. MANY OF THESE ITEMS HAVE BEEN PROCURED AT EXTREMELY SHORT NOTICE (OFTEN 24 HOURS) AND FLOWN IMMEDIATELY TO THE UNITED KINGDOM OR ASCENSION ISLAND. BOTH HAIG AND WEINBERGER HAVE TAKEN THE CLOSEST INTEREST IN THE PROCESSING OF THESE REQUESTS, WITH WEINBERGER INTERVENING TO ENSURE THAT

THE LARGER AND MORE DIFFICULT ITEMS WERE MADE AVAILABLE IMMEDIATELY AT WHATEVER THE COST TO U S FORCES' REQUIREMENTS. THERE HAS BEEN THE SAME PATTERN OF HEPP WITH THE NUMEROUS REQUESTS WE HAVE PROCESSED FOR URGENT TECHNICAL ADVICE IN RELATION TO U S SUPPLIED WEAPONRY AND THEIR MATTERS.

6. AS YOU KNOW, THE ADMINISTRATION IS ANXIOUS THAT THE DETAILS OF THE HELP THEY HAVE GIVEN SHOULD NOT OFFICIALLY BE MADE PUBLIC, DESPITE THE MANY LEAKS WHICH HAVE TAKEN PLACE. BUT I HAVE NO DOUBT THAT THE FULL EXTENT OF THEIR ASSISTANCE WILL BE TAKEN INTO ACCOUNT IN THE CONVERSATIONS WITH PRESIDENT REAGAN AND HAIG. THEY CERTAINLY FEEL THAT IN TERMS OF PRACTICAL SUPPORT AND IN WAYS THAT REALLY MATTER THEY HAVE, DONE, AS THEY COULD BE EXPECTED TO, A VERY GREAT DEAL TO ASSIST US.

7. F C O PLEASE PASS TO NO. 10 DOWNING ST.

HENDERSON

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Hd Planning Staff
Hd NAD
Hd Em. Unit
Hd ERD
PS (6)
PS/PVS
Mr Bullard
Lord Bouverie
Mr Evans
RC

PP UKMIS NEW YORK

Sir R. Armstrong? Cab.
Sir M. Palliser } Office
Nº 10. D.S.

GR 100

CONFIDENTIAL

FM WASHINGTON 001900Z MAY 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1968 OF 00 MAY

INFO PRIORITY UKMIS NEW YORK

YOUR TEL NO 1082

BILATERAL WITH REAGAN

HAIG HAS TELEPHONED TO SAY THAT THE PRESIDENT AND HE ARE EAGER TO SEE THE PRIME MINISTER AND YOU IN FRANCE ON FRIDAY EVENING. THE DIFFICULTY IS THAT THERE IS A BOAT TRIP AT VERSAILLES IN THE EARLY PART OF THE EVENING. THEY WOULD GLADLY AVOID IT BUT FEAR THIS WOULD OFFEND MITTERAND. THEY SUGGEST, INSTEAD, MEETING IN PARIS FROM 1500 TO 1630 EITHER AT U.S.A. EMBASSY OR RESIDENCE. WOULD THIS BE POSSIBLE FOR US?

HENDERSON

NNNN

GR 290

CONFIDENTIAL

CONFIDENTIAL

DESKBY 291330Z

FM ROME 291100Z MAY 82

TO IMMEDIATE FCO
TELEGRAM NO. 290 OF 29 MAY 82
INFO PRIORITY BONN, PARIS

FOR RESIDENT CLERK

VERSAILLES ECONOMIC SUMMIT, ANGLO/ITALIAN BILATERAL.

1. PRIME MINISTER SPADOLINI SPOKE TO ME YESTERDAY AT THE ITALIAN NATIONAL DAY CELEBRATION, SAYING HE HOPED TO MEET THE PRIME MINISTER FOR A TALK DURING THE VERSAILLES MEETING.
2. SERGIO BERLINGUER (DIPLOMATIC ADVISER) ELABORATED. SPADOLINI HOPED MRS THATCHER COULD GIVE HIM HALF AN HOUR'S PRIVATE TALK. IT WOULD COVER MAINLY ECONOMIC SUMMIT MATTERS BUT DOUBTLESS THE FALKLANDS AND CURRENT EC BUSINESS COULD BE MENTIONED.
3. HE SUGGESTED THE FRIDAY EVENING OR SATURDAY AFTERNOON DURING GAPS IN THE PROGRAMME. HE WILL TELEPHONE SIR ROBERT ARMSTRONG ON 31 MAY ACCORDINGLY BUT WISHED ME TO GIVE THIS ADVANCE WARNING OF THE REQUEST.
4. I BELIEVE SPADOLINI WANTS IN PARTICULAR TO EXPRESS HIS REGRETS FOR THE ITALIAN FAILURE TO RENEW SANCTIONS AGAINST ARGENTINA AND TO EXPLAIN THE POLITICAL DIFFICULTIES HE AND COLOMBO FACED.
5. PRESIDENT PERTINI, SPADOLINI AND SEVERAL MINISTERS SPOKE TO ME WARMLY YESTERDAY ABOUT THIS. THEY EXPRESSED THEIR SOLIDARITY WITH US AND ASKED FOR OUR UNDERSTANDING. PRESIDENT PERTINI ASKED FOR HIS GREETINGS TO BE SENT NOT ONLY TO H.M. THE QUEEN AND H.R.H. PRINCE PHILIP, BUT TO THE PRIME MINISTER. THE UNFORTUNATE REFERENCE TO THE ITALIANS IN THE SUNDAY TIMES CAME UP BUT MY DENIAL (BASED ON YOUR TELEGRAM NO. 123) WAS ACCEPTED.
6. I HOPE SPADOLINI'S REQUEST CAN BE GRANTED. THE OCCASION COULD ALSO BE USED TO MENTION THE PRIME MINISTER'S BILATERAL VISIT TO ROME ON 07 JULY AND TO INDICATE HER WISHES FOR THE PROGRAMME.
7. GRATEFUL FOR INSTRUCTIONS AND TO KNOW WHAT RESPONSE IS GIVEN TO BERLINGUER.
8. PLEASE ADVISE ARMSTRONG URGENTLY.

ARCULUS

[COPIES SENT TO NO 10 DOWNING ST.]

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COPIES TO:-
PS/SIR R ARMSTRONG CABINET OFFICE
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FM F C O 292010Z MAY 82

TO IMMEDIATE ROME

TELEGRAM NUMBER 129 OF 29 MAY

INFO PRIORITY BONN PARIS

YOUR TELNO 290: VERSAILLES SUMMIT

1. SIR R ARMSTRONG WILL NOT BE AVAILABLE FOR BERLINGUER TO
TELEPHONE ON 31 MAY. GRATEFUL IF INSTEAD HE COULD DISCUSS PROPOSED
BILATERAL WITH MR COLES IN NO 10.

PYM

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No. 10 DOWNING STREET

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ADVANCE COPY

(35)

Prime Minister
KW

ADVANCE COPIES

EASTERN EUROPEAN ECONOMIC

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 PS/~~MR. HANNAY~~ MR. HANNAY
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 PS/PUS
 MR BULLARD
 LORD BRIDGES
 MR GOODISON
 MR EVANS
 MR HANNAY
 HD/EESD
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 RESIDENT CLERK

MR MOUNTFIELD TREASURY
 MR BREACH ECGD
 MR WENBAN-SMITH CABINET OFFICE
 MR POWNALL CRE4 DOT
 MR LOEHNIS B/ENGLAND

~~XXXXXXXXXX~~ 10 DOWNING STREET

~~Mr Coles~~
 MR. ARMSTRONG, CABINET OFFICE.
 MR. GOOTALL, CABINET OFFICE
 MR. COUZENS, TREASURY
 MR. CAREY, TREASURY
 MR. CORLEY, DOT
 MR. TWYFORD, ECGD.

CONFIDENTIAL

FM PARIS 280915Z MAY 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 551 OF 28 MAY 1982

INFO PRIORITY BONN, ROME, TOKYO, WASHINGTON. ROUTINE MOSCOW,
OTTAWA, UKREP BRUSSELS, UKDEL NATO.

INFO SAVING UKDEL OECD (PASSED BY PARIS).

FROM BRIDGES

BUCKLEY MEETING ON CREDITS FOR USSR: PARIS MAY 27

SUMMARY

1. A MUCH BETTER MEETING THAN THE LAST. NO AGREED SOLUTION BUT
 OPTIONS WILL BE SET OUT FOR POLITICAL DECISION AT VERSAILLES.
 FRENCH CHAIRMAN TO CIRCULATE TEXT, AMERICANS REASONABLY CONTENT
 WITH OUTCOME.

DETAIL

2. FRENCH CHAIRMAN (PAYE) HELD PRIOR CO-ORDINATION MEETING WITH
 OTHER EUROPEANS WHICH SHOWED THAT ONLY UK WAS WILLING TO MAKE
 POLITICAL COMMITMENT BEFORE VERSAILLES. BUCCI (ITALY) SAID THERE
 WOULD BE MAJOR POLITICAL DIFFICULTY IN SINGLING OUT USSR AS SUBJECT

DETAIL

2. FRENCH CHAIRMAN (PAYE) HELD PRIOR CO-ORDINATION MEETING WITH OTHER EUROPEANS WHICH SHOWED THAT ONLY UK WAS WILLING TO MAKE POLITICAL COMMITMENT BEFORE VERSAILLES. BUCCI (ITALY) SAID THERE WOULD BE MAJOR POLITICAL DIFFICULTY IN SINGLING OUT USSR AS SUBJECT TO CREDIT RESTRAINT, BUT DID NOT EXCLUDE DISCREET ARRANGEMENT TO SAME EFFECT BETWEEN THE SEVEN. FRAU STEEG (FRG) AGREED. CHANCELLOR SCHMIDT HAD NOT BEEN CONSULTED AND WOULD WISH TO TAKE POLITICAL DECISION AT SUMMIT. GERMANS PREFERRED ARRANGEMENT WITHIN OECD CONSENSUS AND COULD NOT PUBLICLY EXCLUDE USSR FROM CATEGORY 1. PRIVATE UNDERSTANDING MIGHT BE POSSIBLE. FRENCH SPOKE LIKEWISE: MAUROY WAS ALSO OPPOSED TO PUBLIC ARRANGEMENT DIRECTED AT USSR. BRIDGES AND TWYFORD SAID UK NOT WHOLLY CONVINCED BY US ECONOMIC ANALYSIS CIRCULATED IN WASHINGTON BUT HAD NO POLITICAL DIFFICULTY WITH REGIME FOR USSR ALONE; AND WE SAW SOME ROOM FOR MANOEUVRE WITHIN CATEGORY 1. BRIDGES UNDERLINED DANGER OF INADEQUATE EUROPEAN RESPONSE WHICH MIGHT LEAD TO ROW WITH US OVER PIPELINE CONTRACTS SHORTLY AFTER SUMMIT.

3. IN PLENARY THE WASHINGTON DOSSIER WAS EXAMINED BRIEFLY. AT FRENCH SUGGESTION US AGREED TO PROVIDE DETAILS OF SOVIET FOREIGN TRADE AND INVESTMENT (TO SHOW MINOR ROLE OF WESTERN CREDITS). US ANALYSIS OF SOVIET HARD CURRENCY POSITION NOT DISCUSSED.

4. DISCUSSION OF CONCLUSIONS REACHED BY EXPERTS IN WASHINGTON LAST WEEK THEN FOLLOWED. THIS SHOWED THAT CANADA AND JAPAN ALSO WANTED TO DEFER POLITICAL DECISION TO SUMMIT. CANADIANS SAID THAT MR TRUDEAU SAW DIFFICULTY IN AN AGREEMENT CONFINED TO USSR, WHILE JAPANESE THOUGHT AN AGREEMENT SHOULD BE REACHED AND WERE READY TO BE FLEXIBLE ABOUT MEASURES ADOPTED. MEETING EXAMINED AT LENGTH DRAFT ARRANGEMENT ON GUIDELINES PRESENTED BY US. DISCUSSION LARGELY REFLECTED KNOWN NATIONAL POSITIONS, AND IN SPITE OF ONE EXCHANGE BETWEEN LEYLAND (US) AND BAQUIAST (FRANCE) WAS QUITE AMICABLE. POSSIBILITY OF GENERAL MOVE ON EXCLUSION OF LOCAL COST FINANCING AND INCREASING PREMIUMS CONFIRMED. HELPFUL INTERVENTIONS BY JURGENSEN (FRANCE) AND LOEFF (COMMISSION) POINTED RESPECTIVELY TO SUBSTANTIAL RECENT INCREASES IN CONSENSUS RATES AND BURDEN ON HIGH INTEREST EXPORTERS AND CONSIDERABLE EFFECT WHICH INCREASE IN DOWN PAYMENTS BY SAY TEN PER CENT WOULD HAVE ON USSR. NO DIFFICULTY FORESEEN OVER ARRANGEMENT TO EXCHANGE INFORMATION AND MONITOR RESULTS AT SIX-MONTHLY INTERVALS.

5. PAYE CONCLUDED THAT NO DECISION WAS POSSIBLE AT THE MEETING BUT WE COULD PRESENT HEADS OF GOVERNMENT WITH THREE OPTIONS:-

(I) DETAILED ARRANGEMENT TO CONTROL OFFICIAL CREDITS FOR THE USSR AS PROPOSED BY US.

(II) AGREEMENT IN PRINCIPLE ON NEED TO CONTROL OFFICIAL CREDITS.



10 DOWNING STREET

From the Private Secretary

28 May 1982

Dear Francis

VERSAILLES ECONOMIC SUMMIT:
BILATERAL MEETINGS

The Prime Minister has now had a chance to consider possibilities for bilateral discussions at Versailles, following your letter of 21 May.

She discussed her wish to have a bilateral with President Reagan with the Foreign and Commonwealth Secretary this morning, and Christopher Mallaby has since agreed with Clive Whitmore the outline of instructions to be sent to Sir Nicholas Henderson asking him to approach the White House about such a meeting.

She would also like arrangements to be made for meetings with Chancellor Schmidt and Mr. Trudeau. She does not wish to set up a meeting with Mr. Suzuki, nor does she see grounds for making special arrangements with Signor Spadolini, President Mitterrand or Monsieur Martens.

Yours ever

Mike Pattison

Francis Richards, Esq.,
Foreign and Commonwealth Office.

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**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 115A/R**

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281510Z MAY 82
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FROM CABINET OFFICE LONDON
TO WHITE HOUSE
TELEGRAM NUMBER MISC140

MESSAGE FROM THE PRIME MINISTER TO PRESIDENT REAGAN

''DEAR RON

I WAS GRATEFUL FOR YOUR MESSAGE ABOUT THE SUMMIT MEETINGS IN VERSAILLES AND BONN NEXT MONTH. THESE MEETINGS GIVE US A UNIQUE OPPORTUNITY TO SHOW TO OUR OWN PEOPLES AND TO THE SOVIET UNION THE STRENGTH, VITALITY AND COHESION BOTH OF THE LEADING INDUSTRIAL DEMOCRACIES AND OF THE WESTERN ALLIANCE, AND OUR ABILITY TOGETHER TO MEET TODAY'S DIFFICULT CHALLENGES.

MY TALKS WITH GEORGE SHULTZ EARLIER THIS MONTH SHOWED HOW MUCH COMMON GROUND THERE IS BETWEEN US ON VERSAILLES. THE THEMES YOU HAVE CHOSEN WILL BE PROMINENT IN THE ECONOMIC DISCUSSIONS THERE.

I BELIEVE WE CAN AGREE AT VERSAILLES ON IMPROVED ECONOMIC AND MONETARY CO-OPERATION. WE SHOULD AIM TO GIVE A MESSAGE OF HOPE FOR THE FUTURE, BASED ON THE FOUNDATIONS LAID BY OUR DETERMINED FIGHT AGAINST INFLATION. I KNOW THE EFFORTS YOU ARE MAKING WITH CONGRESS ON BUDGETARY DECISIONS. CONVINCING SUCCESS THERE SOON WOULD OFFER THE PROSPECT OF LOWER INTEREST RATES AND BE A TREMENDOUS HELP TO US ALL.

THE FORTHCOMING MINISTERIAL MEETING OF THE GATT WILL PROVIDE THE FOCUS FOR DISCUSSING TRADE QUESTIONS. WE WISH TO PRESERVE THE OPEN TRADING SYSTEM. IN THIS CONTEXT I HOPE WE CAN TOGETHER CONVINCING OUR JAPANESE COLLEAGUES TO ADOPT POLICIES MORE RESPONSIVE TO THE CONCERNS OF OTHERS.

I FULLY AGREE WITH YOU ABOUT THE NEED FOR GREATER CAUTION IN ECONOMIC AND FINANCIAL DEALINGS WITH THE SOVIET UNION AND SOME OTHER EAST EUROPEAN COUNTRIES. THERE IS ALREADY A CHANGE IN THIS DIRECTION: BUT AMONG THE SUMMIT PARTICIPANTS THERE REMAINS WIDE VARIETY IN THEIR NATIONAL ARRANGEMENTS FOR HANDLING THESE MATTERS. OUR OFFICIALS ARE ALREADY CO-OPERATING CLOSELY ON THIS SUBJECT. FOR OUR PART WE SHALL WORK SO THAT WE CAN REACH AGREEMENT ON THIS WHEN WE MEET AT VERSAILLES. MY COUNTRY IS DOING ALL IT CAN TO CONTRIBUTE TO THIS RESULT.

THE VERSAILLES SUMMIT WILL PRIMARILY BE ABOUT ECONOMIC MATTERS. BUT IT IS GOOD THAT WE SHALL HAVE THE OPPORTUNITY TO DISCUSS POLITICAL TOPICS TOO, AT A GREATER LENGTH AND WITH LESS FORMALITY THAN WILL BE POSSIBLE AT BONN. IT WILL BE PARTICULARLY IMPORTANT TO DRAW JAPAN INTO THESE POLITICAL TALKS.

WE MUST CLEARLY DISCUSS EAST/WEST ISSUES AND THE BROAD GUIDELINES WHICH SHOULD GOVERN OUR RELATIONS WITH THE SOVIET UNION. WE SHALL ALSO NEED TO TALK ABOUT THE MIDDLE EAST AND IN PARTICULAR THE IRAN/IRAQ WAR AS WELL AS THE ARAB/ISRAEL SITUATION. I SHARE YOUR VIEWS ABOUT THE IMPORTANCE OF INCREASING EXCHANGES AMONG OUR YOUNG PEOPLE. OUR EXPERTS ARE, AS YOU KNOW, IN CLOSE TOUCH WITH YOURS ON THE SUBJECT, FOLLOWING YOUR RECENT INITIATIVE.

I ENDORSE WHAT YOU SAY ABOUT THE OUTCOME WE SHALL TRY TO ACHIEVE AT THE BONN SUMMIT. OUR AIM MUST BE TO REAFFIRM THE UNITY OF THE ALLIANCE. WE NEED TO REMIND OUR OWN PEOPLES OF THE VALUES ON WHICH IT IS BASED, WHICH INSPIRE ITS ACTIVITIES AND WHICH IT SEEKS TO DEFEND. WE NEED ALSO TO DEMONSTRATE TO THE SOVIET UNION THAT WE ARE RESOLVED TO ADOPT THE MEASURES NECESSARY TO MAINTAIN THE EFFECTIVENESS OF DETERRENCE, BOTH INSIDE AND OUTSIDE THE NATO AREA. WE MUST GIVE A CLEAR STATEMENT OF THE FRAMEWORK WITHIN WHICH WE BELIEVE CONSTRUCTIVE EAST/WEST RELATIONS SHOULD BE CONDUCTED, AND, AS YOU HAVE DONE IN YOUR RECENT SPEECH, DEMONSTRATE PUBLICLY A CLEAR WILLINGNESS TO DEAL WITH THE SOVIET UNION ON THIS BASIS.

I AGREE THAT THE SUMMIT SHOULD STRESS THE NEED FOR STRONG CONVENTIONAL DEFENCES. THIS SHOULD, I BELIEVE, EMPHASISE THE IMPORTANCE OF MAKING MORE EFFECTIVE USE OF EXISTING RESOURCES. AS FOR ARMS CONTROL, I WARMLY WELCOME YOUR ANNOUNCEMENT OF YOUR INTENTION TO OPEN NEGOTIATIONS ON STRATEGIC ARMS REDUCTIONS. THESE NEGOTIATIONS, TOGETHER WITH THE INF NEGOTIATIONS IN GENEVA AND NATO'S NEW MBFR PROPOSALS, ARE A CLEAR DEMONSTRATION OF THE WEST'S COMMITMENT TO CONCRETE MEASURES OF DISARMAMENT IN BOTH THE CONVENTIONAL AND NUCLEAR FIELDS. THE SUMMIT OFFERS A UNIQUE OPPORTUNITY TO DRAW ATTENTION TO THIS COMMITMENT.

I VERY MUCH LOOK FORWARD TO WELCOMING YOU TO LONDON IN BETWEEN THE TWO SUMMITS, WHEN WE SHALL HAVE A CHANCE TO GO OVER SOME OF THESE IMPORTANT SUBJECTS TOGETHER. WE SHALL ALSO HAVE AN OPPORTUNITY TO DISCUSS THE LATEST DEVELOPMENTS IN THE FALKLAND ISLANDS.

WITH WARM REGARDS
MARGARET ''

NNNN

MR. COLES

cc Mr. Scholar

Mr. Hubert Herbert Jones(?) rang to say that the CBI had become concerned at very recent news that the Americans may produce some unwelcome thinking on export credits at Versailles.

The CBI President will therefore be writing to the Prime Minister on Tuesday, copied to Treasury and Trade Ministers, asking that their views should be taken into account in the finalising of the Prime Minister's Versailles briefs.

I have not alerted Departments to this approach.

MRD

28 May 1982

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OO UKMIS NEW YORK

GRS 867

SECRET

DESKBY 281900Z

FM FCO 281730Z MAY 82

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 1083

INFO IMMEDIATE UKMIS NEW YORK

YOUR TELEGRAM NUMBER 1921: FUTURE OF THE FALKLANDS

1. THE PRIME MINISTER AND I HOPE TO HAVE A SUBSTANTIAL TALK WITH REAGAN AND HAIG ABOUT THE FALKLANDS AT THE BEGINNING OF THE VERSAILLES SUMMIT (SUGGESTIONS ON THE ARRANGEMENTS IN MY TEL NO. 1082). I WOULD LIKE YOU TO GO OVER THE GROUND WITH HAIG BOTH TO PREPARE FOR THIS DISCUSSION AND IN ORDER TO RESPOND TO HIS MESSAGE TO ME.
2. YOU SHOULD BEGIN BY MAKING CLEAR THAT YOU ARE SHARING WITH HIM PRELIMINARY IDEAS WHICH MINISTERS HAVE BEEN CONSIDERING, THAT WE ARE CONSULTING NO-ONE ELSE IN THIS WAY AND THAT HE MUST DO ALL HE CAN TO ENSURE THAT OUR IDEAS DO NOT LEAK.
3. AS HAIG KOWS, OUR STARTING POINT IS OUR DETERMINATION TO REPOSSESS THE ISLANDS FOLLOWED BY RE-ESTABLISHMENT OF BRITISH ADMINISTRATION. THEREAFTER WE SHALL WISH TO CONSIDER THE FUTURE DEVELOPMENT OF THE FALKLANDS TAKING FULL ACCOUNT OF THE WISHES OF THE ISLANDERS. WE SHALL WISH TO CREATE A SECURE ENVIRONMENT FOR THIS. YOU CAN TELL HAIG THAT WE UNDERSTAND THE IMPORTANCE OF OTHER FACTORS WHICH GIVE HIM SERIOUS CONCERN, AS THEY DO TO US. WE RECOGNISE THAT THE UNITED STATES HAS A MORE IMPORTANT RELATIONSHIP WITH LATIN AMERICAN COUNTRIES THAN WE DO, BUT IT IS IN OUR INTERESTS TOO TO RESTORE POLITICAL RELATIONS WITH THEM AND TO AVOID THE FALKLANDS CRISIS LEAVING SCARS ON THE RELATIONSHIP BETWEEN THE WEST AND THE THIRD WORLD GENERALLY. WE ALSO SEE THE RISK THAT A HUMILIATED ARGENTINA COULD TURN UNDER NEW LEADERS TOWARDS A CLOSER RELATIONSHIP WITH THE SOVIET UNION. ANOTHER IMPORTANT CONSIDERATION IS THAT ARGENTINA WITH OR

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WITHOUT ARMS SUPPLIES FROM THE COMMUNIST BLOC COULD CONTINUE TO MOUNT OR THREATEN TO MOUNT MILITARY STRIKES AGAINST THE FALKLAND ISLANDS AFTER WE HAD REPOSSESSED THEM, THUS KEEPING THE ISLANDERS UNDER THREAT AND COMPELLING BRITAIN TO MAINTAIN STRONG FORCES IN THE AREA POSSIBLY AT THE EXPENSE OF OTHER COMMITMENTS EG TO NATO.

4. WE HAVE TO BE REALISTIC HOWEVER ABOUT THE LIKELY ATTITUDE OF ARGENTINA. AFTER ALL THAT HAS HAPPENED IT IS INCONCEIVABLE THAT THEY CAN ACHIEVE WHAT THEY WANT - NAMELY A TRANSFER OF SOVEREIGNTY. SOMEHOW OR OTHER THEY MUST BE BROUGHT TO ACCEPT THAT THEY MADE A SERIOUS MISCALCULATION IN ATTACKING THE FALKLAND ISLANDS AND BREAKING INTERNATIONAL LAW AND THAT THERE MUST BE A MODIFICATION OF THEIR AMBITIONS. THIS IS CLEARLY A VERY HARD LESSON FOR THEM TO LEARN BUT THE AMERICANS ARE PROBABLY BEST PLACED TO GET IT ACROSS, EITHER WITH GALTIERI OR WITH HIS SUCCESSORS SHOULD HE FALL FROM POWER.

5. FOR OUR PART WE DO NOT NECESSARILY ENVISAGE RETURNING ABSOLUTELY TO THE STATUS QUO ANTE. WE TAKE SERIOUSLY OUR OBLIGATIONS UNDER ARTICLE 73 OF THE UN CHARTER TO FURTHER THE INTERESTS AND WELL-BEING OF THE POPULATION OF THE FALKLANDS AND ARE WILLING TO REDUCE THE COLONIAL APPEARANCES OF THEIR GOVERNMENT IF THAT IS WHAT THEY WANT. WE COULD CONTEMPLATE A CHANGE IN THE STATUS OF THE ISLANDS, PROVIDED THAT IT WAS CONSISTENT WITH THE WISHES AND INTERESTS OF THE ISLANDERS AND WITH THE UN CHARTER. WE ALSO RECOGNISE THAT IT WILL BE IN THE LONG-TERM INTERESTS OF THE ISLANDERS TO HAVE AS HARMONIOUS AND COOPERATIVE A RELATIONSHIP AS POSSIBLE WITH ARGENTINA. ACCORDINGLY, WE ARE CONSIDERING A FUTURE FOR THE ISLANDS THAT PROVIDES EITHER FOR THEIR INDEPENDENCE OR FOR SOME MODIFIED FORM OF INDEPENDENCE THAT WOULD BE CONSISTENT WITH THE PRINCIPLES OF CHAPTER 11 OF THE UN CHARTER, PERHAPS INCORPORATING IDEAS DERIVING FROM OTHER CHAPTERS OF THE CHARTER.

6. WHILE RECOGNISING THE DIFFICULTIES WE WANT TO PROMOTE THE ECONOMIC DEVELOPMENT OF THE ISLANDS AND WOULD BE PREPARED TO CONSIDER THIS IN COOPERATION WITH COUNTRIES IN THE AREA. THERE ARE POSSIBILITIES IN OIL AND GAS EXPLORATION, FISHERIES, FURTHER

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7742 - 1

DEVELOPMENT OF SHEEP FARMING, WOOL, KELP AND OF COURSE TOURISM.
7. SECURITY IS OF COURSE THE KEY TO THE FUTURE OF THE ISLANDS. WITHOUT SOME RELIABLE FORM OF INTERNATIONAL SECURITY ARRANGEMENT, IN WHICH IT WOULD BE ESSENTIAL FOR THE US TO BE INVOLVED AND (AS AN ASSURANCE FOR THE ISLANDERS) FOR BRITAIN ALSO TO PLAY A PART, NEITHER THE POLITICAL NOR THE ECONOMIC FUTURE OF THE ISLANDS WOULD BE CERTAIN ENOUGH TO RETAIN THE PRESENT INHABITANTS OR TO ATTRACT INVESTMENT: AN INSECURE FALKLANDS WOULD BE A PERMANENT TEMPTATION TO IRREDENTISM IN ARGENTINA. WE GREATLY WELCOME HAIG'S OFFER OF A US BATTALION WITH PERHAPS A BRAZILIAN ONE AND IT SEEMS TO US THAT SOME INTERNATIONALISATION OF THE SECURITY ARRANGEMENTS COULD BE HELPFUL PRESENTATIONALLY TO THE ARGENTINES. WE ARE CONSIDERING WHETHER THE PRESENCE OF FORCES FROM SEVERAL COUNTRIES (ACTING RATHER ON THE SAME LINES AS THE SINAI MFO WHERE WE ARE HELPING THE AMERICANS) COULD BE ARRANGED TO PROVIDE A GUARANTEE OF THE SECURITY OF THE ISLANDS.

8. PLEASE DISCUSS THE FOREGOING WITH HAIG AND TELL HIM THAT WE CAN REFINE THE IDEAS IN THE LIGHT OF HIS RESPONSE. WE WOULD OF COURSE BE MOST INTERESTED TO HEAR WHETHER HE HAS ADDITIONAL OR ALTERNATIVE SUGGESTIONS FOR A REALISTIC ARRANGEMENT, BUT YOU SHOULD CONTINUE TO LEAVE HIM IN NO DOUBT ABOUT THE POLITICAL FACTS OF LIFE HERE, OF WHICH YOU ARE WELL AWARE. YOU SHOULD STRESS THAT IT IS ESSENTIAL THAT THE UK AND THE US SHOULD COOPERATE CLOSELY IN CONSIDERING THE FUTURE.

PYM

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7731 - 1

OO WASHINGTON
PP UKMIS NEW YORK
GRS 95
CONFIDENTIAL
FM FCO 281245Z MAY 1982
TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 1082 OF 28 MAY
AND TO PRIORITY UKMIS NEW YORK

VERSAILLES SUMMIT: BILATERAL WITH REAGAN

1. PLEASE TELL REAGAN'S OFFICE THAT THE PRIME MINISTER AND I WOULD VERY MUCH LIKE TO HAVE A SUBSTANTIAL BILATERAL MEETING WITH HIM AND AL HAIG LASTING IF POSSIBLE AT LEAST ONE AND A HALF HOURS, AS SOON AS CAN BE FITTED IN AFTER WE REACH VERSAILLES. THE MAIN TOPIC WOULD BE THE FALKLANDS. PLEASE FIND OUT WHAT TIME WOULD SUIT THE PRESIDENT. COULD HE MANAGE BEFORE OR AFTER DINNER ON 4 JUNE OR BREAKFAST ON 5 JUNE?

PYM

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10 2

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From the Principal Private Secretary

28 May 1982

Dear Francis,

Reply to President Reagan's message on Versailles and
Bonn Summits

You wrote to John Coles on 27 May 1982 to let him have a draft reply for the Prime Minister to send to President Reagan in answer to his message about the Versailles and Bonn Summits.

The Prime Minister made a number of amendments to the draft which I gave to John Holmes over the telephone earlier this afternoon. I now attach a copy of the Prime Minister's message to President Reagan in the form in which it was sent over the hot line to the White House.

I am sending copies of this letter and of the Prime Minister's message to John Kerr (HM Treasury), David Omand (Ministry of Defence), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

Yours sincerely,

Sheila Whiston.

8

Francis Richards Esq
Foreign and Commonwealth Office.

SECRET

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

From
Sir Campbell Fraser
President

②
C2
CBI
CONFEDERATION OF
BRITISH INDUSTRY

Prime Minister

To see.

28 May 1982

A reply will be submitted
to you in due course.

mf

A.S.C. 3.

Dear Prime Minister,

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

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

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

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

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

/ ...

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

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

*Yours sincerely,
Campbell Fraser*

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

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Telephone 01-636 4030

Telegrams TRADUNIC LONDON WCI

Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London
SW1

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DEPARTMENT

Economic

May 28 1982

R1/b

Prime Minister 2

The usual letter from Leon Murray.
We will let you have a reply.

WM
1/b

Dear Prime Minister

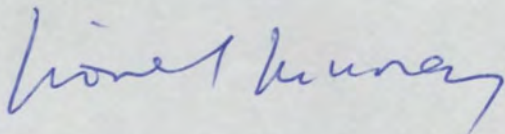
Versailles Summit

At their recent meeting the General Council endorsed the attached statement drawn up by the Trade Union Advisory Committee to the OECD for submission to the Versailles Summit on June 4-6.

I am therefore writing to you to draw your attention to the contents of the Statement. In particular I would urge upon you the case developed in the statement for urgent and co-ordinated action to be taken by the leading industrialised economies to expand economic activity and reduce unemployment. In the absence of such action the Versailles Summit will inevitably be remembered for inaction in the face of an economic crisis of the gravest proportions.

I am writing in similar terms to the Chancellor of the Exchequer.

Yours sincerely



General Secretary

Enc:

STATEMENT BY THE PLENARY SESSION OF THE TRADE UNION
ADVISORY COMMITTEE TO THE OECD

Réf.

1. With 30 million unemployed in the industrialised democracies and a lack of any real recovery, employment should be the priority issue for all high-level meetings of the OECD countries. The level of unemployment has increased a full third in only three years, and all forecasts show that it will rise further unless immediate measures are taken to counter this trend. The social consequences and economic waste of mass unemployment create havoc in our societies, and the growing frustration has repercussions which will be felt over decades. At the same time unemployment and poverty in the developing countries has reached levels which no longer can be reasonably quantified.

2. The governments of the industrialised countries have to take urgent joint action to reverse the relentless decline which each country now experiences. The Versailles Summit must fully recognise the responsibility of the strongest economies to act now, as they have a decisive influence on the rest of the OECD area as well as on the whole developing world. Tight policies of the OECD countries have prolonged the recession instead of providing a way out of the downward spiral. The joint strategy hitherto followed, and largely inspired by the countries participating at the Versailles Summit, has become a straightjacket, as incipient signs of recovery in one or two countries have soon been thwarted by the policy of others. This policy of concerted deterioration has to be stopped.

3. Trade unions propose a far-reaching but perfectly feasible change in policy, based on the following:

- (a) The direction of fiscal policies has to be expansionary, and there has to be a simultaneous relaxation of tight monetary policies.

- (b) The stimulus to the economy has to be targeted towards investments in economically and socially useful areas which also create jobs.
- (c) Governments must co-operate to reduce the current high real interest rates which distort investments and create obstacles for countries which need to follow more expansionary policies.

4. This action must be co-ordinated throughout the OECD area, to avoid balance of payments difficulties and to counter negative influences from speculative capital flows and volatile exchange rate fluctuations.

5. To reverse the trend of rising unemployment, policy measures have to be of sufficient magnitude and sustained duration. The unemployment problem cannot be resolved without economic growth. But reliance on growth rates alone will not bring about the necessary reduction in unemployment. Both general and selective policy measures are indispensable.

6. Governments must assume their responsibilities through stimulating badly needed investments, including public investment programmes, to prevent structural bottlenecks and meet social needs. Activity has to be promoted in such fields as housing, urban rehabilitation, transport, energy and social services. It has to be made sure that the introduction of new technology, including robotisation does not entail growth without sufficient job opportunities and also does not have damaging consequences on international trade.

7. A reduction in working time, through negotiations, and also bearing in mind the need for international co-ordination, is a social measure with employment potential which must fully be made use of.

8. There is a need for comprehensive employment programmes to create jobs and prevent skill shortages. Some

countries have attempted to introduce such policies, but many have done nothing. Short term measures of some countries have been too little, too late, badly financed, and ill targeted. Where more comprehensive changes have been attempted, they have run against formidable international constraints. A decade of decline requires substantial expansionary measures, together with active job creation, to achieve full employment in all sectors and regions in the shortest time possible.

9. The cost of present policies is already high, and will go on growing, in terms of unemployment and the obsolescence of human and productive capacity. The initial cost of saving our economies from bankruptcy will be repaid relatively quickly, as economic activity picks up and resources which now are idle or wasted in an unproductive way are utilised. The budgetary expenditure needed until self-sustained expansion is achieved will thus decline rapidly once the economies are set on a course towards a real recovery which reduces unemployment.

10. A concerted expansionary policy in the OECD area will have an immediate beneficial effect on the prospects of the developing countries. But this in itself will be far from enough. A considerable increase in Official Development Assistance is needed to ensure that all developing countries - and in particular the poorest ones - will benefit from this process.

11. Assistance must be directed as a matter of priority to improving the economic and social structures of developing countries. International agreements have to be reached on a whole range of issues, some of which are already at an advanced stage of negotiations. Other negotiations have to be initiated in the spirit of the proposals made before and during the Cancun Summit.

12. The current "oil glut" has furthered a dangerous attitude of complacency. This will only increase the vulnerability of any sustained growth to energy shortages or sudden rises in prices. Furthermore, it ignores the plight of the non-oil producing developing countries which has to no marked degree been alleviated by the present situation in the oil markets. Development programmes of these countries continue to be seriously constrained by the cost of imported energy.

13. Conservation, fuel-switching and more energy efficient production techniques are as urgently needed as ever, and many of them have a considerable potential for job creation. Alternative energy sources particularly suited to the conditions of developing countries have to be further developed and exploited. There is a continuous and growing need for measures to reduce the energy dependency of growth.

14. Trade unions are seriously concerned about the whole economic and social future of all countries, be they industrialised or developing. Unless immediate measures are taken to stop unemployment and poverty from rising, and to embark on a sustained growth path for each of the countries and the world economy as a whole, there will be no confidence by the working people that the policies governments pursue carry any promise in terms of employment and living standards.

15. Trade unions are ready to assume their responsibilities in working out a change in the policy stance of the industrialised democracies, but there has to be a political will from the governments to involve both trade unions and employers in a process to this effect. Trade unions have to be accepted as full partners instead of being used as scapegoats for the failures of the governments' policies. At the same time, the responsibilities of the employers have to be addressed.

16. There is a more than evident need for jointly agreed policies where the burdens and the benefits are clearly de-

financed and shared equitably. In designing and implementing such policies, all items can be discussed: wages, prices, employment policies, specific labour market policies, working time, investment policies and their job creating effect, capital formation schemes, energy policies, international trade and economic co-operation - in short, the whole future of our economies which at present is in danger.

Réf.

TUAC MEMORANDUM TO THE OECD'S MINISTERIAL COUNCIL
AND THE VERSAILLES SUMMIT
Adopted by the Plenary Session of TUAC, 29 April, 1982

I - THE TASK FOR GENERAL ECONOMIC POLICY

1. There will be well over 30 million unemployed in the OECD area by the end of this year. None of the forecast growth rates will stop that figure from growing further, and attempts to "talk up" a recovery have failed and continue to be futile. Our economies are rapidly approaching a situation reminiscent of the 1930s with massive unemployment overshadowing and eventually conditioning all economic and political decisions. In this situation, absolute priority must be given to achieving a change in economic policies which will turn the tide and start immediately reducing unemployment and start immediately reducing unemployment and lead back to full employment.
2. The economies of the industrialised democracies are stuck in a persistent recession, and the governments' policy response has failed to bring them out of it. The consequences of this failure are felt in every country in the world, whether industrialised or not. It is increasingly recognised that the remedy of tight policies which the OECD countries have adopted and pursued to counter the effects of the oil shocks of the 1970s prolong the disease instead of curing it. Attempts to find scapegoats in labour market or other "rigidities" and improve the over-all performance of our economies through small reforms here and there have been both misguided and unsuccessful. This is no time for fine-tuning or cautious inaction. Unemployment continues to rise, growth is lagging, and inflation is not receding to a marked degree. In short, instead of bottoming out the recession is deepening.

3. There is now an urgent need for co-ordinated action by all OECD governments. While governments may endorse the view that the strongest economies should lead the way out of the recession, there is a general reluctance for any country to be cast in this role. The question thus may be asked, how to break this deadlock of confidence by governments in their own ability to act? TUAC therefore proposes a series of far-reaching but not reckless measures. They should include the following elements :

- an expansionary fiscal policy and a relaxation in the tight monetary policies hitherto recommended and followed, which would stimulate both private and public aggregate demand ;
- targeted measures to stimulate investments in economically and socially useful areas which also produce jobs ; and
- a co-ordinated reduction of interest rates which at their current high real level distort investments and create obstacles for countries which have a need to follow more expansionary policies.

Such action will have to be co-ordinated throughout the OECD area in order to counter any balance of payments difficulties and to avoid negative influences from speculative capital flows and volatile fluctuations in exchange rates.

4. The ways in which the necessary stimulus would be given can vary from country to country. Recent statements have indicated that for some countries, the effects of the 1979 oil shock have passed through the system and that there thus would be scope for a "cautious" stimulus to economic activity. But a small and timid stimulus will not be a sufficient departure from previous policies. What is important, besides a co-ordination of policies, is that the stimulus is sufficiently large and sustained ; that is, the policies have to work over a sufficient long period of time. Partial and temporary reflationary measures will not bring the OECD economies back to a growth path which can reduce and subsequently eliminate unemployment. In the absence of co-ordinated policies, attempts by individual countries to meet the aspirations of their population will be frustrated and the consequences of international constraints will be used as an argument against domestic policies.
5. It was clearly indicated by the OECD's Labour Ministers in March, 1982, that measures at the micro-economic level alone will not to any considerable degree ameliorate the situation. Active employment and labour market policies are necessary in a variety of fields, and they include such items as vocational education and training, investments in job creation to reduce the

burden of unemployment on public expenditure, the shortening of working time etc... But they will have to fit into a pattern of macro-economic change which tackles both demand and supply-side problems.

6. Any policy has its costs. The choice is between the steadily growing costs of present policies and the initial but rapidly decreasing cost of a co-ordinated, large scale and sustained policy for reflation. The immediate benefits of the latter outweigh the costs by turning the trend of unemployment and economic decline. The cost of the current policies and the recession they have brought about is already high in terms of unemployment and the obsolescence of both human and productive capacity. If it is allowed to continue we may have to recognise that we no longer can afford a recovery. The initial cost of saving our economies from bankruptcy will be repaid relatively quickly, as economic activity picks up and as resources which now lay idle or are utilised for unproductive purposes are made use of.
7. Trade unions are ready to assume their responsibilities in the process of negotiations for a change in the policy orientation of the OECD countries. A prerequisite is that there is a political will to accept trade unions as full partners in the process instead of using them as scapegoats for the failures of tight policies. Likewise, the responsibilities of the employers to contribute to policies leading out of the crisis have to be addressed. There is no promise in a strategy which is based on an all-out attack on wages and living standards. Productivity and competitiveness cannot be reaped off the backs of the working population. Such a policy would be self-defeating in terms of possible productivity gains being lost in a tidal wave of social costs. If in the name of wage flexibility real wages continue to be eroded, the result is a continuous downward spiral in terms of lower standards of living, outright poverty, less demand for even basic goods, and hence less economic activity.
8. Nostalgia for the industrial relations of the beginning of the century is no remedy. There is a need for jointly agreed policies where the burdens and benefits are clearly defined. However important the confidence of present and potential investors may be, the confidence of working people that the policies which the governments pursue have a future in terms of employment and living standards is indispensable. The only viable way to build up this confidence is through negotiations where all items are put on the table : wages, prices, employment policies, working time, investment policies and their potential to create jobs, capital formation schemes, energy policies, specific labour market measures, international trade and economic co-operation, -in short, the whole course and future of our economies which at present is in danger.

II - THE EMPLOYMENT OUTLOOK

9. Full employment must be the priority issue for both the OECD's Ministerial Council and the Versailles Summit. The immediate target for the OECD area as a whole must be to turn the tide : to stop unemployment from rising and start to reduce its levels. Only three years ago, unemployment was a full third lower than now. Since that time, there are more evident divergencies in the OECD governments' policies on the over-all economic stance. This is to a great extent due to pressures arising out of increased unemployment. There are some signs that a number of governments are prepared to follow policies for a resumption of growth, thus taking into account the recommendations of the OECD's Ministerial Council and the Ottawa Summit, in 1981. This will be made much easier by concerted action. However, the policy stance of the OECD (as explained in the Economic Outlook of December, 1981) has continued to concentrate on inflation alone and postpone effective employment policies while fighting inflation by measures which generate higher levels of unemployment. In this connection it is important that the OECD's Labour Ministers' in March, 1982, put stress on immediate as well as medium-term measures to combat unemployment.
10. There will continue to be diversity in the ways in which individual countries tackle problems, and specific measures to combat unemployment will have to take into account these differences. But an increased interdependence presumes a continuous dialogue between countries, so that the effects, both negative and positive, of countries domestic policy measures on others are fully taken into account. As both the OECD's Ministerial Council and the Versailles Summit are to discuss unemployment, it is necessary that there is continuity between meetings that have a different participation but which are interlinked. The relationship between the Western Economic Summit Meetings and countries that do not participate in them should be clarified so that the follow-up of the Summits would take the form of comprehensive negotiations with countries, both industrialised and developing, that do not participate in them. For the OECD, this might well call for more than one meeting of the Ministerial Council annually, at least as long as the present economic and employment crisis continues.
11. Recent trends show that the projections of the OECD on the rise of unemployment in 1982-83 have again proved to be too cautious. TUAC estimates that the unemployment rate for the area as a whole will rise to around 9 per cent. Unless there is a change in economic policy, accompanied by vigorous measures in

the labour market, our economies will by the mid-1980s be asked to accept an unemployment rate exceeding 10 per cent. Furthermore, figures lack comparability, and they do not take into account hidden unemployment, the number of discouraged job-seekers or falling participation rates. In particular, the increase in long term unemployment, both among young workers and adults, and also the regional concentration of unemployment should be closely scrutinised.

12. A number of governments have recently embarked on more comprehensive programmes to combat unemployment. Such reorientations are to be welcomed, but trade unions caution that these employment programmes must be sufficiently financed so that they do not shift resources away from weaker groups in society or put increasing pressures on individuals and families. Neither can they be purely short-term measures. Employment programmes should be drawn up together with the trade unions in order to guarantee that they are not too little, too late, badly financed, temporary and ill directed. Under no circumstances should they be based on cuts in social safeguards or result in inferior working conditions.
13. Governments should specifically recognise that employment implications must be one of the basic criteria for any policy decision. Employment programmes of individual countries should have a degree of co-ordination with others, and they should include targets for both the short and the medium term. The OECD should prepare and publish regularly an employment outlook, comparable to the Economic Outlook, of which it could be an integral part.
14. The unemployment problem cannot be resolved without economic growth, but reliance on growth rates alone will not bring about the necessary reduction in unemployment. To achieve this, a two-pronged approach employing both general and selective policy measures is indispensable. TUAC refers to its statement to the Labour Ministers in March, 1982, as well as the outcome of their Meeting. The rest of this chapter underlines the trade unions' concerns on a number of issues in the recent discussion on measures in the labour market.

Vocational education and training

15. The development of vocational education and training is indispensable as an investment in human resources needed for a sustained recovery, and it should not only be treated as a way to alleviate the present unemployment situation. It has to be of sufficiently broad scope, i.e. containing elements of general education and covering a sufficiently wide area of skills, so that those receiving it can meet in particular the challenge of technological change. Vocational education and training should receive the same

importance as basic education in the educational system, and benefit from the same safeguards. It should be considered as a public service, basically financed and supervised by governments.

16. The trade unions have an important role in helping to ensure that training programmes have an adequately broad scope and content, and they also can participate in the carrying out of such programmes. There is scope for joint activities between governments, employers and trade unions, to work out vocational education and training systems which provide the industry and other sectors of the economy with better skilled manpower and which is also more mobile, due to an increased security of employment arising out of a sufficiently broad base of skills. Within this framework, mechanisms can be worked out to ensure a proper contribution by employers for the financing of training, in particular in industry. It is important that there was broad agreement on the need to further develop vocational education and training when the Labour Ministers met in March, 1982.

Public expenditure for job-creation and the cost of unemployment

17. There has recently been more discussion on the low fiscal cost of creating jobs by using the ever growing expenditure on unemployment benefits in a more positive way. The growth of this expenditure shows how costly the currently followed tight policies are. But it must be equally clear that problems will not go away if individual unemployment benefits are cut. These are basic social safeguards which have guaranteed a minimum level of income to a growing number of unemployed and which have also promoted adjustment. There is a lot of unfounded criticism as to levels of unemployment benefits but calculations have shown that this level is not decisive in explaining either the level or duration of unemployment or, for that matter, the level of wages. As benefits continuously sink with the duration of unemployment, attempts to reduce them would be particularly hard on the long-term unemployed.
18. The best way to reduce the expenditure for unemployment compensation is to create jobs. The net cost of doing this will be low, as savings will be made through reduced expenditure on total unemployment compensation and increased revenues from greater economic activity. It is necessary to see the order and time-scale in which expenditure now tied into unemployment benefits can be diminished by making more positive use of available resources. It is suggested that the immediate impact on government borrowing would last no longer than 18 months, depending on the type of jobs created. One cannot simply

cut needed unemployment benefits in one place or at one point in time and say that the expenditure will be used for creating jobs somewhere else or eventually.

The shortening of working time

19. One social measure which also has a potential for job creation, when properly used, in the shortening of working time. This is increasingly facilitated by technological progress. Working time can be shortened through various measures which should be determined in negotiations between trade unions and employers. These negotiations could also include measures to increase employment, so that a redistribution of working time would not merely be redistributing unemployment. Government measures can stimulate the environment in which such negotiations take place. The international dimension should also be taken into account, as situations in the OECD area vary considerably. Bearing in mind the differing national circumstances and procedures, there is need for a harmonisation of effort in a general reeducation of working time, with agreed targets and time-frame.
20. In some countries (for example Japan), the actual working time has even increased. The shortening of working time is particularly urgent where high productivity gains in the recent past were not accompanied by adequate improvement of labour standards. Thus the shortening of working time should also be seen as part of a process of harmonisation between countries which have reached a comparable level of development, leading into an improving level of labour standards.

Technological change, productivity and employment

21. The perspectives opened up by technological progress condition almost all general and micro-economic policy measures, and a separate discussion of its implications for measures on the labour market is hardly possible. It is important that the OECD's Labour Ministers addressed the very real danger of jobless growth in their Communiqué. It also has to be noted that the often expressed belief that due to technological progress, employment growth will mainly take place in the service and leisure industries, is being disproved by recent developments. The impact of new technology is now being felt also in the service sector and among office workers, and a decline of employment cannot be ruled out even while these sectors go on growing.
22. At the level of industrial sectors as well as at the individual enterprise level, one of the best ways to minimise the dangers and maximise the gains of technological developments to employment is through the approach of collective bargaining. The introduction and use of

new technology, including increased robotisation, should be done in co-operation with the trade unions, in a process where the employment impact is determined, and full use made of any potential for job creation. Particular attention is to be paid at an early stage to the possibilities of maintaining in employment those workers whose functions are likely to be affected by the process. Measures to promote productivity through new technology should, through negotiations, be judged according to their employment impact, so that the amount and quality of jobs created would be one of the major criteria for any new investment decisions in this field. At the same time the training and retraining needs could be determined.

"Flexibility" in the labour market

23. Trade unions recognise the need for adaptation to structural change and are willing to engage in negotiations to bring this about. In the recent discussion in the OECD on a number of issues ranging from labour market policies to adjustment policies, the word "flexibility" appears as some kind of a panacea. The claim has been made that micro-economic flexibility could have removed macro-economic obstacles, i.e. if labour markets were flexible enough, tight policies would have brought both unemployment and inflation down. This is a way of blaming the "inflexibility" of the market for the unemployment created by tight policies. It is also a way of soliciting wage flexibility as the policy response. But real wages have been eroded continuously, unemployment is growing and no recovery is in sight. This description only leads into lower standards of living, and often outright poverty, the obsolescence of human and productive capacity, and decreasing demand for even basic goods - hence, less economic activity.
24. It is also said that "wage flexibility" - which invariably means further decreases in real wages - is the short-term cost for long-term gains. If wage-earners are expected to take account of long-term gains, they should have a say in the process of managing structural change and not only be seen as factors of production. If they are to be involved in change, are there not implications on information and consultation arrangements in enterprises and at all levels of economic life? Nowhere is there a guarantee for the over 30 million unemployed that the "flexibility" they have already demonstrated and are further asked to demonstrate will bring a job at the end of the day.
25. The trade unions are concerned about a growing argumentation which ties wages with the competitiveness of enterprises as an attempt to motivate further cuts in wage levels. Such arguing has a number of basic flaws which show that the OECD should discuss these issues

more in the light of realities and in a less ideological way. The current theory forgets the differences between sectors, including the public and service sectors, which make any wages/competitiveness argument unviable. It goes against all attempts to have a fair income distribution which, apart from its social aspects, creates a broader consumer demand for goods and services. It also defies the principles and practice of free collective bargaining and thus the whole development in this field in our century. It does not pay attention to the dangers of jobless growth when competitiveness is increased through new technology. And finally, it has to be asked would such a reasoning mean that once productivity increases and the competitive position of an enterprise improves, wages would rise correspondingly? What would be the implications for other sectors (or other enterprises in the same sector) of such an increase which, presumably, would be perfectly warranted in the light of the wage flexibility theory?

26. Unemployment will not be brought down by hoping that adjustment through infinite "flexibility" is a substitute for real structural change. Labour markets cannot be equaled with other markets. Furthermore, desirable structural change cannot be left to the so-called market forces alone, in particular as they are dominated by market-controlling forces. It requires constructive government measures to promote acceptable supply-side policies which embody the obligation to fully utilise their employment creating potential.

III - INVESTMENT AND INVESTMENT POLICIES

27. Governments should not make the mistake of believing that private sector profits can be relied upon to promote investment. Firstly, there may be unproductive speculative investments which are more profitable than productive ones. Secondly, at present there is no intrinsic pressure on companies to invest their profits in the sectors from which they are derived. And thirdly, the private financing of productive investment must in the present situation rely upon popular savings at least as much as upon companies' self-financing, and mechanisms to channel these savings to productive investments must not impose undue risks on those whose savings are being used.
28. All public policy measures to stimulate investments have an implication on publicly available resources. Consequently, it is more than reasonable to require that all measures, both direct and indirect, to promote investments must be conditional upon their job-creating impact. The search for productivity and increased competitiveness threatens to turn into a cost-cutting exercise which for our societies as a whole will be self-defeating if this is done through attempts to

increase "wage flexibility" (that is, depress further real wages) or through investments in labour-saving rationalisation, or both. The productivity of enterprises can be high in economies which suffer record-level unemployment. But whatever benefit this may bring to individual enterprises will be dwarfed by the over-all costs for the society in terms of unemployment.

29. Trade unions are willing to further engage themselves in a discussion on productive investments, in particular as recent trends which have been conditioned by high real interest rates have led into increasingly non-productive investments. But productive must mean the same thing at the level of enterprises and the economies as a whole. If some enterprises or even industrial sectors fare relatively well due to subsidies or other incentives for increased productivity and competitiveness and if, at the same time, unemployment continuously rises, public resources are drained by both, without producing any investment-led recovery. If governments resort to incentives to industry for increased productivity without any conditions, they will on the one hand give resources for investments and on the other hand pay for their adverse consequences. This is much costlier than an industrial policy which includes the employment aspects from the beginning.
30. Consultations with the OECD's Labour Ministers in March, 1982, showed that trade unions and employers do not disagree on the need to promote productive investments, including private investments. However, private industry is not able or willing to guarantee that the measures it wishes to benefit from lead into investments which also create jobs. In fact, the OECD, too, has manifested growing doubts about the private industry's capacity to act as the motor for growth which also creates jobs. It is evident that both the private sector's responsibilities for economic and social development of our countries as well as the interaction between public and private investments have to be addressed.
31. It is too simplistic to make a sharp distinction between public investments and private ones. Public investments should not be seen as a substitute for private sector activity. But in the foreseeable future, public investments will have to play a crucial role in promoting economically and socially useful activity which also creates jobs. Areas where this is particularly necessary comprise energy, transport, housing, urban reconstruction, and social services. This again will create demand for production from the private sector and thus contribute to expansion. It would be wrong to see this approach just as a model for demand-led expansion, as it includes positive supply-side measures in vital sectors where activity is needed but not at present forthcoming on its own. The impact of increased public investments on government borrowing would be small, and this would soon finance itself through greater economic activity as well as an easing of the cost of unemployment.

32. There are a variety of measures to promote investments, and these differ from one country to another. They can be negotiated between governments and the labour market partners, especially if all participate in the formulation of comprehensive employment programmes. A change in macro economic policy is necessary to remove the constraints arising out of low demand, inflation and high interest rates. Governments should use the economic policy tools available to them as well as look for new solutions. In this connection, trade unions have pointed to the possibilities of making-use of funds over which they have a say (pension funds, wage earners' funds) for necessary and job-creating investments. While stressing the urgency of working towards a general lowering of world-wide real interest rates on a preferential basis for channelling finance towards desirable investments.
33. In looking at areas where investments are particularly needed, it is necessary to have a balance between export-oriented production and the delivery of goods and services for the internal market. An exclusive concentration on the former creates international imbalances and frictions, and its domestic benefits are limited. The time has come to promote growth through development of the internal market, to overcome the present severe economic decay and social deprivation. Promoting activities in such areas as housing, urban reconstruction, energy conservation and other parts of the economic infrastructure entails a number of benefits. These include rapid job-creation in industries which do not rely largely upon imports and thus will not cause balance of payments difficulties. Furthermore, they have a stimulating effect on other sectors through orders and sub-contracting.
34. It would be seriously misleading to believe that once growth picks up, capacities which now lay idle could be automatically taken into use again. The prolonged recession has led into increased obsolescence of capacity, both in terms of human potential and production processes. This calls for concentrated measures for vocational education and training and retraining as well as promoting research and development. Unless measures are taken for strengthening and, in some cases, rebuilding the economic infrastructure of the industrialised democracies, the obsolescence of capacity may turn out to be a serious constraint to any recovery and may even prevent it from coming about.

The role of multinational enterprises

35. National policies aimed at promoting industrial activity both for domestic reasons and for the sake of international competitiveness may be frustrated by decisions on restructuring taken by multinational enterprises. In the present recession these enterprises are engaged in

an international process of rationalisation and restructuring which has resulted in disinvestments in many OECD countries. As multinational enterprises, especially large ones, are also leaders in the field of technology, this has implications on production processes and their employment effect. As users of sophisticated communications technology, their decisions on restructuring can be made in an increasingly centralised and swift way without attention being given to the effect on the local communities, let alone to the need to negotiate such decisions.

36. Restructuring by multinational enterprises is taking place without any co-ordinated attempt by governments to impose a discipline and direction on it. However, governments have committed themselves to making the operations of multinational enterprises more compatible with national industrial policies. In the OECD area, the Guidelines for Multinational Enterprises must be utilised to strengthen and supplement national policies, in order to control the negative effects of multinational enterprises and maximise any benefits in terms of increased economic activity and employment. More globally, it is important to conclude the work on a United Nations Code of Conduct for Transnational Corporations as soon as possible, together with the setting up of an efficient follow-up mechanism involving the trade unions.
37. The experience since the 1979 Review of the OECD Guidelines for Multinational Enterprises has amply demonstrated that these Guidelines have so far had but little effect on the actual behaviour of the enterprises. They refuse the recommendation to give, in their annual reports, information on their compliance with the Guidelines. Any evidence of governments' efforts to overcome this refusal has been conspicuously missing.

IV - INTERNATIONAL TRADE

38. The benefits derived from increased international trade, and its impact in promoting smooth and positive structural change in the economies of the OECD area were a recognisable feature of post-war liberalisation efforts. However, the rules of the multilateral trading system, and even its multilateral nature, have been put in jeopardy by the economic policies of OECD governments. These policies rely upon export promotion while restricting the growth of the domestic economy. The result of such a strategy followed collectively by all OECD governments merely intensifies competition in international trade, and encourages a mercantilist stance on trade by governments. Government economic policies have so disfigured and abused the multilateral trading system that the benefits of international trade are now unrecognisable for many groups in society.

39. In their deliberations on trade, governments should concentrate on removing the underlying causes which threaten international trade. Many trade problems, from the plethora of de facto regulations to the alarming speeds and levels of import penetration in some countries, are a direct result of the strains that low growth places on the world trading system. Trade unions cannot accept that mere repeated attempts at removing impediments and "distortions" to free trade will achieve the aim of increased global economic activity. Indeed, trade unions must be certain that much needed reform of the trading system will be accompanied by a growth in economic activity at the world scale and is not a means of accommodating the trading system to low growth where the benefits of trade accrue to powerful groups and the adverse effects are borne by the weak.
40. Any consideration of international trade should recognise the relationship between policies to refine the international division of labour and national priorities and policy objectives concerning employment, industrial structure and social progress. Such recognition points to a greater coordination of investment plans, industrial policies and other restructuring activities at the international level rather than the use of trade rules which deny governments a role in the structural change induced by trade flows. It also points to a consideration of rules or "guidance" for the role of trade regulation (for instance non-discriminatory import penetration ceilings) in assisting adjustment especially when the effect is to hasten desirable structural change and to increase in absolute terms the level of imports.
41. The trade unions' insistence on a social clause to be negotiated into trade agreements also recognises the social impact of trade induced structural adjustment. The social clause is an instrument for negotiation and agreement, not a protectionist measure. Its implementation is not a matter of trade sanctions but of using to this effect the existing negotiation machineries. The social clause is a balance mechanism which places obligations on the trading partners to ease the process of change: on one hand access to markets, on the other hand measures to ensure that the working people will share the benefits accruing to their country from international trade, also in terms of improved labour standards. Only a social clause based on internationally agreed minimum labour standards can guarantee that evolving trade patterns do not leave workers unemployed in one country and exploited in another - a situation where comparative advantage of productive efficiency is replaced by comparative disadvantage of basic social rights to the detriment of global economic welfare.

V - WORLD CO-OPERATION AND ECONOMIC DEVELOPMENT

42. The impact of foreign investments on developing countries illustrates the crucial interdependence between these countries and the industrialised world in all areas of economic life. But the recognition by governments of this interdependence and the potential benefits that can accrue is still not matched with policies and programmes to contribute to world development. The promises and initiatives before and during the Cancun Summit have not produced action. International agreements have to be reached a whole range of issues, some of which are already at an advanced stage of negotiations. There is an urgent need for the OECD governments to take new and specific initiatives.
43. Developing countries are faced with serious external constraints on their economic development, and the governments of the industrialised democracies both can and have to act to remove them. One of the main constraints is the lack of growth in the world economy as a whole, and this impediment will be eased once OECD governments embark on policies for economic growth. Meeting the economic and social needs of developing countries is not peripheral for growth in the industrialised democracies as industrial development is an important source of demand for OECD exports. In this way interdependence is a self-sustaining and mutually reinforcing means of reducing unemployment all over the world and meeting the real needs of the developing countries.
44. Further external constraints on development are produced by high worldwide real interest rates, falling revenues from primary commodity exports, and discrimination in access to OECD markets. These factors are squeezing the developing countries' ability to pay for loans and trade credits which are needed for their development programmes, as well as restricting their general demand for imports. Of basic importance for developing countries is the ability to increase food production. To do so requires investments in agricultural inputs with, perhaps a high energy content and a high import content. Agricultural output must not be constrained by a lack of these factors, nor by the lack of necessary skills or technology. OECD governments have a responsibility to ensure that the development process is not inhibited by constraints over which they have control and over which developing countries have little influence.
45. Direct foreign investments and commercial loans cannot be a substitute for assistance and "soft" lending. OECD governments must realise that multilateral lending is reliant upon a continuing readiness by all donors. The trade unions are resolute in their demand that Official Development Assistance should be increased rather than be yet another casualty of governments'

desperate attempts to cut public sector deficits. Government cutbacks have placed the whole concept of multilateral lending and especially soft loans in jeopardy. As a result of the failure of the donor countries, the IDA arm of the World Bank is having great difficulty in completing its Sixth replenishment. Very few new soft loans are being made, and the result is that some countries have been effectively deprived of badly needed assistance. Multilateral lending for energy projects will require substantive resources in the years ahead, and this must remain a priority if foreign exchange constraints are not to choke the development efforts of non-oil producing developing countries. The negotiations for the Seventh replenishment must see a large real increase in lending capacity.

46. Trade Unions are as concerned as any government about the efficiency of development assistance. This will not be guaranteed by turning over responsibilities for assistance to private investors. Multinational enterprises have an important role in the development process, but unless their activities are regulated so that benefits accrue to the host countries and their population, they merely distort the development process and increase gaps both within and between countries. Resources for development must be targeted to the fight against spreading poverty and unemployment and the creation of viable economic and social structures. To reduce waste, trade unions in both developing and industrialised countries should be associated with the process of channelling assistance and monitoring its efficiency.

VI - ENERGY PROGRAMMES

47. The importance which OECD governments must continue to give to energy programmes has not diminished because of the recent fall in oil prices. Indeed, this price reduction has been due more to the recession than to an overwhelmingly successful conservation or fuel substitution effort, let alone to attempts to negotiate stable oil prices and supplies between the oil-producing and oil-consuming countries. Furthermore, the plight of non-oil producing developing countries has not been alleviated by the present situation in the oil market and these countries remain severely handicapped by their inability to afford sufficient energy imports.
48. While the danger of an "oil ceiling" restricting the OECD area's growth rate has receded for the time being, a continuing oil glut can have serious repercussions on decisions taken by the industry as well as on government policies if a misleading feeling of complacency prevails. Energy prices for the consumer should therefore be set at levels which reflect this priority instead of being used as a "quick-fix" for the inflation

problem. Governments could take advantage of the present low oil prices to increase their revenues, which would make it easier to finance the short-term public sector deficits associated with a programme for an immediate and sustained reflation to reduce unemployment.

49. Any real recovery will increase the demand for various kinds of energy, and as oil continues to play a major role there will be renewed claims on supplies, including substantial demand from developing countries. It is more than doubtful whether industry in the OECD area is using the current favourable situation to carry out conservation measures, fuel-switching and a transformation into more energy-efficient production methods. Certain alternative energy sources can be particularly important for developing countries, and they should be given priority in research in energy technology. Desirable energy investments cannot be the sole responsibility of private companies. The necessary coordination and the long lead times involved with major energy investments presuppose a government involvement to ensure that the correct type of energy is available, and that supply is adequate for the growth rates needed for a return to full employment.
50. Energy programmes can and should be devised so that their employment effect would be fully made use of. The technology needed for more energy efficient production as well as for conservation in households is available or can easily be developed. A number of aspects of more rational use of energy can be subject to mandatory standards. Such standards for energy conservation, especially if they are internationally identified and agreed standards, would promote considerable investments. In the transport sector investments are needed often on a large scale, and an increased use of coal provides opportunities for investments in extraction, treatment, distribution and utilisation. Energy, technology and production should be required to meet the highest health and safety and environmental standards, and these have employment creating benefits as well.
51. Governments should make use of the current situation in the oil markets to take concrete and concerted steps towards negotiations between oil-producing and oil-consuming countries. These negotiations should aim at agreements which would both guarantee supplies and lead into the stabilisation of equitable and remunerative prices. There is now a sufficient number of oil producers in the OECD area itself for action towards an international stabilisation agreement. The need for greater transparency of the activities of multinational enterprises in the oil market is as urgent ever, so that the governments can take measures to ensure that these enterprises contribute to the stability of the markets instead of causing disruptions.

52. Reducing the danger of future oil shocks through internationally negotiated agreements on prices and supplies of oil, while lessening the growth dependency on oil, diminishes the vulnerability of a reflationary economic strategy to any future disturbances. It should go hand in hand with other policy measures for a resumption of economic growth which creates employment. Constraints arising out of energy policies should be the subject of intensified action instead of being relegated to the reserve of easy arguments in favour of restrictive policies.

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**BRITISH NATIONAL COMMITTEE
INTERNATIONAL CHAMBER OF COMMERCE**

CENTRE POINT, 103 NEW OXFORD STREET,
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Telephone: 01-240 5558

②

27th May, 1982

The Rt Hon Margaret Thatcher MP
10 Downing Street
London
SW1

Dear Prime Minister

The Versailles Economic Summit

On behalf of our National Committee, I am writing to commend to you the enclosed memorandum, agreed within the International Chamber of Commerce, on certain crucial current issues of world trade policy, which, together with their social repercussions, confront participants at the Versailles Summit and, indeed, the whole international community.

I very much hope that you will find this considered statement by responsible business enterprise a helpful and constructive one at this time and that you will feel able to give our country's positive support at Versailles for a robust approach towards current threats to the free world's liberal trading system.

The other six National Committees in our world business organisation, whose countries will be represented at Versailles, have endorsed the views expressed in this statement and are likewise asking their respective heads of government to support them at Versailles.

We hope that the consensus, which our countries have achieved within our international business forum, may be of some assistance in developing a similar consensus at the political level.

Yours sincerely

Peter Macadam
BNC Chairman

Prime Minister
I have acknowledged - and
have asked department to
consider the enclosed memorandum.
A.J.C. 1/6



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S T A T E M E N T

for submission to the Heads of State and Government

attending the Versailles Summit 4-6 June 1982

FOREWORD

The political and social consequences of prolonged recession will be uppermost in the minds of the leaders of the seven major industrial democracies as they meet in Versailles. Intolerably high rates of unemployment throughout most of the western world have caused governments and legislatures to consider, and in some cases to implement, protectionist measures that would not have been contemplated a few years ago. These disquieting trends have begun to embitter international trade relations.

It had become customary for the International Chamber of Commerce (ICC), representing private business throughout the world, to submit a memorandum to the annual economic summit, setting out a business view on some of the issues to be discussed. The ICC statement concentrates firstly on the vital importance of defending the open market system, because in the long run trade barriers in whatever guise destroy rather than preserve jobs. The statement goes on to set out other practical measures designed to reduce unemployment. The business community shares the concern of governments at the waste of human resources and the deprivation that result from unemployment, and at the desolation caused in regions that depend on the most vulnerable industries. The private sector is acutely aware of its social responsibilities and is eager to play its full part in creating new jobs.

We hope this memorandum will assist the Heads of State and of Government in their deliberations at the Summit.

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TRADE POLICY

Despite the recession in the western world, the multilateral trading system embodied in the General Agreement on Tariffs and Trade (GATT) has proved itself a remarkably resilient force for world trade in face of protectionist pressures. However sectoral and bilateral agreements - including so called voluntary restraint agreements - aimed at protecting domestic industries have increased. They are outside GATT rules (which in some cases need to be updated) and thus represent a threat to international economic cooperation as it has evolved over the past 30 years.

The threat is in no way reduced by the spasmodic and haphazard nature of such restrictions, which include administrative delays and judicial acts. There is evident danger of escalation through retaliation, and that restrictions will become progressively more difficult to reverse. The world may then face a trade conflict that would aggravate recession, increase inflation, damage consumers, and have serious political and social consequences. In this context, the concept of reciprocity in trade must not be distorted. It must not imply that trade balances need to be reached on a bilateral or product by product basis.

International trade should not be regarded as a form of conflict in which importers are losers and exporters winners. Protectionist measures, even if they may yield some short-term relief to the sector deemed to be under threat, damage the overall economic strength of the country applying them. Such damage is frequently greater than that inflicted on the trading partner whose products are excluded.

This statement from the international business community is primarily addressed to trade issues, but it is also concerned with the international impact of countries' domestic economic and financial policies. These have a direct bearing on trade as well as on the capacity of industry to invest, expand and adapt to changing market conditions.

.../...

All governments must become more responsive to the international repercussions of their policies. Tight monetary policies in the United States and elsewhere have succeeded in reducing inflation, but the simultaneous tolerance of large budgetary deficits has produced high and volatile real interest rates. These distort financial flows and currency values, impair trade and investment, and impede sustained worldwide economic recovery.

In their discussion on trade, the governments participating in the summit must seek to alleviate the tensions that have built up between the three major economic powers -- the United States, the EEC and Japan. They must also consider wider trade problems and the danger that creeping protectionism will stifle the flow of goods and services between industrialised and developing countries. The maintenance of an open trading system is one of the most valuable contributions that developed countries can make to the material advancement of the Third World. It is equally true that developing countries, and particularly those that are now swiftly building their own industrial capacity, are markets of growing importance for the developed nations. All this points to the common interest of all countries in shunning protectionist solutions to their economic problems.

In the present troubled climate, the Versailles summit affords an opportunity for the seven governments to go beyond the formal reaffirmation of support for the preservation of open markets and the multilateral trading system that has been a traditional feature of international economic conferences for many years. The summit is taking place a few months before a GATT ministerial meeting in Geneva that promises to be of crucial importance in turning the protectionist tide. The seven governments should therefore express their fullest political support for efforts at that conference to assess where GATT rules and procedures need to be strengthened and to stimulate further action to liberalise trade. They should also recognize that the GATT system is not being adequately implemented and declare their determination to do everything possible to restore confidence in and respect for it.

.../...

Matters that need to be taken up at Geneva include a thorough review of the Tokyo Round results and the effectiveness of the codes then negotiated. Unfinished business of the Tokyo Round urgently needs completion, notably the creation of adequate safeguards procedures. This is a central problem, since it raises the whole question of the circumstances in which countries may take actions which derogate from their obligations under the GATT. The question is also crucial for developing countries and their position in the GATT system, and for their relations with industrialised countries. The Geneva conference should take the first steps towards establishing a framework of rules under the GATT on liberalisation of trade in services, bearing in mind that in many countries the service industries are much the biggest employers of labour. It should also reexamine the role of the GATT for agricultural trade.

EMPLOYMENT POLICY

A change of direction on these lines is needed to avoid a downward spiral of unilateral action and counteraction which might unravel the whole structure of international trade law. Collective political encouragement from the summit nations on these issues would contribute to the success of the Geneva meeting, and to a real improvement in the prospects of world economic and trade recovery.

The main cause of trade tensions has been high and persistent unemployment, with the mistaken readiness to blame imports for significant job losses, and to underestimate the capacity of export markets to provide work. It is because the ICC is convinced that maintenance of open trade will in the long run alleviate unemployment that this statement has concentrated on trade issues, for there is ample independent evidence of the importance of trade, including trade between developed and developing countries, as a net generator of jobs. A recent study prepared by the International Labour Organisation said trade in manufacturers with developing countries was very profitable for most developed countries. The number of jobs gained as a result of that trade largely outweighed the number of jobs lost.

.../...

But aside from trade considerations and the formidable nature of the current economic problems of many nations, much can still be done to hasten a lasting recovery from recession and thereby create jobs. Success will depend both on the willingness of governments to retreat from excessive intervention in economic activity and on the efforts of the private sector itself.

Regulations, subsidies, import and exchange controls and nationalisations have been allowed to distort and subdue competition. Uncertainties about government intentions have hampered the ability of business to plan ahead. Price signals have been blurred and profit reduced by inflation and taxation, so that innovation and investment have fallen and incentives weakened. Governments should rather curb their current spending to free resources for investment in the more dynamic private enterprise sector. Business will then be able to expand and create jobs in the new and profitable industries or transform existing ones so that they remain competitive.

Much too can be achieved on a practical, micro-economic level. Social programmes need to be carefully scrutinised in order to establish a proper balance between social welfare and economic efficiency. Methods of financing social security provisions must be reviewed with the purpose of avoiding excessive direct financial burdens on employers. Housing policies should be a key factor in improving labour mobility, which is vital to the positive adjustment process governments are striving to implement. All partners in collective wage bargaining must avoid reaching agreements that price workers out of jobs and diminish the job prospects of the unemployed, particularly school leavers entering the labour market for the first time. Educational systems must be encouraged to provide more practical training to meet the needs of industry; industry, in turn, must make every effort to provide on-the-job- vocational training, both for the young and for seasoned workers. Industrial training programmes, by improving skills and qualifications, assist workers to adapt to changing conditions and to compete on the labour market.

.../...

All these considerations add up to an appeal to governments to provide the conditions conducive to investment and risk-taking by the private sector, so that it can play a decisive role in economic recovery. The key to a more hopeful future lies in expansion of world trade, leading to improved output and employment. Success will depend on the willingness of governments, business and labour to work together to this end.

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TO PRIORITY F C O

TELEGRAM NUMBER 261 OF 27/5/82

OUR TELNO 236: VERSAILLES ECONOMIC SUMMIT: MR SUZUKI .

1. MR SUZUKI REMAINS INEXPERIENCED IN FOREIGN AFFAIRS AND LARGELY PREOCCUPIED WITH INTERNAL ISSUES. WHILE HIS POSITION AS PRIME MINISTER IS NOT DIRECTLY CHALLENGED AT PRESENT, HE WILL HAVE TO OVERCOME A NUMBER OF DIFFICULTIES AND DEAL WITH CONFLICTING POLITICAL PRESSURES IF HE IS TO ENSURE HIS REELECTION AS PARTY PRESIDENT AND THUS REMAIN PRIME MINISTER AFTER NOVEMBER. HE MAY WILL SUCCEED NOT LEAST BECAUSE OF CONTINUING DISUNITY AMONG HIS RIVALS.

2. MR SUZUKI'S PROBLEMS INCLUDE:-

A) HOW TO GET SOME INTERNAL GROWTH WITHOUT INCREASING STILL FURTHER THE GROWING BUDGET DEFICIT WHICH HZJ VOIED TO REDUCE:

B) HOW TO ACHIEVE HIS PROMISES OF ADMINISTRATIVE REFORM WHEN THE ONLY EFFECTIVE WAY TO DO THIS IS TO CUT FARM AND RAILWAY SUBSIDIES BOTH OF WHICH ARE STRONGLY OPPOSED BY HIS PARTY MEMBERS WHOSE BASE IS IN THE COUNTRYSIDE:

C) HOW TO COPE WITH PARTY AND PARLIAMENTARY CRITICISMS LIKELY TO ARISE WHEN THE VERDICTS EXPECTED NEXT MONTH ARE GIVEN IN THE CORRUPTION CASES INVOLVING TWO OF FORMER PRIME MINISTER TANAKA'S CLOSEST AIDES(THE TANAKA FACTION IS ONE OF HIS MAIN PROPS):

D) HOW TO GET THROUGH THE LONG HOT SUMMER DAYS IN A DIET EXTENDED FOR A RECORD 94 DAYS(AND IN PARTICULAR TO GET AGREEMENT TO A CONTROVERSIAL BILL TO INTRODUCE PROPORTIONAL REPRESENTATION IN THE NATIONS CONSITUENCY IN THE UPPER HOUSE.)

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13.

3. MR SUZUKI WILL HOPE TO GAIN SOME PRESTIGE BY HIS ATTENDANCE AT VERSAILLES AND THE UN DISARMEMENT CONFERENCE AND BY HIS SUBSEQUENT VISITS TO PERU AND BRAZIL WHICH NOW SEEM SINGULARLY ILL-TIMED. HE CAN THUS BE EXPECTED TO TRY TO AVOID GAFFES AND CONCENTRATE ON VAGUE AND UNEXCEPTIONABLE PLATITUDES. IT WILL NOT BE EASY TO PIN HIM DOWN TO ANYTHING DEFINITE AND IT IS THEREFORE IMPORTANT TO EMPHASISE CONSTANTLY TO HIM THAT WE LOOK FOR ACTION NOT MERE STATEMENTS OR WINDOW-DRESSING. BUT IT IS ESSENTIAL IF THE PRESSURES ARE TO BE EFFECTIVE THAT THE EUROPEANS AND IF POSSIBLE THE NORTH AMERICANS SPEAK WITH ONE VOICE. THIS NEED NOT MEAN GANGING UP. SUCH AN APPROACH MIGHT INDEED BE COUNTERPRODUCTIVE, BUT THE MESSAGE NEEDS TO BE CLEAR AND SIMPLE. THE PROBLEM IS NOT JUST ONE OF TROUBLESOME TRADE BARRIERS. IT IS THE BASIC QUESTION OF FAIR BALANCE IN THE TRADING SYSTEM AND JAPAN MUST RESPOND, DIFFICULT THOUGH THIS MAY BE POLITICALLY, BY REAL ACTION TO STRENGTHEN THE YEN AND MOVE FROM EXTERNAL TO INTERNAL DEMAND.

4. YOU WILL FIND SAKURAUCHI AFFABLE AND FRIENDLY BUT HE STICKS CLOSELY TO HIS BRIEFS AND YOU WON'T GET MUCH OUT OF HIM.

CORTAZZI

[COPIES SENT TO NO 10 DOWNING STREET]
[THIS TELEGRAM WAS NOT ADVANCED]

LIMITED

ERD

PLANNING STAFF

TRED

EESD

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FED

PS

PS/MR HURD

PS/LORD BELSTEAD

PS/MR RIFKIND

PS/FUS

LORD BRIDGES

MR GIFFARD

MR EVANS

MR DONALD

CABINET OFFICE



Foreign and Commonwealth Office

London SW1A 2AH

27 May, 1982

Prime Minister

If you agree to write on these lines we will send the message on the hot line.

A.F.C. 27/5

I don't like some pieces of this reply

Dear John.

Reply to President Reagan's Message on Versailles and Bonn Summits

Reagan likes A.C. Flag

Your letter of 7 May enclosed a copy of a message from President Reagan about the Versailles and Bonn Summits and the opening of START talks. You asked us to advise in due course about a reply.

Now that the preparations for these two Summits are further advanced, the Foreign and Commonwealth Secretary thinks it would be useful if the Prime Minister could send a reply to President Reagan setting out the British approach to the two events. I enclose a draft for this purpose. The passages on economic questions have been cleared with the Treasury and the Department of Trade.

I am copying this letter to John Kerr (HM Treasury), David Omand (MOD) and John Rhodes (DOT).

Yours ever,

(F N Richards)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

DRAFT MESSAGE FROM THE PRIME MINISTER TO PRESIDENT REAGAN

1. I was grateful for your message about the Summit meetings in Versailles and Bonn next month. ~~Taken together,~~ ^{These} meetings give us a unique opportunity to show to our own peoples and to the Soviet Union the strength, vitality and cohesion both of the leading industrial democracies and of the Western alliance, and our ability together to meet today's difficult challenges. ~~It is an opportunity we must not miss.~~

2. My talks with George Shultz earlier this month showed how much common ground there is between us on Versailles. The themes you have chosen will, ~~without doubt,~~ be prominent in the economic discussions there.

3. I believe we can agree ~~together~~ at Versailles on improved economic and monetary co-operation. We should aim to give a message of hope for the future, based on the foundations laid by our determined fight against inflation. I know the efforts you are making with Congress on budgetary decisions. ~~If you can show~~ ^{convincing success} there soon, ~~this~~ would offer the prospect of lower interest rates and be a tremendous help to us all.

4. The forthcoming Ministerial Meeting of the GATT will provide the focus for discussing trade questions. ~~Our~~ ^{in outcome} objective should be a Ministerial Meeting which all the participants there can regard as a success. We ~~must each~~ ^{will} contribute to preserving the open trading system. ~~In this and the macro-economic context,~~ I hope we can together convince our Japanese colleagues to adopt policies more responsive to the concerns of others.

*Am not
happy
with this
para.*

/5. I fully

5. I fully agree ^{with you about} on the need for greater caution in economic and financial dealings with the Soviet Union and some other East European countries. There is already a change in this direction; ~~I do not think we should expect a sharp break with the past.~~ ^{remains} There is wide variety ^{but among} between the Summit participants in their national arrangements for handling these matters. Our officials are ^{already cooperating closely} ~~working hard together~~ on this subject. ^{For me} ~~I suggest that our aim should be to reach an understanding on our objectives and, if possible, register agreement on this when we meet at Versailles. My country is doing all it can to contribute to this result.~~

6. The Versailles Summit will primarily be about economic matters. But it is good that we shall have the opportunity to discuss political topics too, at a greater length and with less formality than will be possible at Bonn. It will be particularly important to draw Japan into these political talks.

7. We must clearly discuss East/West issues and the broad guidelines which should govern our relations with the Soviet Union. ^{We shall also need to talk about the Middle East} ~~It might also be useful to talk about the Middle East.~~

I share your views about the importance of increasing exchanges among our young people ~~and~~ Our experts are, as you know, in close touch with yours on the subject, following your recent initiative.

8. I endorse what you say about the outcome we should try to achieve at the Bonn Summit. Our aim must be to reaffirm the unity of the Alliance. We need to remind our own peoples of the values on which it is based, which inspire its activities and which it seeks to defend. We need also to

And in particular the Iran / Iraq war as well as the Arab / Israel situation.

demonstrate to the Soviet Union that we are resolved to adopt the measures necessary to maintain the effectiveness of deterrence, both inside and outside the NATO area. We must give a clear statement of the framework within which we believe constructive East/West relations should be conducted, and, as you have done in your recent speech, demonstrate publicly a clear willingness to deal with the Soviet Union on this basis.

9. I ^{agree} ~~accept your suggestion~~ that the Summit should ^{stress} ~~make a~~ firm statement on the need for strong conventional defences. This should, I believe, emphasise the importance of making more effective use of existing resources. As for arms control, I warmly welcome your announcement of your intention to open negotiations on strategic arms reductions. These negotiations, together with the INF negotiations in Geneva and NATO's new MBFR proposals, are a clear demonstration of the West's commitment to concrete measures of disarmament in both the conventional and nuclear fields. The Summit offers a unique opportunity to draw attention to this commitment.

10. I very much look forward to welcoming you to London in between the two Summits, when we shall have a chance to go over some of these important subjects together. We shall also have an opportunity to discuss the latest developments in the Falkland Islands.

953 4957



LETTING FRANCE
LOCATION LONGUE DURÉE

30, RUE JEAN MERMOZ, 78000 VERSAILLES - TÉL. : (3) 953 92 08 - TÉLEX 698 893 F

DIRECTION GÉNÉRALE

45/82/RHG/JT

Mr. C. A. WHITMORE
Principal Private Secretary to
the Prime Minister

c/o Mr. Christopher HUM
British Embassy
39, rue du Faubourg St Honoré
75008 - PARIS

Versailles,
26th May 1982

Dear Mr. Whitmore,

Would you please be kind enough to hand this letter of welcome
to Mrs M. Thatcher.

Yours sincerely,

R. HUET-GUNDILL

Managing Director



LETTING FRANCE

LOCATION LONGUE DURÉE

30, RUE JEAN MERMOZ, 78000 VERSAILLES - TÉL. : (3) 953 92 08 - TÉLEX 698 893 F

DIRECTION GÉNÉRALE

47/82/RHG/JT

Right Honourable Mrs. M. H. THATCHER

c/o Mr. C. A. WHITMORE

Versailles,
26th May 1982

Dear Mrs. Thatcher,

It gives me great pleasure as the Managing Director of one of the few British companies in Versailles to welcome you to the Industrialised Countries Conference.

I wish you a most enjoyable visit to this beautiful town and success in your discussions.

Yours sincerely,

R. HUET-GUNDILL

Managing Director

Huet-Gundill

MEMBRE DU GROUPE BARCLAYS

SOCIÉTÉ ANONYME AU CAPITAL DE 10 735 000 FRANCS - RCS VERSAILLES 702 047 143



British Embassy

PARIS

26 May 1982

J R Young Esq
 Western European Department
 FCO

Dem Rib

VERSAILLES SUMMIT: LETTER TO THE PRIME MINISTER FROM THE CFDT

1. I enclose a letter from Jacques Chérèque, the Deputy Secretary General of the CFDT, to Mrs Thatcher in which he sets out the views of the CFDT on a number of international issues in advance of the Versailles Summit.
2. Chérèque has been a good contact of both Alan Hatfull and Nicholas Reed. You may remember that he led a CFDT delegation to call on the previous Ambassador last year to discuss Northern Ireland. He took as moderate and as helpful a line as could be expected from a union leader who has to take account of the pressures within his union. He is indeed generally friendly to Britain and to this Embassy. In the acknowledgement I am sending on the Ambassador's behalf, saying that we have forwarded his letter to the Prime Minister to London, I am sending him the Embassy hand-outs of Mr Prior's proposal for Northern Ireland. I am also sending him copies of the Government's Memorandum of last week and other relevant texts on the Falkland Islands.
3. I do not recommend that the Prime Minister should reply herself. I think it would be enough for the Embassy to reply on her behalf if there were anything to be said beyond making the points above on Northern Ireland and the Falklands.

H J Arbuthnott
 H J Arbuthnott

CFDT

CONFÉDÉRATION FRANÇAISE DÉMOCRATIQUE DU TRAVAIL

C.C.P. C.F.D.T. PARIS 283-24

5, rue Cadet, 75439 Paris Cedex 09

Tél. 247.70.00

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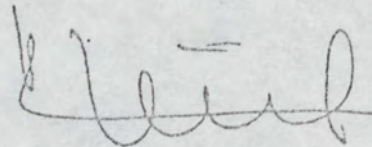
PARIS, le 21 mai 1982

Monsieur l'Ambassadeur de
GRANDE-BRETAGNE
39, rue du Faubourg Saint-Honoré
75383 PARIS Cedex 08

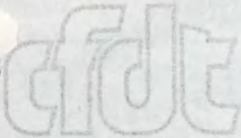
Monsieur l'Ambassadeur,

Veillez trouver ci-joint une lettre que
nous vous prions de faire parvenir à Madame le Premier
Ministre THATCHER.

Avec nos remerciements veuillez agréer,
Monsieur l'Ambassadeur, l'assurance de notre consi-
dération.



Jacques CHEREQUE
Secrétaire général adjoint



PARIS, le 21 mai 1982

Madame THATCHER
Premier Ministre
ROYAUME-UNI

Madame le Premier Ministre,

Vous allez participer, du 4 au 6 juin à VERSAILLES, à la rencontre des Chefs d'Etat ou de gouvernement des sept pays industrialisés occidentaux les plus puissants.

Vous connaissez comme nous la gravité des problèmes du monde : la crise économique sévit dans les pays industrialisés - le nombre de chômeurs va dépasser les trente millions dans l'ensemble des pays de l'O.C.D.E. - le Tiers-Monde est écrasé par la dette, la faim, la guerre, les dictatures ; les peuples du monde craignent que la rivalité croissante entre les ETATS-UNIS et l'U.R.S.S. et leur course aux armements ne se terminent par un affrontement catastrophique qui pourrait signifier la fin de l'humanité.

Tous les gouvernements occidentaux ont leur part de responsabilité dans cette situation. Non seulement vis-à-vis des travailleurs de leurs propres pays, mais aussi de ceux des autres pays et des peuples du Tiers-Monde, victimes à la fois de l'exploitation des puissances capitalistes et des firmes transnationales et des affrontements entre les grandes puissances.

Mais il est de la responsabilité des démocraties - et celle de votre pays est l'une des plus anciennes - de refuser l'escalade de la violence et de répondre à l'attente des travailleurs et des peuples du monde.

La reconnaissance de la nécessité d'une discussion entre les gouvernements des pays de l'EUROPE de l'Ouest, du JAPON, d'AMERIQUE DU NORD n'empêche pas la C.F.D.T. d'exprimer sa réprobation et sa condamnation de la politique suivie par les principaux gouvernements des pays industrialisés et des affrontements qui entraînent la course aux armements ou à la puissance entre l'Est et l'Ouest.

.../...

Nous nous devons aussi de constater que les syndicats britanniques ne cessent de dénoncer la politique économique et sociale de votre gouvernement.

D'autre part, la situation en IRLANDE du NORD suscite chez nous les plus vives inquiétudes, dans la mesure où la répression tient lieu de politique et qu'aucune proposition d'un règlement global, juste et équitable, n'apparaît.

Nous pensons enfin qu'une nation démocratique comme le ROYAUME-UNI, même si elle a le droit pour elle, devrait tout faire dans la crise des ILES FALKLAND pour que la négociation évite l'affrontement militaire en réponse aux provocations aventureuses de la junte argentine : défendre la paix avec autorité et compétence au lieu de céder à la violence servirait à la fois l'honneur et l'intérêt du gouvernement du ROYAUME-UNI et éviterait de faire de nouvelles victimes.

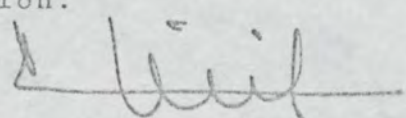
Dans cette situation de crise mondiale, la C.F.D.T est convaincue, avec les syndicats des autres nations européennes, que l'EUROPE a un rôle essentiel à jouer. Le rôle de l'EUROPE peut être fondamental pour apporter une réponse se situant en dehors du partage du monde en deux blocs. Pour cela, il faut que les peuples d'EUROPE soient plus unis, proposent et expérimentent un autre type de développement des pays industrialisés et créent avec le Tiers-Monde des liens d'un type nouveau, basé sur un développement convergent et égalitaire. L'EUROPE ne doit plus accepter d'être un enjeu ou peut-être un champ de bataille dans la rivalité entre les superpuissances.

Encore faut-il que les gouvernements européens soient convaincus de cette nécessaire démarche convergente : vous avez, dans la réussite de la construction européenne, comme d'autres, un rôle fondamental à jouer.

Le mouvement syndical international, conscient de la gravité de la crise et de ses responsabilités, en particulier au sein de la Confédération Européenne des Syndicats et de la Commission Syndicale Consultative auprès de l'O.C.D.E., le TUAC, a proposé des politiques alternatives pour restaurer l'emploi, aider au développement du Tiers-Monde, affermir la paix. Nous espérons que vous en tiendrez le plus grand compte en étant consciente de l'attente des travailleurs et des peuples du monde entier.

Voilà, Madame le Premier Ministre, ce que nous voulions vous dire en toute franchise avant votre venue en FRANCE à l'occasion du sommet de VERSAILLES.

Veillez agréer, Madame le Premier Ministre, l'expression de notre haute considération.


Jacques CHEREQUE
Secrétaire général adjoint

CONFIDENTIAL
SUBJECT

at Home



JD
HCC: Mr. Walker

10 DOWNING STREET

From the Private Secretary

26 May, 1982.

Dear John,

Versailles Summit

During their conversation yesterday evening, the Prime Minister and the Chancellor had a word about the issues raised in the Chancellor's minute of 20 May on the world economic outlook and the Versailles Summit.

The Prime Minister recalled her conversation with George Shultz, and said that she had been impressed by his argument that the right course for the President to take was to reduce the budget deficit by reducing expenditure, and not by increasing taxation. The Prime Minister said that she had indicated to Mr. Shultz her support of this line. The Chancellor said that he believed that Britain should join in urging President Reagan to do his utmost to secure a resolution of the US budget argument before the summer legislative recess. He believed that it was in the UK national interest that the US Administration should settle this matter and produce a declining sequence of budget forecasts, even if they had to accept tax increases as well as expenditure cuts in order to achieve it. Cutting spending was much the best means, but it was crucial that they bring deficit under control: and if this required tax increases, the President must not shirk them any more than the Prime Minister and the Cabinet here had shirked them. The Chancellor said that he thought it most important that the Prime Minister herself should make these points to President Reagan.

The Prime Minister said that she had difficulty with the idea of urging the Americans to increase taxes. She also had great sympathy with the President's objectives on expenditure; she thought that his social security proposals were courageous. She took, however, the Chancellor's point about the importance to the rest of the world of a declining sequence of US budget deficits. Perhaps the best formulation would be to say that we thought it most important that the deficits should decline, and that we wished them every success in their efforts to reduce expenditure.

I am sending a copy of this letter to Brian Fall (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

John Kerr, Esq.,
HM Treasury.

Yours sincerely,

Michael Scholer

CONFIDENTIAL

BK

S E C R E T

6931 - 2

SECRET

FM FCO 250900Z MAY 82
TO PRIORITY WASHINGTON
TELEGRAM NUMBER 1041 OF 25 MAY
INFO SAVING PARIS BONN ROME

VERSAILLES SUMMIT: CREDITS FOR SOVIET UNION

1. FOLLOWING IS TEXT OF MESSAGE (TO WHICH WE HOPE TO SEND YOU RESPONSE LATER TODAY OR TOMORROW) DATED 21 MAY FROM HORMATS TO SIR ROBERT ARMSTRONG:

BEGINS - DEAR ROBERT, I HAVE REPORTED TO MY AUTHORITIES ON OUR CONVERSATIONS LAST WEEKEND. ON MOST ISSUES THE PROGRESS WE MADE WAS VERY WELL RECEIVED. BUT ON EAST-WEST ECONOMIC RELATIONS, AND PARTICULARLY THE ISSUE OF SOVIET CREDITS, THAT WAS NOT THE CASE. I MUST TELL YOU CANDIDLY THAT THE REACTION HERE TO JIM BUCKLEY'S BEING TOLD, AT A RELATIVELY LATE DATE IN THIS PROCESS, THAT FRANCE'S BILATERAL PROTOCOL WITH THE SOVIET UNION APPARENTLY PREVENTS IT FROM ENGAGING IN ALMOST ANY KIND OF RESTRAINTS, OR COVERAGE LIMITATIONS, ON CREDITS TO THE SOVIETS, HAS BEEN ONE OF EXTREME DISAPPOINTMENT. WE WERE ALSO TOLD THAT THE PROTOCOL IN QUESTION HAD BEEN NOTIFIED TO THE OECD AND THAT WE SHOULD HAVE BEEN AWARE OF IT. WE ARE OF COURSE AWARE OF AN AGREEMENT, BUT WE HAVE BEEN GIVEN CONFLICTING ACCOUNTS OF ITS STIPULATIONS. IN FACT, THAT AGREEMENT HAS (UNDERLINE NEXT WORD) NEVER BEEN SHOWN TO US IN SPITE OF REPEATED REQUESTS FOR IT. ANOTHER CURIOUS AND PUZZLING FACT POINTED OUT AT THE BUCKLEY GROUP MEETING WAS THAT THE EC NEGOTIATOR HAS FOR SOME TIME HAD A MANDATE WHICH WOULD HAVE ALLOWED CERTAIN OF THE LIMITATIONS WE WERE DISCUSSING. NOW WE ARE TOLD THAT MANDATE IS BEING PULLED BACK, OR IS IRRELEVANT, BECAUSE OF THE BILATERAL PROTOCOL. THIS IS INCONSISTENT WITH THE POSITION OUTLINED TO SECRETARY REGAN THAT THE FRENCH WERE WILLING TO CONSIDER REDUCTIONS IN OFFICIAL COVERAGE. ALL THIS IS, TO SAY THE LEAST, PUZZLING AND FRUSTRATING.

I MUST CONFESS TO SOME DOUBTS AS TO WHERE WE GO FROM HERE

1

S E C R E T

S E C R E T

6931 - 2

ON THIS ISSUE. THIS LAST MINUTE CHANGE OF SIGNAL ON AN ISSUE OF SUCH IMPORTANCE, AND ONE WHICH WE HAVE BEEN SEARCHING FOR A CONSENSUS SOLUTION, IS A MATTER OF GREAT CONCERN TO MY GOVERNMENT AND RAISES MANY QUESTIONS. I HAVE, AS I MENTIONED AT LUNCH, FAITH THAT, IF ALL OF OUR COUNTRIES WORK TOGETHER WELL AND PURPOSEFULLY, AN AGREEMENT CAN BE REACHED WHICH AVOIDS THE PROBLEMS OF INEQUITY AND PUTS TO REST THE CONCERNS ABOUT THE 'ECONOMIC WELFARE' WHICH SOME OF YOU HAVE EXPRESSED. THIS IN OUR VIEW MUST GO BEYOND SIMPLY INCREASING DOWNPAYMENTS WHICH, WHILE IMPORTANT IN ITS OWN RIGHT, IS NOT CONSIDERED BY MOST PEOPLE HERE TO BE ADEQUATE. I CAN ONLY REITERATE, HOWEVER, THAT MY PRESIDENT HAS STRESSED THE NEED FOR CONSIDERABLY GREATER PROGRESS THAN HAS BEEN MADE TO DATE TO REACH A SATISFACTORY AGREEMENT BEFORE OR AT VERSAILLES.

AS YOU KNOW, AN EXPERTS MEETING IS BEING SCHEDULED FOR THURSDAY, MAY 20, AT WHICH I ASSUME THE BILATERAL PROTOCOL WILL BE AVAILABLE SO THAT WE CAN JOIN WITH FRANCE IN FINDING A SOLUTION WHICH IS CONSISTENT WITH THE ABOVE OBJECTIVES. WE WILL HAVE TO KNOW BY THE CONCLUSION OF THAT MEETING WHETHER IT WILL BE POSSIBLE TO REACH AGREEMENT ON THIS ISSUE BY THE TIME OF THE SUMMIT. I AM ALREADY UNDER GREAT PRESSURE TO IDENTIFY A VARIETY OF OTHER EAST-WEST ISSUES FOR DISCUSSION AT THE SUMMIT IF AGREEMENT CANNOT BE REACHED ON THIS ONE.

I LOOK FORWARD TO HEARING ANY THOUGHTS YOU HAVE ON THIS MATTER. I RAISE THIS SUBJECT IN THE SPIRIT OF CANDOR, WHICH CHARACTERIZED OUR DISCUSSIONS ON THIS SUBJECT LAST WEEKEND. NOT HAVING BEEN GIVEN AN OPPORTUNITY TO SEE THE PROTOCOL IN QUESTION, I CANNOT KNOW HOW MUCH FLEXIBILITY IT PROVIDES, BUT I WOULD NOTE THAT BEFORE OUR LAST MEETING I WENT TO MY AUTHORITIES IN SEVERAL AREAS TO GET FLEXIBILITY ON THE DECLARATION IN ORDER TO COME TOWARD SOME OF YOUR POSITIONS ON MATTERS IMPORTANT TO YOU, AND WAS GRATEFUL FOR FLEXIBILITY SHOWN BY YOU AND OTHERS IN THAT SAME SPIRIT. WITH A MODICUM OF WILL AND INGENUITY, I AM CONFIDENT THAT WE COULD FIND WAYS WITHIN THE CONTEXT OF THE PROTOCOL TO RESOLVE THIS PROBLEM SATISFACTORILY. I GENUINELY WANT TO AVOID HAVING THIS ISSUE BECOME A DEVISIVE ONE AT

2

S E C R E T

S E C R E T

6931 - 2

VERSAILLES, AS I KNOW YOU DO. BUT I CANNOT FAIL TO REPRESENT AS ACCURATELY AS I CAN THE VIEWS WHICH PRESIDENT REAGAN AND SEVERAL MEMBERS OF THE CABINET HAVE STRESSED TO ME ON THIS MATTER.

I LOOK FORWARD TO SEEING YOU SOON AS VERSAILLES.
WARM REGARDS, /S/ BOB HORMATS - ENDS.

PYM

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[COPIES SENT TO NO 10 DOWNING ST]

COPIES TO:
PS/SIR ROBERT ARMSTRONG.

³
S E C R E T

Subject copy filed
on Australia Feb. 1987
Visit by Mr. Street.

CONFIDENTIAL

SUBJECT.

RECORD OF CONVERSATION BETWEEN THE PRIME MINISTER AND THE AUSTRALIAN FOREIGN MINISTER AT 1615 HOURS on 25 MAY 1982 AT THE HOUSE OF COMMONS

Present:

Prime Minister	The Hon. Anthony Street MP
Sir John Mason	The Hon. Sir Victor Garland
Mr. A.J. Coles	Mr. Robertson

The Prime Minister asked Mr. Street whether he was proposing to attend the United Nations Special Session on Disarmament in June. Mr. Street replied that he was going but Mr. Fraser would not. He understood that Chancellor Schmidt, President Reagan, Mr Susuki and probably M. Mitterrand would attend. The Prime Minister said that she would have to consider whether her own attendance was now appropriate, in the light of the Falklands situation.

Mr. Street said that the recent speech by Mr. Fraser to the Foreign Policy Association in New York reflected a good deal of thought in Australia. Mr. Fraser was concerned that the machinery established in the early days of NATO might no longer be appropriate to the world situation. Perception of the Soviet Union had changed, in particular because of the increasing economic involvement of Europe with Communist countries. This factor, together with the stagnating economic situation especially in OECD countries, had led to tensions within the Alliance and protectionist pressures, with consequent strain for Western economies. It was necessary to ask whether existing institutions were now appropriate.

The second main strand of Australian thinking was that anti-inflation policies might not be sufficient to deal with problems of economic stagnation. As a result of a recent visit to Australia by Mr. George Bush, the Australian Government had crystallised their thinking and decided that three steps were necessary to deal with these problems, namely. (a) a freeze on protectionist measures, (b) progressive reduction in all forms of protection and (c) the phasing out of export incentives and subsidies over a period of five years.

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The United States Administration accepted the underlying principles of this scheme but had reservations about the practical implications. Latterly, the Americans had said that they were considering the proposals very seriously. Mr. Susuki had also received them favourably. Mr. Street had discussed them with the UN Secretary General (who had impressed him considerably). Mr. Perez de Cueller would try to promote them. The Commonwealth Secretary General had said that he would do what he could to secure Commonwealth backing for the ideas.

Mr. Fraser had asked him to visit the Prime Minister in order to establish whether she would support the proposals at the Versailles Economic Summit. Australia did not believe that another round of multilateral trade negotiations would necessarily help. The GATT could not be effective without some stimulus from Versailles. The general objective was, without impeding anti-inflation policies, to try to stimulate world trade.

The Prime Minister said that her first reaction was that the principles set out by Mr. Fraser would well suit those countries which lived by trade provided they were observed by all countries. But the fact was that very few countries did implement such ideas. This was evident at the Commonwealth Conference in Melbourne and at Cancun where discussion revealed that most countries had tariff barriers or protectionist measures of another kind. The difficulty with Mr. Fraser's ideas would be that of translating the principles into practice.

Moreover, they would arise at Versailles at the same time as the problem of Japan. There was, both in Europe and the United States, increasing impatience with Japanese policies. Australia itself maintained protectionist measures against Japanese trade. In general, she believed that Mr. Fraser's package was impeccable in respect of both logic and ideas. But how could it be implemented?

/There was

CONFIDENTIAL

There was a further point. Was the mere removal of barriers to trade a sufficient measure to produce growth? The American economy succeeded because its people were enterprising. Once inflation had been reduced, growth depended on personal initiative and enterprise. How could they be stimulated? The world was hungry for capital. Mr. Fraser had himself played a big role in trying to improve the lot of developing countries. There were plenty of schemes waiting for development but investment was lacking and this could only come from reduction of consumption.

It would be important to avoid the impression that the superficial endorsement of Mr. Fraser's ideas was sufficient. In the end the question was rather one of how many trade barriers each country was willing to abandon. Chancellor Schmidt might well support the proposals. She intended to discuss them with President Reagan.

Mr. Street said the proposals could never be implemented by unilateral action. Multilateral agreement was necessary and even that was obtainable only if the Seven major economies gave a lead. If the Versailles Summit showed that the Seven would proceed in this direction, the Australian Cabinet was firmly committed to supporting them. The Australian Government had consulted industrial and agricultural interests who had made it clear that they were prepared to support these policies provided Australia was acting together with other major countries. Mr. Fraser was not suggesting that protectionism should be abolished forthwith but that a freeze should be followed by a progressive reduction. In the Australian view, export subsidies were the most destructive form of protection because they destroyed world markets and were essentially an unproductive form of expenditure. If Versailles did not make progress with these ideas, the next opportunity would arise at the GATT meeting in October.

CONFIDENTIAL

/The Prime Minister

The Prime Minister said that it was necessary to consider the likely attitudes of those countries who would be present. Italy, France, Germany and the United Kingdom all imposed restraints of one kind or another on Japanese imports. We were all trying to create jobs. The United Kingdom was more interested in free trade than any other country in the European Community except Germany. One disadvantage in Mr. Fraser's proposals was that about half of world trade was now conducted through Governments rather than by businessmen. But Mr. Street's comments about export subsidies were apt. Cross-subsidies on large overseas contracts were legion. Such contracts were won not by the most efficient but by the richest countries for they could afford the largest subsidy which was termed "development aid". She quoted recent examples in the cases of India and Mexico. She was basically sympathetic towards Mr. Fraser's ideas but all our experience suggested that many countries would sign a document embodying them but that this would make no difference in practice. Perhaps it was right to think in terms of the first proposal, namely a standstill on increases in protectionism. Mr. Street said that he realised that Australia had not given Versailles' participants much notice of these proposals. But the Australian Government had been thinking about them for a long while and he had the impression that other countries were now distinctly interested. Mr. Fraser had written to Chancellor Schmidt and M. Mitterrand. There were indications that Mr. Trudeau could raise difficulties.

Finally, Mr. Street said that he hoped that HMS Invincible was in good shape. The Prime Minister said that he need not worry; it would come back with battle honours. She recalled Mr. Fraser's telephone conversation with her after the sinking of HMS Sheffield and asked Mr. Street to thank him for initiating the call.

The conversation ended at 1710 hours.

A. S. C.



File M

10 DOWNING STREET

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From the Private Secretary

SIR ROBERT ARMSTRONG

VERSAILLES ECONOMIC SUMMIT

The Prime Minister has noted
without comment your minute of 19 May.

A. J. COLES

24 May 1982



Foreign and Commonwealth Office

London SW1A 2AH

24 May 1982

A.S.C. ²⁴/₅
h.a.

Dear John,

Versailles Summit

With your letter of 21 May you enclosed a copy of a letter which the Prime Minister had received from the Australian High Commissioner, reproducing a message from Mr Fraser about the forthcoming Economic Summit and enclosing an Aide Memoire on stimulating world trade and economic recovery.

We had already seen a copy of Mr Fraser's letter (see our letter of 21 May, which crossed yours), and have checked it against the briefing. Mr Fraser's letter adds nothing of substance to the speech which he made in New York on 18 May, and it does not call for any change in the line proposed in the briefing.

We shall, as requested, provide a draft reply to Mr Fraser from the Prime Minister, after her meeting with Mr Street.

Yours ever

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street



Foreign and Commonwealth Office

London SW1A 2AH

21 May 1982

Dear John,

Prime Minister
Could you indicate whether you want arrangements to be made in advance for any of those listed below. Perhaps Mr. Trudeau - and possibly Mr. Suzuki?
✓ Ch. Schmidt -
A.V.C. 27/5

Versailles Economic Summit: Bilateral Meetings

There will be opportunities during the Versailles Summit for the Prime Minister to have bilateral meetings with some or all of the participants. The following considerations are relevant:

- No Mr Suzuki: Opportunities for meetings with Mr Suzuki are rare, and there are many issues (bilateral and international) to discuss with him.
- Yes Chancellor Schmidt : The last bilateral meeting between the Prime Minister and Chancellor Schmidt was at the Anglo/German Summit on 19 March. They will meet twice more in June, at the NATO Summit in Bonn and at the European Council in Brussels.
- Yes Mr Trudeau: The Prime Minister was unable to accept the invitation to attend the ceremonies marking the Proclamation of the Canadian constitution in Ottawa last month and had had to defer visiting Canada, in response to an earlier separate invitation from Mr Trudeau, until the end of this year or more likely next year. The Canadians have been very supportive over the Falklands.
- Sr Spadolini: He too will be at the NATO Summit and the European Council. The Anglo/Italian Summit is scheduled for 7 July.
- President Mitterrand: Was in London on 17 May. He is due to attend the dinner in Bonn on the eve of the NATO Summit, but not the meeting itself. He will be at the European Council.

/M Martens



M Martens: The Belgian Presidency expires on 30 June, immediately after the European Council. Among our smaller European partners, Belgium has been conspicuously staunch over the Falklands.

President Reagan: He is of course due to be in Britain from 7 to 9 June and at the NATO Summit thereafter.

We shall prepare contingency briefs for all of these in case they are needed. If there is any Head of State or Government whom the Prime Minister particularly wants to see privately, eg Mr Suzuki, we could arrange a time in advance. The Prime Minister may have a special need to talk to the leaders from EC countries, depending on the outcome of the meetings of EC Foreign Ministers on May 24 and 25.

Yours over,

Francis Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street



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File

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21 May 1982

The Prime Minister has asked me to thank you for your letter of 21 May conveying a message from the Prime Minister of Australia.

A. J. COLES

The Hon. Sir Victor Garland, K.B.E.



File 13/K
289

10 DOWNING STREET

From the Private Secretary

21 May 1982

VERSAILLES SUMMIT

① ✓ I enclose a copy of a letter which the Prime Minister has received from the Australian High Commissioner. This reproduces a message from the Prime Minister of Australia about the forthcoming Economic Summit and encloses an aide-memoire on stimulating world trade and economic recovery. You will note from the final paragraph of the letter that Mr. Fraser has asked the Australian Foreign Minister to discuss these matters with the Prime Minister, on whom he is calling at 1615 hours on 25 May. I should be grateful if this could be taken account of in the brief which you will be supplying for that meeting and if you could, perhaps after the meeting, provide a draft reply to Mr. Fraser from the Prime Minister.

②

I am sending copies of this letter and its enclosure to John Kerr (HM Treasury), John Rhodes (Department of Trade), and David Wright (Cabinet Office).

W. J. COMES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

COVERING CONFIDENTIAL

JWP

SUBJECT
of Marks
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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No: T/09/82

PRIME MINISTER

CANBERRA

21 May 1982

My Dear Reagan

You will know from your High Commission in Canberra that during my visit to Washington earlier this week I intended to put to President Reagan a set of proposals designed to reduce impediments to free international trade through a standstill on and progressive reduction of all forms of protection.

I attach a copy of the Aide Memoire which I left with President Reagan on 17 May setting out in detail the proposals I have in mind and my thinking on them. I also described the proposals in a speech which I gave to the Foreign Policy Association in New York on 18 May.

In commending the proposals to President Reagan, I said that I thought they represented the kind of direction which the Summit participants could give when they met in Versailles next month.

The Versailles and Bonn Summits come at a time of massive economic problems in Western economies, problems for which there is at this time not even an agreed approach to a solution. There are very real risks of social disruption stemming from the degree of industrial dislocation and consequent unemployment that many countries are now experiencing. Against this sombre background the NATO Alliance is facing the challenge of restoring stability to the East/West relationship. In my view, these issues are interlinked, and the two Summits present an important opportunity to restore a genuine Western Alliance consensus on basic questions of economic policy and policies towards the Soviet Union.

.../2

Lack of growth and unemployment are common to most Western economies at this time, and most governments are implementing appropriately responsible and restrained fiscal and monetary policies in an endeavour to contain inflation. There is also a nexus between protectionism and inflation, in the sense that protectionist measures - whether they be restrictions against imports or other financial measures supporting the production of export goods - inhibit the fight against inflation, increase public spending, hinder trade flows and worsen prospects for overall economic recovery. I believe a new approach is needed to free trade flows and to discourage beggar-thy-neighbour policies which - if present trends are permitted to develop - could pose a real threat to Western economic strength and Western political unity.

The reason for our emphasis on export incentives and subsidies is that competitive export incentives, to our way of thinking, represent the greatest waste of economic resources. A diminution and eventual abolition of them would mean the release of those resources for productive purposes - replacing obsolescent technology, lowering taxes to stimulate economic activity. And it is the countries which at present spend the most on these export supports which would benefit the most from their abolition.

The Versailles Summit, I believe, is an opportunity for Western political leaders to set a new and constructive direction, both generally and with particular relevance to the GATT Ministerial Meeting later in the year.

Australia's proposal is that the participants in the Versailles Summit should call for international agreement:

- (1) on a standstill on increases in protection and on the introduction of new protectionist measures, particularly in non-tariff forms;
- (2) on a commitment to significant and progressively implemented reductions in all forms of protection, in accordance with a set formula to be determined through the mechanisms of the GATT;
- (3) that there be no new or increased export incentives and subsidies, and that there be an international commitment to the abolition of existing export incentives and subsidies over a period of five years.

No one country can secure international agreement to implement such a program, but if the Summit participants could agree on these three ideas in principle, and give a lead, other countries would follow. Australia would be the first among

them. For a country not to feel able to agree to at least the first of the three propositions would simply mean that it was reserving for itself the right to increase its levels of protection in the future.

I do not underestimate the difficulty of agreeing on and later implementing such proposals. But if they or something like them are not given a chance, prospects for the international economy are bleak indeed. As things stand even the most optimistic estimates for economic recovery in the United States do not indicate a return to sustained strong growth.

I should emphasise that I am not proposing a long drawn-out process like another round of Multilateral Trade Negotiations, but rather something that is broad-brush but capable of having significant effects in the short-term. Essentially, I envisage the Summit setting the direction, and the GATT Ministerial meeting in November negotiating details and determining appropriate formulas.

At the end of World War II the Marshall Plan and the creation of the Bretton Woods institutions transformed a world full of doubt and fear of the future and of what peace would bring. Looking at the present malaise of the world's economies, I think something of comparable sweep and boldness is needed now. I firmly believe that our proposals represent one possible way - indeed perhaps the only possible way - in which a much-needed stimulus might be given without at the same time fuelling inflationary pressures and abandoning responsible policies of restraint.

Indeed, in many ways what I have put forward would be the international complement to the sort of policy which you - and President Reagan - have been so courageously applying domestically.

I hope our proposals will strike you in that light, and that should they be considered at the Summit, as I understand from my discussions with President Reagan they may be, you will feel able to view them sympathetically.

I have asked Tony Street, who will be in London in a few days time, to see if you are available to talk to him about these and other matters. I hope you will be able to see him. I can tell you that both he and I in our talks in Washington stressed the importance of support for Britain in the present crisis, and that the response we got was quick and warm.

*With all good
wishes*

The Right Honourable Margaret Thatcher,
Prime Minister,
House of Commons,
LONDON ENGLAND

Margaret Thatcher



AIDE MEMOIRE

AUSTRALIAN INITIATIVES ON STIMULATING WORLD TRADE AND ECONOMIC RECOVERY

Background

There has been global recession for the best part of two years and general unsatisfactory economic performance over the past decade. There may be some hope for recovery as 1982 progresses but any recovery, however, is likely to be fragile unless we address factors inhibiting trade growth.

In particular, protectionist measures, particularly non-tariff measures (NTMs) are now more prevalent than ever. International restraint on trade - protectionism in its broadest sense, that is protection against imports and Government financial assistance to industry to support prices of goods and services or in support of the production, export, finance or distribution of goods and services - make it more difficult to restrain inflation and are a strong impediment to efficient and sustainable growth. Undoubtedly these developments have contributed stagnation in world trade.

In considering economic prospects and policy, attention has tended to focus on the interaction of, and effect of, policies designed to reduce inflation and the related questions of interest rates, exchange rates, wages and unemployment.

The control of inflation is of fundamental significance to the restoration of sustained growth through reducing uncertainty and restoring business and consumer confidence.

Not all the available weapons, however, are being used to accelerate the defeat of inflation and the resumption of growth. Indeed some policies are being pursued that have the opposite effect.

The Case for the Initiatives

The Australian Government believes that, both globally and in individual domestic economies, there is no alternative to the continued battle against inflation. The armoury in this struggle would be most usefully supplemented, we believe, by the initiatives outlined below. Their implementation would assist in the expansion of world trade and output, put additional downward pressure on inflation, and, among other things, help contain public expenditure. Without some such new impetus economic recovery may be disappointing. We must make the most of the progress which is being achieved in bringing down rates of inflation.

The proposals focus on the reduction of impediments to freer international trade. Their implementation would ease tensions in the global economy that flow from each country attempting to

achieve economic gain at the expense of others. Above all, the proposals are pragmatic, calling for a standstill on total protection levels and then a programme of significant though staged reductions. Under existing arrangements, efficient exporters are precluded from access and face unfair subsidised competition in third markets. They are forced to bear the cost of others' unwillingness to adjust. Even more importantly the maintenance of various support arrangements imposes a cost in terms of inflationary pressures which must be borne by the entire international community.

For the proposals to be fully effective, they need to receive also the support of developing countries (who provide the major outlets for export growth in industrial products and who were treated inequitably in the Multilateral Trade Negotiations (MTN)).

The Proposals

Australia proposes that, in the interests of stimulating world economic activity while contributing to diminishing inflationary pressures, the participants in the Versailles Economic Summit in June should call for international agreement:

- (i) on a standstill on increases in protection and on the introduction of new protectionist measures, particularly in non-tariff forms;

- (ii) on a commitment to significant and progressively implemented reductions in all forms of protection, in accordance with a set formula to be determined through the mechanisms of the GATT;

- (iii) that there be no new or increased export incentives and subsidies, and that there be an international commitment to the abolition of existing export incentives and subsidies over a period of five years.

WASHINGTON

17 May 1982

CONFIDENTIAL



AUSTRALIAN HIGH COMMISSION · LONDON

PRIME MINISTER'S
PERSONAL MESSAGE

SERIAL No. T 109/82
21 May 1982

THE HIGH COMMISSIONER

The Hon. Sir Victor Garland, KBE

James Lawrence

A telegram from my Prime Minister asks me to convey to you the following message:

Begins -

"My dear Margaret,

You will know from your High Commission in Canberra that during my visit to Washington earlier this week I intended to put to President Reagan a set of proposals designed to reduce impediments to free international trade through a standstill on and progressive reduction of all forms of protection.

.... I attach a copy of the Aide Memoire which I left with President Reagan on 17 May setting out in detail the proposals I have in mind and my thinking on them. I also described the proposals in a speech which I gave to the Foreign Policy Association in New York on 18 May.

In commending the proposals to President Reagan, I said that I thought they represented the kind of direction which the Summit participants could give when they met in Versailles next month.

The Versailles and Bonn Summits come at a time of massive economic problems in Western economies, problems for which there is at this time not even an agreed approach to a solution. There are very real risks of social disruption stemming from the degree of industrial dislocation and consequent unemployment that many countries are now experiencing. Against this sombre background the NATO alliance is facing the challenge of restoring stability to the East/West relationship. In my view, these issues are interlinked, and the two Summits present an important opportunity to restore a genuine Western alliance consensus on basic questions of economic policy and policies towards the Soviet Union.

...2/

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Lack of growth and unemployment are common to most Western economies at this time, and most governments are implementing appropriately responsible and restrained fiscal and monetary policies in an endeavour to contain inflation. There is also a nexus between protectionism and inflation, in the sense that protectionist measures - whether they be restrictions against imports or other financial measures supporting the production of export goods - inhibit the fight against inflation, increase public spending, hinder trade flows and worsen prospects for overall economic recovery. I believe a new approach is needed to free trade flows and to discourage beggar-thy-neighbour policies which - if present trends are permitted to develop - could pose a real threat to Western economic strength and Western political unity.

The reason for our emphasis on export incentives and subsidies is that competitive export incentives, to our way of thinking, represent the greatest waste of economic resources. A diminution and eventual abolition of them would mean the release of those resources for productive purposes - replacing obsolescent technology, lowering taxes to stimulate economic activity. And it is the countries which at present spend the most on these export supports which would benefit the most from their abolition.

The Versailles Summit, I believe, is an opportunity for Western political leaders to set a new and constructive direction, both generally and with particular relevance to the GATT Ministerial Meeting later in the year.

Australia's proposal is that the participants in the Versailles Summit should call for international agreement:

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- 3 -

I do not underestimate the difficulty of agreeing on and later implementing such proposals. But if they or something like them are not given a chance, prospects for the international economy are bleak indeed. As things stand even the most optimistic estimates for economic recovery in the United States do not indicate a return to sustained strong growth.

I should emphasise that I am not proposing a long drawn-out process like another round of multilateral trade negotiations, but rather something that is broad-brush but capable of having significant effects in the short-term. Essentially, I envisage the Summit setting the direction, and the GATT Ministerial Meeting in November negotiating details and determining appropriate formulas.

At the end of World War II the Marshall Plan and the creation of the Bretton Woods Institutions transformed a world full of doubt and fear of the future and of what peace would bring. Looking at the present malaise of the world's economies, I think something of comparable sweep and boldness is needed now. I firmly believe that our proposals represent one possible way - indeed perhaps the only possible way - in which a much-needed stimulus might be given without at the same time fuelling inflationary pressures and abandoning responsible policies of restraint.

Indeed, in many ways what I have put forward would be the international complement to the sort of policy which you - and President Reagan - have been so courageously applying domestically.

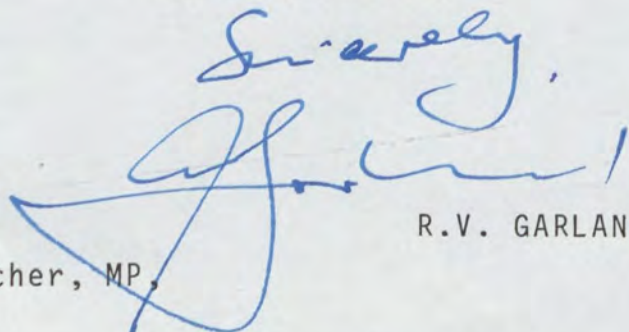
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I have asked Tony Street, who will be in London in a few days time, to see if you are available to talk to him about these and other matters. I hope you will be able to see him. I can tell you that both he and I in our talks in Washington stressed the importance of support for Britain in the present crisis, and that the response we got was quick and warm.

With all good wishes,

Malcolm Fraser."

Ends.



R.V. GARLAND

The Rt Hon. Margaret Thatcher, MP,
Prime Minister,
No. 10 Downing Street,
LONDON SW1.

AIDE MEMOIRE

AUSTRALIAN INITIATIVES ON STIMULATING
WORLD TRADE AND ECONOMIC RECOVERY

BACKGROUND

There has been global recession for the best part of two years and general unsatisfactory economic performance over the past decade. There may be some hope for recovery as 1982 progresses but any recovery, however, is likely to be fragile unless we address factors inhibiting trade growth.

In particular, protectionist measures, particularly non-tariff measures (NTMs) are now more prevalent than ever. International restraint on trade - protectionism in its broadest sense, that is protection against imports and government financial assistance to industry to support prices of goods and services or in support of the production, export, finance or distribution of goods and services - make it more difficult to restrain inflation and are a strong impediment to efficient and sustainable growth. Undoubtedly these developments have contributed stagnation in world trade.

In considering economic prospects and policy, attention has tended to focus on the interaction of, and effect of, policies designed to reduce inflation and the related questions of interest rates, exchange rates, wages and unemployment.

The control of inflation is of fundamental significance to the restoration of sustained growth through reducing uncertainty and restoring business and consumer confidence.

Not all the available weapons, however, are being used to accelerate the defeat of inflation and the resumption of growth. Indeed some policies are being pursued that have the opposite effect.

THE CASE FOR THE INITIATIVES

The Australian Government believes that, both globally and in individual domestic economies, there is no alternative to the continued battle against inflation. The armoury in this struggle would be most usefully supplemented, we believe, by the initiatives outlined below. Their implementation would assist in the expansion of world trade and output, put additional downward pressure on inflation, and, among other things, help contain public expenditure. Without some such new impetus economic recovery may be disappointing. We must make the most of the progress which is being achieved in bringing down rates of inflation.

The proposals focus on the reduction of impediments to freer international trade. Their implementation would ease tensions in the global economy that flow from each country attempting to achieve economic gain at the expense of others. Above all, the proposals are pragmatic, calling for a standstill on total protection levels and then a programme of significant though staged reductions. Under existing arrangements, efficient exporters are precluded from access and face unfair subsidised competition in third markets. They are forced to bear the cost of others unwillingness to adjust. Even more importantly the maintenance of various support arrangements imposes a cost in terms of inflationary pressures which must be borne by the entire international community.

For the proposals to be fully effective, they need to receive also the support of developing countries (who provide the major outlets for export growth in industrial products and who were treated inequitably in the Multilateral Trade Negotiations (MTN)).

THE PROPOSALS

Australia proposes that, in the interests of stimulating world economic activity while contributing to diminishing inflationary pressures, the participants in the Versailles Economic Summit in June should call for international agreement:

- (I) on a standstill on increases in protection and on the introduction of new protectionist measures, particularly in non-tariff forms;
- (II) on a commitment to significant and progressively implemented reductions in all forms of protection, in accordance with a set formula to be determined through the mechanisms of the GATT;
- (III) that there be no new or increased export incentives and subsidies, and that there be an international commitment to the abolition of existing export incentives and subsidies over a period of five years.

WASHINGTON
17 May 1982



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

PRIME MINISTER

Prime Minister

Jan 11 - would you like to
discuss with the Chancellor next
week? A.J.C. 21/5

Yes no

THE WORLD ECONOMIC OUTLOOK AND THE VERSAILLES SUMMIT

Following last week's OECD and IMF meetings it seems to me fairly clear what are the main economic issues we are likely to encounter at the Versailles Summit.

2. In both Paris and Helsinki I was struck by how little pressure there was - at least from developed countries - for general reflation and a switch in the priorities of policy. While the slow pace of economic recovery causes general concern, there was general agreement that the present anti-inflationary policy stance must be maintained. No-one claimed to have a quick or easy solution to unemployment, and most of the industrial country spokesmen stressed that a further reduction in inflation remained essential to the sustainable expansion of output.

3. I conclude that at Versailles we can probably count on the firmly counter-inflationary views of at least four of our partners (United States, Germany, Japan and Canada) to help ensure that the Summit produces no explicit pressure for "reflation". But we may encounter a diluted French version of such pressure. This consists of seeking agreement that everybody will use such "margin of manoeuvre" as they have to achieve higher growth. In one sense this is an acceptable platitude, but if rehearsed as a general proposition it would probably be seen as a general exhortation to moderate reflation. On the latest version of the draft Declaration for Versailles, there is no risk here, but it is worth noting that



the French have rehearsed this line of argument before.

4. The main specific topic of discussion at last week's meetings was interest rates and the impact of US policy on them. Most industrial country spokesmen argued, as we have done, that achieving a declining trend for the US budget deficit would contribute more than any other single development to an easing of US interest rates, and thus to more investment and growth in the world generally. We continue to have a major national interest in the definitive success of US policy to reduce inflation, and in lower US interest rates.

5. At Versailles I believe we must join in urging President Reagan to do his utmost to secure a resolution of the US Budget argument before the summer legislative recess. If he fails, the uncertainties could drag on far into the autumn, reducing our chances of garnering benefits from a fall in US interest rates. It is in our national interest that the US Administration should settle this matter and produce a declining sequence of Budget forecasts, even if they have to accept tax increases as well as expenditure cuts in order to achieve it. I believe it is also in the interests of their own counter-inflationary policy. Cutting spending is much the best means, but it is crucial that they bring the deficit under control: and if this requires tax increases, they must not shirk them. We didn't, and it is paying off now.

6. The Japanese last week came in for some criticism, in which I joined, for the undervaluation of the yen and the excessive dependence of their economy on exports. At Versailles we must keep up the pressure on them to follow policies which reduce the pressure of their exports on the rest of us. But I am concerned that we should not get out in front in tackling the Japanese and find ourselves with little support from others, or, still worse, find some of our friends giving comfort to the Japanese. If that happens they would feel that the pressure on them is quite ineffective. We therefore need to do all we can in advance to get the Americans



and Germans on our side and to encourage the French to take as firm a line about Japan in wider groupings as they do in private discussion with us.

7. Tactical aspirations of both the Americans and the French seem likely to produce at Versailles an agreement on international monetary co-operation, which would be enshrined in an annex to the Declaration. The Americans want to divert some of the pressure on them on exchange market intervention and care for the dollar by urging more talks on convergence of policies as a means of securing greater stability of exchange rates. Mitterrand for his part wants a monetary agreement as part of a Summit success, and his people envisaged that this would enshrine ideas about a new "tripolar" monetary system based on the dollar, the yen and the EMS which he rehearsed in a speech in Canada. Perhaps he also has in mind that Giscard's first Summit at Rambouillet produced a monetary agreement.

8. I need not bother you at this stage with the details of the agreement which is emerging, but at present it looks perfectly satisfactory from our standpoint. The stress is on achieving a greater exchange rate stability through lower inflation and the maintenance of the value of currencies. We have also been able to inject into the agreement the idea of special co-operation with the IMF in surveillance of the five currencies constituting the SDR. This builds on a theme of my IMF speech last year that the five countries concerned have a special responsibility to the international system within the framework of the IMF: it also provides an umbrella covering both US and French preoccupations, while keeping the emphasis firmly on achieving lower inflation; and it of course gives sterling a status in its own right, since it is one of the five currencies.

9. It suits us to stress the monetary role of the IMF, and to extend to an international level a modest piece of counter-inflationary discipline in support of currencies. And I am sure



that it is right that we should show concern, both domestically and externally, for promoting a more stable international monetary system under the IMF umbrella.

10. The general background to Versailles is one of widespread expectation that the world economic environment will remain difficult, with the recovery in output in major countries like the United States and Germany remaining slow, and with serious down-side risks. On the other hand, inflation is coming down; there is some gain from moderation in oil prices; and there is a real chance that the recovery, though gradual, will be more soundly-based, and less exposed to reversal, than was the one which followed the first oil price shock. In short, summit participants are not coping with a common crisis, or approaching a cross-roads: they can reasonably reaffirm their conviction that the responsible policies being widely pursued are the right ones. From our point of view, the greatest potential gain would be a firm determination from President Reagan that his fiscal deficits, and with them interest rates world-wide, must and will come down.

11. I would value a talk with you on these central Summit issues before the welter of detailed briefing descends on us.

12. Copies of this minute go to Francis Pym and to Sir Robert Armstrong.

G.H.

20 May 1982

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PRIME MINISTER

Versailles Economic Summit

The last meeting of Personal Representatives before the Versailles Economic Summit was held near Paris last weekend, 14th-16th May. The following were the main subjects discussed.

General Mood of the Summit

2. The French President's Personal Representative, Monsieur Attali, reported briefly on the visits which the President had paid by now to most of the other Heads of State or Government. He had encountered a general desire for a confidence-building Summit.

Technology, Economic Activity and Employment

3. Monsieur Attali said that this would be the theme of the President's opening statement to the Summit meeting. A paper would be circulated; we had a draft before us, but we were told not to regard that as final. The President saw it as useful that Heads of State or Government should balance their preoccupations with short-term problems with a look at the longer-term future, and the challenges and opportunities which new technology would present. The paper would offer a number of proposals for consideration, but at this stage they were put up for suggestions, not for decision at the Summit. The President would suggest that they should be pursued in some kind of follow-up procedure. The discussion showed that the other Personal Representatives welcomed the theme, but were wary about the specific proposals. These were ambitious, and tended to be dirigiste. A number of us emphasised that it was likely that the most successful exploitation of technological development would come primarily in the private sector, and often in small and medium-sized businesses. Governmental and intergovernmental action might best be concentrated primarily on the removal of barriers to the development of technology and to trade in technological ideas and products.

4. It was agreed to recommend to the Heads of State or Government that they should appoint a working group of suitably qualified representatives to study these matters, including the French President's proposals, further, and to produce a report by the end of the year, for consideration at the 1983 Summit.

Prime Minister

(4)

To note.

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Macro-Economic and International Monetary Matters

5. The discussion of this subject was less sharply polarized than on previous occasions. It was clear from what the United States representative said that it was unlikely that President Reagan would have arrived at a compromise with the Congress on the budget for fiscal year 1983 before the Versailles Summit. It was not therefore possible to foresee any sustained relief from the pressures of high United States interest rates ahead of that time. On the other hand the United States representatives at the meeting were clearly thinking and talking in terms of the need for a compromise which would reduce the United States budget deficit in fiscal year 1983 and later years. They were also readier than in the past to contemplate the possibility that there might be occasions when it was sensible for monetary authorities to intervene in exchange markets to stabilise volatile movements of exchange rates. The French representatives had ambitious ideas for a reconstruction of the international monetary system, based on the three poles of the United States dollar, the yen and the European Monetary System. The way in which the French formulated these ideas was too ambitious for some of the other countries represented, but we had no difficulty in agreeing upon a commitment to closer co-operation among the authorities representing the currencies of North America, Japan and Europe in setting medium-term economic and monetary objectives, as a means of working towards an orderly and constructive evolution of the international monetary system. Representatives of the Ministries of Finance of the seven Summit countries had met the previous day, and had agreed upon a draft declaration or statement of guidelines on monetary questions, which it was agreed to accept (with some amendment) as an annex to the draft declaration for the Summit. We had little difficulty in striking a balance between the need to continue the struggle against inflation and the need to promote growth and higher employment.

Trade

6. In this area the main discussion was on the subject of trade with Japan. The Japanese Personal Representative made a long statement, delivered in a manner irresistibly reminiscent of that of Mr. Ian McDonald of the Ministry of Defence, indicating that his Government was expecting to announce a further

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package of measures to make the Japanese market more open to imports. He was left in no doubt that, unless such a statement were made before the Versailles Summit, and unless it was effective, his Prime Minister could expect to have a rough time there. A strongly-worded sentence was proposed for inclusion in the draft declaration; it does not appear in the present draft, but it was made clear to the Japanese Personal Representative that his colleagues would revive it at Versailles if nothing had happened before then. He defended his Government against the charge that they were relying solely on exports to stimulate the Japanese economy: the level of exports had stabilised and even fallen slightly in recent months, and domestic demand was rising.

Relations with the Developing Countries

7. The main subject for discussion in this area was the global negotiations. It was made clear to the United States representative that the European Community and Canada regarded the Bedjaoui declaration by the Group of 77 as an acceptable basis for opening global negotiations, though the British and German Personal Representatives indicated that they would prefer to see certain amendments to the draft to ensure that the independence of the specialised agencies was fully protected. The position of the United States representatives on the Bedjaoui declaration was more reserved, although they too indicated that it was likely that, if the President was satisfied that the independence of the specialised agencies would indeed be fully protected - and they remained to be convinced that this could be achieved within the terms of the Bedjaoui declaration - he could well in the end be prepared to agree to enter global negotiations on that basis. There was general agreement that there would be no point in embarking on global negotiations without the United States.

East-West Trade

8. There had been a meeting of the Buckley Group in Paris just before our meeting, and the sharp polarization between Europe and the United States evident at the Buckley Group meeting was reflected at our meeting. While the United States representatives insisted that the President's objective was to ensure that the Western world was not over-committed in credit to the Soviet Union and Eastern Europe, the European Community representatives, and

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particularly the continental Europeans, were suspicious that the President's motive was in fact to introduce some form of economic sanctions against the Soviet Union. They did not believe that such sanctions would be effective; and they thought that the price to be paid would be paid entirely by Europe. One of the German representatives had produced a set of proposals for increasing down payments on, and reducing the duration of, credits to the Soviet bloc and for reducing the proportion of total credit which might be officially supported.

Most of the European countries seemed to be prepared to look at least at some of these possibilities; but the French representatives said that they were precluded by the terms of their existing agreements from doing anything of this kind before 1985. One of the French representatives even said that his Government was not yet committed to the increase in the consensus rate for credits to the Soviet Union; this attracted a unanimous chorus of protest and requests to think again by all the other Personal Representatives present.

The United States representatives said that, unless some progress could be made on this subject, it would be much more difficult for the United States to meet the problems of their European allies on such matters as the gas pipeline from the Soviet Union to Germany and France. It was agreed that there would have to be another meeting of the Buckley Group before the Versailles Summit.

Draft Declaration

9. The Personal Representative of the French President said that his President was not enthusiastic about having any kind of communique from the Economic Summit. He recognised with some reluctance that there would have to be some document, but he insisted that it should be short, and political rather than technical in its language. The French Personal Representative produced a draft, which was discussed, considerably amended, and in its revised form provisionally agreed as the basis for the work which Personal Representatives would do when it came to the Summit Meeting itself. I attach a copy of the draft declaration as revised over the weekend, with the annexed statement of monetary undertakings (see paragraph 5 above). You will see that it contains a few



CONFIDENTIAL

passages in square brackets, which represent points on which agreement was not reached. These will have to be resolved at Versailles. I hope that Personal Representatives will be able to resolve most of them at Versailles without troubling Heads of State or Government, but one or two of them, particularly in the passage on relations with developing countries, may need to be resolved by Heads of State or Government themselves.

10. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Energy and the Secretary of State for Trade.

Robert Armstrong

19th May 1982

CONFIDENTIAL

DECLARATION OF THE SEVEN HEADS OF STATE AND GOVERNMENT
AND REPRESENTATIVES OF THE EUROPEAN COMMUNITY

Having come together to improve our understanding of the situation of the world economic situation, we have drawn up a number of common objectives for future action.

We affirm that the improvement of the present situation, by a further reduction in the level of inflation, and by a return to steady growth and higher levels of employment, would strengthen our joint capacity to safeguard our security, to maintain confidence in the democratic values that we share, and to preserve the cultural heritage of our people in all their diversity. Full employment, price stability and sustained and balanced growth are ambitious objectives. They are attainable in the coming years only if we pursue policies which encourage productive investment and technological progress; and only if, in addition to our own individual efforts, we are willing to join forces, if we are sensitive to the effects of our policies on one another and if we collaborate in promoting world development.

In this spirit, we have decided to implement immediately the following five lines of action:

- Growth and employment must be increased. This cannot be attained on a sustainable basis unless we continue to be successful in our fight against inflation. Furthermore, this will help to bring about lower real interest rates and more stable exchange rates which are in everybody's interest and which we all want to achieve. It is essential to intensify our economic and monetary co-operation. In this regard, we will work toward an orderly and constructive evolution of the International Monetary System by a closer co-operation among the authorities representing the currencies of North-America, of Japan and of the European Community [which constitute the EMS] in pursuing medium term economic and monetary objectives. In this respect, we have committed ourselves to the undertaking contained in the attached statement.

- The development of world trade in all its facets is both a necessary element for a growth of each country, and a consequence of that growth. We reaffirm our commitment to strengthening the open multilateral trading system as embodied in the GATT, and maintaining its effective operation. In order to promote stability and employment through trade and growth, we will continue to resist protectionist pressures and overt or hidden trade restrictions; [we will avoid trade distorting practices such as certain subsidies]; we are resolved to complete the work of the Tokyo round and to improve the capacity of the GATT to solve current and future trade problems. We will also be prepared to take measures where appropriate towards the further (balanced) opening of our markets. We will work together with the developing countries to strengthen and improve the multilateral system, in particular to encourage greater mutual trading opportunities with the new industrialised countries. In this spirit, we shall participate fully in the forthcoming GATT Ministerial Conference.

- The progress we have already made does not diminish the need for continuing efforts to economise on energy and to promote alternative sources, including nuclear energy and coal, in a long-term perspective. These efforts will enable us further to reduce our vulnerability to interruptions in the supply of energy and instability of prices. Co-operation to develop new energy technologies, and to strengthen our capacity to deal with disruptions, can contribute to our common energy security. We shall also work to strengthen our co-operation with both oil-exporting and oil-importing developing countries.

- The growth of the developing countries and a constructive relationship with them are vital for our political and economic well being. We will therefore take steps to maintain a high level of financial flows and official assistance increasing their amount and their effectiveness as far as possible and sharing responsibility broadly among all countries capable of making a contribution. [The launching of Global Negotiations in the near future is a major political objective approved by all participants in the Summit. We consider that it should take place by next autumn provided that the independence of the specialised institutions is guaranteed.] At the same time, we are prepared to continue and develop

practical co-operation with the developing countries through innovations within the World Bank, [such as the creation of an Energy Affiliate] and [the IDA Special Fund,] increased private capital flows, (international arrangements to improve the conditions for private investment), programmes designed to increase indigenous food and energy production, [the stabilisation at a proper level of commodity export earnings of the L.D.C.'s] and a further concentration of official assistance towards the poorest countries.

- Sustained growth of the world economy will depend upon co-operation among our countries and with other countries in the exploitation of scientific and technological development and, in particular, of the opportunities presented by the new technologies, whose potential is immeasurable. We shall need to remove barriers to, and to promote, the development of and trade in new technologies both in the public sector and in the private sector. Our countries will need to train men and women in the new technologies and to create the conditions which allow these technologies to develop and flourish. We have considered a report presented to us on these issues by the President of the French Republic, in the light of which we have decided to set up promptly a working group of representatives of our governments to develop, in consultation with the relevant international institutions, especially the O.E.C.D., proposals to give effect to the objectives we have noted. The group will be asked to submit its report to us by 31 December 1982. The conclusions of the report and the resulting actions will be considered at the next Economic Summit to be held in 1983 in the United States.

STATEMENT OF INTERNATIONAL MONETARY UNDERTAKINGS

1. We accept a joint responsibility to work for greater stability of the world monetary system. We recognise that this rests primarily on convergence of policies designed to achieve lower inflation, higher employment and renewed economic growth; and thus to maintain the internal and external value of our currencies. We are determined to discharge this obligation in close collaboration with all interested countries and monetary institutions.
2. We are ready to strengthen our co-operation with the IMF in its work of surveillance; and to develop this on a multilateral basis with special reference to the five currencies constituting the SDR.
3. We attach major importance to the role of the IMF as a monetary authority and we will give it our full support in its efforts to foster stability.
4. We rule out the use of our exchange rates to gain competitive advantages.
5. We are ready, if necessary, to use intervention in exchange markets under the conditions provided for in Article IV of the IMF Articles of Agreement to counter erratic fluctuations.
6. Those of us who are members of the EMS consider that these undertakings are complementary to the obligations of stability which they have already undertaken in that framework and recognise the role of the System in the further development of stability in the international monetary system.
7. We are all convinced that greater monetary stability will assist freer flows of goods, services and capital. We are determined to see that greater monetary stability and freer flows of trade and capital reinforce one another in the interest of economic growth and employment.

LIST OF BRIEFS

1. Steering Brief
2. Draft Declaration
3. World Economy: Economic and Monetary Policies
4. International Monetary Matters
5. Trade
6. North/South
7. Energy
8. East/West Economic Relations
9. Export Credit Consensus
10. Impact of Technology
11. State of the World
- 12a. East/West Relations: Relations with the Soviet Union and Eastern Europe
- 12b. Poland
- 12c. East-West Relations: Afghanistan
13. Disarmament and Arms Control
- 14a. Falkland Islands
- 14b. General Approach to Relations with the Third World
- 14c. Middle East
- 14d. Cambodia
- 14e. Central America
- 14f. Settlement of the Namibia Question and its Consequences
- 14g. Africa: Economic Situation of certain African Countries, Zaire, Zambia, Sudan, etc.
15. Terrorism
16. Youth Exchange
17. Bilateral Meetings
18. Statistics
19. Personality Notes

PMVS(82)1-19 preserved
in CAB 133. This set is
destroyed.

R. Pannan
22 Mar 11

CONFIDENTIAL

Leon Pol

Cabinet Office,
70 Whitehall,
London, SW1

PS(82) 16

19th May 1982

AD 19/5
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Dear Private Secretary,

Versailles Economic Summit: 4th-6th June 1982

With my letter of 17th May I attached at Annex A a list of briefs to be prepared for the Versailles Economic Summit. This list has now been revised. I attach the revised list and should be grateful if Departments could prepare briefs as appropriate.

I am sending copies of this letter to the Private Secretaries to Sir Antony Acland, Sir Douglas Wass, Sir Peter Carey, Sir Donald Maitland, Mr. Michael Franklin, Sir Kenneth Couzens and Mr. John Sparrow and to John Coles at No. 10, Dr. Nicholson (CPRS) and Mr. D.H. Twyford (ECGD).

Yours sincerely

(Signed) D J WRIGHT

CONFIDENTIAL

LIST OF BRIEFS FOR VERSAILLES ECONOMIC SUMMIT
4-6 JUNE 1982

<u>PMVS(82)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
1.	Steering Brief	FCO	as appropriate
2.	Draft Declaration	FCO	as appropriate
<u>Economic Subjects</u>			
3.	World Economy: Economic and Monetary Policies	Treasury	FCO
4.	International Monetary Matters	Treasury	as appropriate
5.	Trade	Trade	as appropriate
6.	North/South	FCO	as appropriate
7.	Energy	Energy	as appropriate
8.	East/West Economic Relations	FCO	as appropriate
9.	Export Credit Consensus	ECGD	Trade Treasury FCO
10.	Impact of Technology	Cabinet Office	Industry Treasury
<u>Political Subjects</u>			
11.	State of the World	FCO	as appropriate
12.	East/West Relations		
	(a) Relations with the Soviet Union and Eastern Europe	FCO	as appropriate
	(b) Poland	FCO	as appropriate
	(c) Afghanistan	FCO	as appropriate

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<u>PMVS(82)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
13.1	Disarmament and Arms Control		
	(a) UNSSD	FCO	as appropriate
	(b) START/INF	FCO	as appropriate
	(c) Other Negotiations	FCO	as appropriate
	(d) Non-proliferation	FCO	as appropriate
14.	World Crises and Conflicts		
	(a) Falkland Islands	FCO	as appropriate
	(b) General Approach to Relations with the Third World	FCO	as appropriate
	(c) Middle East, including Arab/Israel, Iran/Iraq, Lebanon	FCO	as appropriate
	(d) Cambodia	FCO	as appropriate
	(e) Central America	FCO	as appropriate
	(f) Africa		
	(i) Settlement of the Namibia Question and its Consequences	FCO	as appropriate
	(ii) Economic Situation of Certain African Countries, Zaire, Zambia, Sudan, etc	FCO	as appropriate
15.	Terrorism	FCO	as appropriate
16.	Youth Exchanges	FCO	as appropriate
<u>Others</u>			
17.	Bilateral Meetings	FCO	as appropriate
18.	Statistics	FCO	
19.	Personality Notes		

CONFIDENTIAL

MT Coles
Econ Pol

WOL 17/5
h.c.

Cabinet Office,
70 Whitehall,
London SW1

17th May 1982

PS(82) 14

Dear Private Secretary,

Versailles Economic Summit: 4-6 June 1982

This letter sets out the briefing arrangements for the Versailles Economic Summit on 4-6 June.

The list of briefs to be prepared, with an indication of Departmental responsibility, is at Annex A. Instructions on format are at Annexes B and C. Those preparing briefs should note carefully the details on the format of briefs set out in Annex B. The objectives for the Economic Summit will be set out in the Steering Brief. The Foreign and Commonwealth Office will consult Departments about these as appropriate.

Seventy copies of each brief should be sent to the Cabinet Office as soon as they are ready. They should reach the Cabinet Office by 12.00 noon on 21 May at the latest. They should be addressed to Mr R D Roscoe in Committee Section, who should be consulted (tel. no. 233 7343) about any technical points arising.

I am sending copies of this letter to the Private Secretaries to Sir Antony Acland, Sir Douglas Wass, Sir Peter Carey, Sir Donald Maitland, Mr Michael Franklin, Sir Kenneth Couzens, Mr John Sparrow and Dr Nicholson and to John Coles at No 10.

Yours sincerely

(Signed) D J WRIGHT

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LIST OF BRIEFS FOR VERSAILLES ECONOMIC SUMMIT
4-6 JUNE 1982

<u>PMVS(82)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
1.	Steering Brief	FCO	as appropriate
2.	Draft Declaration	FCO	as appropriate
<u>Economic Subjects</u>			
3.	World Economy: Economic and Monetary Policies	Treasury	FCO
4.	International Monetary Matters	Treasury	as appropriate
5.	Trade	Trade	as appropriate
6.	North/South	FCO	as appropriate
7.	Energy	Energy	as appropriate
8.	East/West Economic Relations	FCO	as appropriate
9.	Impact of Technology	Cabinet Office	Industry Treasury
<u>Political Subjects</u>			
10.	Terrorism	FCO	as appropriate
11.	Youth Exchanges	FCO	as appropriate
12.	Falkland Islands	FCO	as appropriate
13.	East/West Issues, including Poland	FCO	as appropriate
14.	Other Issues (eg Afghanistan, Middle East, Aid to Namibia, UNSSD)	FCO	as appropriate

<u>PMVS(82)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
<u>Others</u>			
15.	Bilateral Meetings	FCO	as appropriate
16.	Statistics	FCO	
17.	Personality Notes	FCO	

INSTRUCTIONS ABOUT FORMAT

All briefs should be laid out in the same way with a top page in accordance with the specimen layout at Annex C. Those preparing briefs should pay particular attention to ensuring that the following instructions are fully observed:

Content

- (a) Briefs should be concise. Each brief should if possible be no more than four sides long.
- (b) The main body of each brief should comprise two sections, a concise list of Points to Make, followed by a factual Background section which distinguishes clearly between information which can be freely used and information which should not be disclosed.
- (c) Briefs should be complete and self-contained with all the information required on that particular subject. Briefs should not be divided into separate self-contained sub-sections.

Layout

- (d) Briefs should be typed in double spacing, using both sides of the paper. Pages should be numbered at the foot of each page.
- (e) As shown in the specimen at Annex C, the top page only of each brief should contain the following details: the symbol and number of the brief in the top left-hand corner (e. g. PMVS(82)10) with the date of production below; a copy number in red at the top right-hand corner; the visit heading; the title of the brief (in capitals) and the name of the Department responsible.
- (f) At the foot of the last page and on the left-hand side, briefs should bear the name of the originating Government Department and the date of origin.

Reproduction

- (g) Briefs should be reproduced throughout on white paper, with each page bearing a security classification at top and bottom (as in Annex C). Care should be taken that the reproduction method employed results in clear readable copies.

- (h) It is important that on arrival at the Cabinet Office, briefs should be complete in all detail - collated, stapled and copy numbered and ready for immediate circulation.

Updating

- (i) If late developments require a brief to be amended or updated, an addendum should be prepared. It should be set out in the form described at (e) above, with the brief number (e. g. PMVS(82) 10 Addendum) and title to which it relates at the top of the front page. The Private Secretary to the Secretary of the Cabinet should be informed when an addendum is in preparation. Revised briefs and corrigenda should be similarly treated.
- (j) Additions to the list of briefs in Annex A require the authorisation of the Private Secretary to the Secretary of the Cabinet.

CLASSIFICATION

ANNEX C

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

PMVS(82) Serial Number as specified in Annex A COPY NO. in red

Date

VERSAILLES ECONOMIC SUMMIT
4-6 JUNE 1982

Leave 1½"
margin

SUBJECT Insert subject in capitals

Brief by name of originating Department, eg Foreign and Commonwealth Office

At the foot of the last page:-
left-hand side

Originating Government Department, eg Foreign and Commonwealth Office or Department of Industry, not a subordinate section or division

Date of origin

CLASSIFICATION



10 DOWNING STREET

MR. COLES

The Secretary of State for Trade cannot come to the Versailles Briefing Meeting on 27 May. Can the Minister, Peter Rees, come instead?

CS.

Caroline

Yes.

Confirmed
with holiday
in Cab. office
CS. 17/5.

MR 17/5.

14 May 1982

File

SIR ROBERT ARMSTRONG

VERSAILLES ECONOMIC SUMMIT

Thank you for your minute of 13 May.
The Prime Minister will not be able to
consider this tonight but I am sure that
it would be right for you to commission
the briefs listed in the annex to your minute
forthwith.

A.J. COLES

13 May 1982

A

Ref: A08408

CONFIDENTIAL

MR. COLES

Versailles Economic Summit

30.4.82 - 7.5.82
I have reported to you separately on the last two meetings of Personal Representatives which I have attended in order to prepare for the forthcoming Versailles Economic Summit. I am to attend a further and final meeting in Paris this coming weekend. This meeting will concentrate on the terms of the report on technology and economic activity which President Mitterrand is to present at the opening of the Summit, and the text of the short declaration which is to be issued at the conclusion. There will also be consideration by Personal Representatives of the work in hand to prepare political and macro-economic discussions at the Summit. As a result of this weekend's meetings, I hope to be in a position next week to report to the Prime Minister fully on the form which the Summit will take and on the economic and political issues which are likely to be discussed there. I shall also have up to date information on the content of President Mitterrand's report and of the declaration to be issued at the end of the Summit.

2. These latter two features of the Summit will have to be discussed fully at the briefing meeting on the Summit which the Prime Minister is to hold on Thursday 27th May. That meeting will also wish to look at the full collection of briefs. You will wish to have these briefs available for the Prime Minister to consider over the weekend before the Summit, and I hope that it will be possible for Departments to supply them in time to reach me by close of play on Friday, 21st May. To do this, I should like to put the briefing operation in hand before the coming weekend's meeting of Personal Representatives. I therefore attach a draft list of briefs, and should be grateful if you could let me know whether you would be content for me to commission them forthwith from the Departments concerned. As for objectives for the Summit, I hope it will be possible to finalise these following this weekend's talks and include them in the steering brief.

REA

Robert Armstrong

13th May 1982

CONFIDENTIAL



Suggested List of Briefs for Versailles Economic Summit:
4th - 6th June 1982

<u>Brief</u>	<u>Lead Department</u>	<u>In Consultation with</u>
1. Steering Brief	FCO	As appropriate
<u>Economic Subjects</u>		
2. World Economy: Economic and Monetary Policies	Treasury	FCO
3. International Monetary Matters	Treasury	As appropriate
4. Trade	DOT	FCO, Treasury
5. North/South	FCO	As appropriate
6. Energy	D/Energy	As appropriate
7. East/West Economic Relations	FCO	As appropriate
8. Impact of Technology	Cabinet Office	DOI, Treasury
<u>Political Subjects</u>		
9. Terrorism	FCO	As appropriate
10. Youth Exchanges	FCO	As appropriate
11. Falkland Islands	FCO	As appropriate
12. East/West Issues, including Poland	FCO	As appropriate
13. Other Issues (e.g., Afghanistan, Middle East, Aid to Namibia, UNSSD)	FCO	As appropriate
<u>Others</u>		
14. Bilateral Meetings	FCO	As appropriate
15. Statistics	FCO	
16. Personality Notes	FCO	

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HL

11 May 1982

Political discussion at the Economic Summit

Thank you for your letter of 10 May which the Prime Minister has seen.

Mrs. Thatcher notes that the French intend that the political discussion at the Summit should be topical and unstructured - and therefore in the hands of the Chairman. She remains somewhat doubtful why, in that case, a preparatory meeting is necessary but does not wish to give further guidance to our political representatives before the meeting on 14 May.

JOHN COLES

Francis Richards, Esq.,
Foreign and Commonwealth Office



Foreign and Commonwealth Office

London SW1A 2AH

10 May 1982

The discussion will be topical & unstructured - and in the hands of the Chairman. I am always, myself, about to conclude that why it, needs a meeting what will happen? not.

Prime Minister

I do not think it necessary to give guidance to political representatives before 14 May. Heads of governments will decide themselves what they want to discuss. Agree?

Dear John,

A.J.C. 10/5

Political Discussion at the Economic Summit

In your letter of 4 May to Sir Robert Armstrong, you said that the Prime Minister had asked, after seeing Sir Robert's minute of 30 April, why it was necessary for political representatives to meet on 14 May to prepare the political discussion at the Versailles Summit.

Although the French have not explicitly said so, their purpose in calling the meeting on 14 May must be to set out their own ideas as regards the political content of the Summit and to give others a chance to comment. So far, the French have said only that they think the political discussion should be (a) topical and (b) unstructured. With a month to go it is difficult to be specific, but the agenda might well include the Falkland Islands, depending on events during the next month; East/West relations, especially Poland where there have been some dramatic developments; and Afghanistan which should not be allowed to sink out of public consciousness; and possibly the Middle East. The French may also have suggestions on how discussion should be organised as between the Foreign Ministers and Heads of Government, and how far there needs to be any advance preparation in the way of drafts.

If the Prime Minister has views on any of these points, no doubt you will let me know. The Foreign and Commonwealth Secretary for his part would be content to make up his mind in the light of the results of the meeting on 14 May.

Yours ever,

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

Postamt und Fernschreibamt

London SW1A 1AA



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8 7 6 5 4
3 2

10 MAY 1982

[Faint handwritten signature or initials]

Econ 1st

MR. WRIGHT
CABINET OFFICE

I agree with the participation you propose, in your three minutes of 10 May, for the Prime Minister's briefing meetings for the Versailles Economic Summit, the Visit of President Reagan and the NATO Summit.

A J COLES

10 May 1982

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Seen by
ASC

Ref. A08363

MR. COLES

Agreed.
AR 25.
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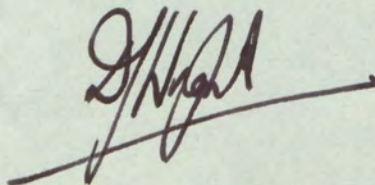
Prime Minister's Briefing Meeting for Versailles Economic Summit:
4th-6th June 1982

I should be grateful for your agreement to the following Ministers being invited to attend the Prime Minister's briefing meeting at 4.00 pm on Thursday 27th May:

Chancellor of the Exchequer
Foreign and Commonwealth Secretary
Secretary of State for Industry
Secretary of State for Energy
Secretary of State for Trade

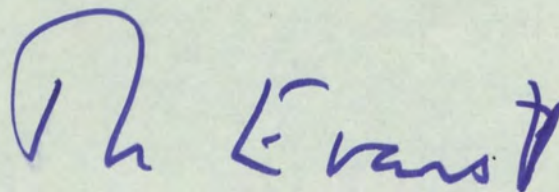
(In the light of the paper which the French are currently drafting on the impact of new technology on Western economies, it might also be necessary to invite the Secretary of State for Employment.) The following officials will also be needed:

Sir Kenneth Couzens, Treasury
Sir Antony Acland, Mr. J.L. Bullard and Lord Bridges, FCO
Sir Peter Preston, ODA
Sir Peter Carey, Department of Industry
Mr. M.D.M. Franklin, Department of Trade
Sir Robert Armstrong, Cabinet Office



D.J. WRIGHT

10th May, 1982



RESTRICTED



10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

VERSAILLES ECONOMIC SUMMIT

Thank you for your minute of 7 May, in paragraph 3 of which you answered the Prime Minister's question about the need for political representatives to meet on 14 May. The Prime Minister has commented:- "I think one previous meeting would have been enough. The whole Summit has become a circus".

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

A. J. COLES

10 May, 1982

CONFIDENTIAL

*Prime Minister
you may wish to read this
before your meeting with
George Schultz tomorrow.*

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duty (h)*

PRIME MINISTER FROM DUTY CLERK

KONFO 002/108

You may wish to read this before your meeting with George Schultz tomorrow.

8.5.82

OO F C O (DESKBY 080900Z)

RR PARIS

RR UKDEL OECD

RR UKREP BRUSSELS

RR BONN

RR TOKYO

RR ROME

GR 1100

CONFIDENTIAL

DESKBY 080900Z

FM WASHINGTON 072040Z MAY 82

TO IMMEDIATE F C O

TELEGRAM NO 1668 OF 7 MAY

INFO PARIS, UKDEL OECD, UKREP BRUSSELS, BONN, TOKYO, OTTAWA, ROME

US ATTITUDES IN THE RUN-UP TO THE VERSAILLES SUMMIT.

1. BRAITHWAITE AND WALSH ASKED CASSE (SPECIAL ASSISTANT TO HORNATS IN THE STATE DEPARTMENT) FOR AN OVERVIEW OF AMERICAN OBJECTIVES AND ATTITUDES AT NEXT WEEK'S MEETINGS IN PARIS IN PREPARATION FOR THE SUMMIT, WHAT FOLLOWS IS COMPATIBLE WITH WHAT WE HAVE BEEN TOLD BY NAU (NSC) AND WALDMANN (COMMERCE) THOUGH IT IS MORE EXTENSIVE.

2. CASSE SAID THAT THE ADMINISTRATION HAD THREE MAIN OBJECTIVES FOR VERSAILLES:

- (A) AGREEMENT ON ARRANGEMENTS FOR ECONOMIC POLICY CO-ORDINATION.
- (B) A POSITIVE COMMITMENT TO UNDERWRITE THE WORLD TRADING SYSTEM.
- (C) AGREEMENT ON A MECHANISM FOR MANAGING CREDIT TO THE SOVIET UNION.

THEY WERE IN ORDER OF PRIORITY, THOUGH CASSE INDICATED THAT IT WOULD BE FAILURE TO AGREE ON THE LAST THAT WOULD HAVE THE MOST ADVERSE CONSEQUENCES.

ECONOMIC POLICY CO-ORDINATION

3. THE AMERICANS BELIEVE THAT CONVERGENCE OF ECONOMIC POLICIES AMONGST THE MAJOR POWERS WAS THE BEST WAY OF TACKLING OUR PRESENT DIFFICULTIES. THEY HAD IN MIND A "SUPER SURVEILLANCE MECHANISM" IN THE IMF CONSISTING OF THE FIVE SDR COUNTRIES AND THE IMF ITSELF. THIS WOULD BE THE PLACE FOR DISCUSSION OF ISSUES SUCH AS US INTEREST RATES, THE PERFORMANCE OF THE FRENCH FRANC, AND SO ON.

4. CASSE SAW THIS AS NOT INCOMPATIBLE WITH THE FRENCH IDEAS (LUXEMBOURG TEL NO 59 OF 26 APRIL). BUT THE FRENCH SEEMED TO THINK THAT EXCHANGE RATE MANAGEMENT WAS THE KEY TO ALL ECONOMIC PROBLEMS, WHILE THE AMERICANS APPROACHED THINGS FROM THE OPPOSITE END OF POLICY COORDINATION. MOREOVER THERE WAS IN WASHINGTON A WIDESPREAD SUSPICION OF FRENCH MOTIVES. AGREEMENT MIGHT THEREFORE BE DIFFICULT, ALTHOUGH IF ALL THE FRENCH WANTED WAS FOR THE FIVE TO "SHOW THE FLAG" BY DECLARING WILLINGNESS TO INTERVENE IF NECESSARY, THIS MIGHT BE NEGOTIABLE. SPRINKEL WAS WORKING OUT A PAPER, AND THE ISSUES WOULD DOUBTLESS BE THRASHED OUT AMONG THE G.5 AT HELSINKI AND AT THE MEETING ON 14 MAY WHERE CAMDESSUS WAS DUE TO CIRCULATE HIS PAPER.

TRADE

5. THE AMERICANS BELIEVED THAT A PUBLIC COMMITMENT WAS NECESSARY BECAUSE THE OPEN SYSTEM WAS UNDER THREAT. FREE TRADE WAS A MAJOR ENGINE FOR ECONOMIC GROWTH. A PUBLIC COMMITMENT TO A CONSTRUCTIVE APPROACH TO THE GATT MINISTERIAL MEETING WOULD SEND THE RIGHT POLITICAL SIGNAL. THE AMERICANS ALSO HOPED THAT THERE COULD BE AGREEMENT IN VERSAILLES ON A SPECIFIC LIST OF ISSUES TO BE TACKLED IN THE GATT, THOUGH THEY REALISED THAT THIS MIGHT BE LESS EASY TO ACHIEVE.

6. DISCUSSION AMONG THE SHERPAS WOULD BE INFLUENCED BY THE NATURE OF THE TRADE PACKAGE WHICH THE JAPANESE WERE NOW ANNOUNCING; AND BY THE RESULTS OF THE QUADRILATERAL TALKS (COMMISSION/US/JAPAN/CANADA) TO BE HELD AT MINISTERIAL LEVEL IN THE MIDDLE OF NEXT WEEK. MEANWHILE ON 3 MAY THE PRESIDENT'S TRADE POLICY COMMITTEE HAD ENDORSED THE IDEA FOR A FURTHER ROUND OF TRADE NEGOTIATIONS BETWEEN DEVELOPED AND DEVELOPING COUNTRIES, AND BROCK WOULD PUT THIS FORWARD BOTH AT THE QUADRILATERAL MEETING AND IN THE OECD.

EAST/WEST TRADE

7. CASSE REPEATED YET AGAIN THAT THE PRESIDENT WAS DETERMINED TO GET AGREEMENT ON A MECHANISM FOR CONTROLLING THE FLOW OF CREDIT TO THE SOVIET UNION. THE AMERICANS WERE NOT COMMITTED TO ANY PARTICULAR MECHANISM. THEY WERE LOOKING CONSTRUCTIVELY AT FRAU STEEG'S IDEA, AND CASSE HIMSELF THOUGHT THAT THE ORIGINAL AMERICAN IDEAS FOR A MECHANISM HAD BEEN TOO COMPLICATED. WITHOUT SUCH AGREEMENT, CASSE SAW LITTLE CHANCE OF THE PRESIDENT MOVING ON EXISTING CONTRACTS, AND HE IMPLIED THAT THE PRESIDENT MIGHT TAKE OTHER MEASURES IN THE AREA OF EAST-WEST TRADE WHICH THE EUROPEANS WOULD NOT LIKE. WE REMINDED CASSE THAT THIS WAS A SUBJECT OF SOME POLITICAL SENSITIVITY IN EUROPE TOO.

OTHER ISSUES

B. (A) GLOBAL NEGOTIATIONS

CASSE SAID THAT THERE WAS ABOUT TO BE ANOTHER MAJOR DEBATE WITHIN THE ADMINISTRATION ABOUT THE NEXT STEPS. SOME STILL THOUGHT THAT THE US WOULD LOSE LITTLE BY ABANDONING THE GLOBAL NEGOTIATIONS, SINCE IT COULD IN ANY CASE DEFEND ITS INTERESTS ADEQUATELY IN THE SPECIALISED AGENCIES. WE COMMENTED THAT SOME COUNTRIES WERE NOT ENTIRELY CONVINCED BY AMERICAN STATEMENTS THAT THEY WERE STILL FULLY IN THE NEGOTIATING PROCESS. CASSE SAID THAT THE AMERICANS REALISED THEY WOULD BE UNDER PRESSURE IN VERSAILLES.

(B) HIGH TECHNOLOGY

FRENCH IDEAS WERE PRESENTED TO THE AMERICANS BY HORREL ON 6 MAY. THE AMERICANS WOULD NOT DISMISS THEM, THOUGH THEY FELT THAT THEY INVOLVED TOO MUCH GOVERNMENT INTERVENTION. THEY COULD PROBABLY AGREE TO THE FRENCH IDEA THAT THE SUMMIT SHOULD SET UP A GROUP TO STUDY THE ISSUES TO UNDERLINE THE COMMON POLITICAL IMPORTANCE WHICH HEADS OF STATE AND GOVERNMENT ATTACHED TO THEM. BUT THEY WOULD WANT "A GROUP OF WISE MEN" WHO COULD EVENTUALLY REPORT TO THE OECD, RATHER THAN YET ANOTHER GROUP OF OFFICIALS WORKING UNDER THE SUMMIT AEGIS; AND THEY THOUGHT THAT

~~THE FRENCH IDEAS ABOUT JOINT FUNDING TARGETS AND COMMON ACTION ON R AND D WERE OVER PRECISE. THEY HAD HOWEVER SOME SYMPATHY WITH THE FRENCH THOUGHT THAT NEW TRADE RULES NEEDED TO BE DEvised TO GOVERN RAPID GROWTH IN INTERNATIONAL EXCHANGES OF HIGH TECHNOLOGY, INCLUDING DATA FLOWS.~~

(C) YOUTH EXCHANGES

CHARLIE WICK (HEAD OF USICA AND CLOSE FRIEND OF THE PRESIDENT) WAS STILL PRESSING HARD FOR PROGRESS AT THE SUMMIT. THERE WOULD BE A MEETING NEXT WEEK (ATTENDED WE UNDERSTAND BY GORDON-LENNOX).

9. WE TOLD CASSE THAT WE HOPED FOR A FURTHER READ OUT OF AMERICAN ATTITUDES AFTER NEXT WEEK'S VARIOUS DISCUSSIONS, IN ORDER TO HELP WITH THE BRIEFING IN LONDON FOR THE SUMMIT. BRAITHWAITE WOULD BE SEEING HORHATS.

10. RESIDENT CLERK PLEASE ASK ERD DUTY OFFICER TO PASS TO TREASURY BEFORE CHANCELLOR SEES MR REGAN ON 9 MAY.

HENDERSON

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7 May 1982

The Prime Minister has asked me to thank you for your letter of 7 May enclosing a message to her from President Reagan.

B. J. COLES

His Excellency The Honourable
John J Louis Jr.,

copy filed on
USA April 1982
Visit of George Schultz



10 DOWNING STREET

From the Private Secretary

7 May, 1982

Dear Sir,

I enclose a copy of a letter which the Prime Minister has just received from President Reagan. This contains some ideas about possible decisions to be taken at the Versailles and Bonn Summits and also states that on 9 May the President will be announcing a proposal to open START talks with the Soviet Union.

Some of the subject matter is relevant to the talks which the Prime Minister will be having with Mr George Schultz at Chequers this Sunday. I shall take it, unless I hear to the contrary, that the briefs which you are preparing adequately cover President Reagan's references to the Versailles Summit.

Perhaps you would let me know in due course whether you wish to advise that the Prime Minister should send a substantive reply to President Reagan's message.

I am copying this letter and its enclosure to John Kerr (HM Treasury), David Omand (Ministry of Defence) and John Rhodes (Department of Trade).

*Yours ever
John Kerr*

B Fall, Esq
Foreign and Commonwealth Office

SECRET

CONFIDENTIAL

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Prime Minister

To note.

Ref. A08356

MR. COLES

I think one person
perhaps would have
been enough. The

MS

A.J.C. 7/5

whole summit has become a circus.
Versailles Economic Summit

MS

Thank you for your minute of 4th May.

2. Representatives of the French Presidency visited London today, to discuss the ideas likely to be contained in the report which the President of the French Republic is preparing for the Versailles Summit. I shall be reporting to you in due course on these conversations. First indications suggest that industrial technology is indeed likely to be an important element in the report, but that questions of research and development will also arise in it.

3. In the third paragraph of your minute, you said that the Prime Minister had asked why it was necessary for political representatives to meet on 14th May to prepare the political content of the Summit. This repeats a pattern established in the last two years. When we were coming up to the Venice Summit, it was felt that the Summit would have to take a position on Afghanistan; and when we were coming up to the Ottawa Summit it was felt that it would be necessary to take a position on Poland. This required some preliminary discussion among the countries concerned. The Personal Representatives are concerned primarily with the economic content of the Summit, and some of them are either not prepared or not mandated to discuss political matters (this is particularly true of the American and German Personal Representatives). Both in 1980 and 1981 it was therefore agreed that there should be a meeting of political Personal Representatives, basically political directors, to consider what purely political issues the Economic Summit might be likely to need to address and what position might be taken by the Heads of State or Government on those issues.

4. It is clear that at Versailles there is likely to be some political discussion at the dinners of Heads of State or Government on Friday 4th June and Saturday 5th June, and perhaps at the lunch on Saturday 5th June where Heads of State or Government will be joined by Foreign Ministers. The meeting on 14th May will

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seek to explore the subjects that may be raised at Versailles, and the sort of line that might be taken on them. The result of their discussion will be reported to Personal Representatives, who will also be meeting near Paris from 14th to 16th May.

5. I am sending copies of this minute to Mr. Fall and Mr. Kerr.

RA

ROBERT ARMSTRONG

7th May, 1982

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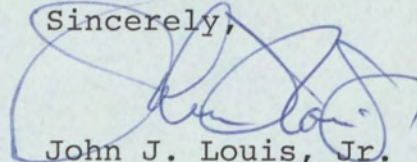
EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

May 7, 1982

Dear Prime Minister:

I have been asked to deliver the attached message to you from President Reagan, which was received at the Embassy this afternoon.

Sincerely,



John J. Louis, Jr.
Ambassador

Enclosure:
SECRET

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

SUBJECT

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S E C R E T

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T103/82

Dear Margaret,

As our meetings at Versailles and Bonn draw near, I want to share with you my own thinking about advancing our efforts for a strengthened and more unified West. We all approach the Summits with the understanding that peace, prosperity, and security are indivisible. Our meetings, therefore, should complement each other and represent a set of shared goals.

I suggest that, at Versailles, we concentrate on three themes: more effective cooperation on economic policies to promote greater prosperity and market stability; concrete steps to strengthen the world trading system in order to counter rising protectionism; and progress in assuring that our economic relations with the East are consistent with our economic and security interests. I will also want to advance mutually beneficial relations with the developing world, and to discuss cooperative efforts on energy.

As you know, I am working with the Congress to establish the conditions for a healthy U.S. economy. At the same time, I remain strongly committed to cooperation with you to strengthen the global economy. Together, we can reduce inflation and improve prospects for increasing employment in our countries.

Strong and growing pressures for protectionism endanger our multilateral trading system. I suggest that we agree upon the priority areas on which the GATT Ministerial should focus this fall in an effort to improve the capability of the trading system to resolve problems old and new and to extend its principles to new countries, particularly developing countries.

On East-West relations we need to build on our Ottawa discussions. The financial situation of some Eastern European countries is putting major pressure on the international financial system. I hope that at Versailles we can agree to a common credit policy toward the USSR and a means to monitor credit flows to the East. Success here will enable us better to manage other aspects of East-West economic relations.

S E C R E T

Although economic subjects will dominate the Versailles agenda, I also look forward to the opportunity for informal discussions of East-West relations and other important issues. I also hope we can discuss how to reach out more effectively to the younger generations. We have proposed an initiative to increase exchanges among our younger people, which I think merits broad Western support and to which I will refer in my June 8 London speech on democracy.

Turning to Bonn, I foresee three basic themes: celebration of the values and vitality of the alliance, symbolized by Spain's accession; strengthened resolve to deal with threatening Soviet behavior, with particular emphasis on conventional defense improvements to reinforce deterrence and safeguard a secure peace; and our continuing commitment to progress in arms control.

We should leave no doubt that we share a common assessment of Soviet international behavior and confirm our insistence that constructive East-West relations can only be based on mutual adherence to the principles of restraint and responsibility.

Toward this end we must improve our ability to deter Soviet aggression or intimidation. Therefore, I propose that those of us participating in NATO's integrated military structure adopt at Bonn, in addition to the Summit declaration, a document underscoring our resolve to improve our conventional defenses as an essential contribution to the alliance's deterrent.

We will want to emphasize our dedications to progress in arms control, leaving no doubt that we offer the best program to achieve this objective. This Sunday I will announce our proposal to open START talks with the Soviet Union. Secretary Haig is communicating with your Foreign Minister with further details on this matter. I look forward to discussing our START objectives with you in June. I also hope we will be able to announce in Bonn NATO's intention to present new MBFR proposals, and to discuss our preparations for the U.N. special session on disarmament.

S E C R E T

-3

We will also want to show our sensitivity to world-wide aspirations for freedom and justice. This is particularly true of Poland and Afghanistan. We should reaffirm our measures against the Soviet Union and Polish regime if circumstances so dictate, while showing our willingness to join in a program of economic reconstruction for Poland if Western conditions are met.

By concentrating on these themes and working to enhance the quality of our consultations, I am confident our meetings will serve to strengthen the peace, lay the foundation for renewed prosperity, and provide more effectively for our collective security.

I look forward to seeing you next month and discussing these and other issues of mutual concern.

Sincerely,

Ronald Reagan

S E C R E T

7.5.8



Handwritten red ink markings, including a circular stamp and a signature.

Handwritten red ink markings, possibly a circular stamp or seal.

Handwritten red ink markings, possibly a signature or date.

Econ Pol 888



File

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

VERSAILLES ECONOMIC SUMMIT

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

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

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

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

A. J. COLES

S

4 May 1982

016
 After all the preliminary
 meetings, I doubt whether
 we shall need

Prime Minister

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You will wish to be aware of these

Ref. A08279

MR COLES

the actual summit! arrangement.

A.J.C. 30/4

ms.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

I think this is best if we write more of the technical content

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

Why?

19. Financial Representatives will meet in Paris on the evening of 14 May to discuss French ideas for an improvement in the working of the international monetary system.

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

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

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

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



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

RIA

ROBERT ARMSTRONG

30 April 1982

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

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

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



Final

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10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

EUROPEAN COMMUNITY REPRESENTATION AT THE VERSAILLES

ECONOMIC SUMMIT

Thank you for your minute of 26 April. The Prime Minister agrees that we should make no objection to the French proposal and confirm that we are content that the French should proceed as they propose.

I am copying this minute to Brian Fall (Foreign and Commonwealth Office).

A. J. COLES

27 April, 1982

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FM LUXEMBOURG 261500Z APR 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 59 OF 26 APRIL 1982

INFO IMMEDIATE PARIS BONN WASHINGTON *UKL 8245*

INFO SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN

LUXEMBOURG ATHENS

PREPARATIONS FOR VERSAILLES ECONOMIC SUMMIT:
INTERNATIONAL MONETARY SYSTEM

FOLLOWING FROM HANCOCK

SUMMARY

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

DETAIL

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

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

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

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

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

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

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CONFIDENTIAL

/STATES

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

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

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

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

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

FCO ADVANCE TO:
FCO - BRIDGES
CAB - ARMSTRONG
TSY - COUZENS; LAVELLE; HEDLEY-MILLER
BANK - LOEHNIS; BALFOUR

FCO PASS SAVING TO BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN
ATHENS

THOMAS

(REPEATED AS REQUESTED)

(ADVANCED AS REQUESTED)

FINANCIAL
ERD

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CONFIDENTIAL

Ref: A08225

CONFIDENTIAL

Prime Minister

①

Agree that we should not
object to the French proposal
at x.?

MR. COLES

Yes Mr

A. J. C. 26/4.

European Community Representation at the Versailles
Economic Summit

We spoke about this on the telephone on Friday, 23rd April, when you conveyed to me the Prime Minister's agreement with the line which I intended to take on this question at the Rambouillet meeting of Personal Representatives.

x 2. As you know, my place at the second half of this meeting yesterday was taken by Mr. Hancock. I have now heard from him that the question of European Community representation at the dinners confined to Heads of State and Government was discussed at Rambouillet yesterday evening. The outcome of this discussion was that the French Presidency will issue invitations for both the Belgian Prime Minister and the President of the European Commission to attend both the dinners confined to Heads of State and Government unless objections to this proposal are raised by any of the Governments of the Summit countries by close of play tomorrow Tuesday, 27th April.

3. As far as non-European Summit Governments are concerned, the United States Personal Representative made it clear that President Reagan would accept the decision of the Community countries in this matter, and the Japanese and Canadian Personal Representatives also seemed confident that no objection by their Prime Ministers would be made. We did not have any indication of the reaction of the German and Italian Governments, although I understand the German Personal Representative thought it unlikely that his Government would take issue with the French proposal.

4. Our approach to this problem throughout has been to allow the French to take the lead and to avoid the risk of being held responsible for either advocating or rejecting any particular proposal. In taking this approach we have also had in mind the Prime Minister's view that at meetings or meals for



CONFIDENTIAL

Heads of State or Government only it would be right for the President of the Council rather than the President of the Commission to attend. The new French proposal protects the position of the Belgian Prime Minister as President of the Council and also ensures that there will not have to be any invidious choice between him and the President of the Commission. I therefore recommend that we should make no objection to the French proposal and say that we are content that they should proceed as they propose.

5. I am sending a copy of this minute to Brian Fall (Foreign and Commonwealth Office).

REA

Robert Armstrong

26th April 1982

CONFIDENTIAL



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10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG
Cabinet Office

European Community Representation
at the Versailles Economic Summit

Thank you for your minute of 20 April.

The Prime Minister agrees with the line you propose to take at Rambouillet. As you know, it remains the Prime Minister's view that at meetings or meals for Heads of Government only, it is right for the President of the Council rather than the President of the Commission to attend.

I am copying this minute to Brian Fall (Foreign and Commonwealth Office).

A. J. COLES

23 April, 1982

CONFIDENTIAL

FILE

SW



10 DOWNING STREET

From the Private Secretary

23 April, 1982

You copied to me your letter of 14 April to Sir Antony Acland about preparations for forthcoming Summit meetings.

We have now looked at the various proposals for briefing meetings. I agree that the briefing for the Versailles Summit will have to take place on Thursday, 27 May at 4.00 p.m.

The NATO briefing meeting could be at 4.00 p.m. on Tuesday, 8 June.

But I am afraid that the suggestion that there should be a briefing meeting on 7 June for President Reagan's visit causes us considerable difficulties. The Prime Minister will just have returned from the Versailles Summit and will no doubt have to make a statement in the House (if the House is sitting). Moreover, she proposes to go to Heathrow to meet President Reagan on arrival. I therefore think that we shall need to hold this briefing meeting on Thursday, 3 June. I recognise that there may be some difficulties about assembling people in the week beginning 31 May, but I see no suitable alternative.

In each case, we have allowed two hours for the briefing, though it may be that we shall not need all this time.

I am copying this letter to Antony Acland.

A. J. COLES

5

Sir Robert Armstrong, K.C.B., C.V.O.

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12/2/84

Ref: A08168

CONFIDENTIAL

MR. COLES

European Community Representation at the Versailles
Economic Summit

I am afraid that there remain some unresolved problems on this matter, which I shall have to discuss at the next meeting of Personal Representatives this weekend at Rambouillet. There are three issues.

2. First, the representatives of the Belgian Prime Minister (the President of the European Council) and the President of the Commission are still pressing that both of them should represent the Community at the restricted sessions of Heads of Government only. My understanding of our position, and the position as it was left at the last meeting of the European Council, is that there should be only one representative of the European Community at the restricted sessions and meals for Heads of Government only, and it is up to the President of the Council and the President of the Commission to decide which it should be.

Prime Ministers
Agree?
A.S.C.
P.M.

3. Secondly, the Belgians are asking that at plenary sessions the Community should be represented by the Belgian Prime Minister as President of the European Council, and the President of the Commission and the Belgian Foreign Minister (as Chairman of the Council of Ministers). There is, so far as I am aware, nothing in the European Community's own decision to justify the claim that the Belgian Foreign Minister should attend, and I suggest that we should take the position that the Community should be represented by the President of the European Council and the President of the Commission only.

Agree?
M

4. Thirdly, the European Community are asking that they should have two notetakers at the plenary sessions, as opposed to the one which every other delegation will have. I propose to take the position that the European Community should, as in the past, have only one notetaker.

Agree?

5. I should be grateful to know if the Prime Minister is content for me to speak accordingly.

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

ROBERT ARMSTRONG

20th April 1982

Robert Armstrong

CONFIDENTIAL



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20 APR 1982



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref. A08115

14 April 1982

will request if required (attached)

Michael Palliser wrote to me on 4 April about preparations for forthcoming Summit meetings.

Because of the pressure of other events there has not been an opportunity for me to discuss this in detail with 10 Downing Street. What I say now must be to that extent provisional. On that basis, I am for my part, generally content with the approach, save on one point, on which I have had a word with John Coles. That relates to briefing for the Versailles Summit. I do not think that we can expect to get a satisfactory briefing meeting in the week beginning 31 May, which will be a period of Parliamentary Recess, quite apart from the Pope's visit. I think that we shall have to stick to the arrangement for holding the briefing meeting on Thursday 27 May at 4.00 pm. I recognise that this will mean producing briefs by 21 May; and that this will require me to report very quickly after the meeting of Personal Representatives on 14-16 May. But I think that that is what we shall have to try to do.

I am sending a copy of this letter to John Coles.

27 May 4.00 - 6.00 pm

ROBERT ARMSTRONG

Sir Antony Acland KCVO CMG

MR. COLES

Summit Meetings

I have studied Sir Michael Palliser's letter of 1 April to Robert Armstrong and appreciate the difficulties. Can I suggest the following:-

i) I have taken the briefing meeting earmarked for the Versailles Summit out of the diary on Thursday 27 May at 1600 hours. *now in again. 1600 - 1800.*

ii) I am quite happy for this particular briefing meeting to take place during the afternoon of Thursday 3 June as suggested by Sir Michael.

iii) So far as the NATO briefing meeting is concerned I can do this at 1600 ^{- 1800} on Tuesday 8 June.

iv) But I cannot manage Monday 7 June for the briefing meeting for the Reagan visit. The Prime Minister will have just returned from the Summit and will no doubt be making a statement in the House. Added to this I believe President Reagan arrives that afternoon and she may well wish to meet him. Could I suggest that the briefing meetings for the Economic Summit and for the Reagan visit take place on Thursday 3 June? I could manage separate times for each subject.

C.S.

2 April 1982



Foreign and Commonwealth Office

London SW1A 2AH

Sir Robert Armstrong KCB CVO
CABINET OFFICE

1 April 1982

See letter

Mrs. Statham

Could you let me have your comments on the various dates suggested for briefing meetings - or discuss if it is easier.

SUMMIT MEETINGS

1. We shall have an unusual bunching of important international events in late May and early June. There is the Pope's visit to Britain on 28 May to 2 June; the Economic Summit at Versailles on 4 to 6 June; President Reagan's visit here on 7 to 9 June and the NATO Summit in Bonn on 9/10 June. All four events will involve the Prime Minister, and President Reagan will be taking part in the last three.

2. I think it is worth looking ahead to see how the briefing and preparation for these visits might best be organised. We shall want to spare the Prime Minister, and the other Ministers concerned, from being confronted with great masses of paper all at once.

3. The Pope's visit, which comes first, is the simplest, since it has no link with the events that follow. It is not yet clear what meetings will take place with members of the Pope's entourage during his visit. On present plans the Prime Minister will see him during or after the reception on the evening of 29 May. We have sought Sir Mark Heath's advice on whether any other meetings, eg with Cardinal Casaroli, will be necessary. On present plans, the meeting will not be a long one, so the briefing exercise should not be onerous. Subject to developments between now and May I suggest that we should aim to cover Northern Ireland, Poland (and East/West relations), disarmament (particularly nuclear), North/South relations, Central America and possibly Nigeria and the Middle East. It will be necessary to treat this as a separate briefing exercise, but we would not have thought that a specific briefing meeting would be required. There is no need for the Cabinet Office to become involved in coordinating the briefs. We will do this.

A.J.C. 1/4



4. There will be some overlap however in the subject matter of the Versailles and Bonn Summits and the talks with President Reagan. The starting time of the briefing process for the two Summits will be determined by the Preparatory Meetings for them. For Versailles, this means the last Personal Representatives' Meeting on 14/16 May, with the Political Representatives' Meeting that precedes it. For the NATO Summit, this means the meetings of Defence Ministers on 5/6 May and of Foreign Ministers on 17/18 May. As soon as the conclusions of the meetings are known, the briefing machinery will have to move into high gear.

5. As regards the Versailles Summit, we would expect the briefing to consist of some six economic subjects and three to four political subjects. They will be mostly ones with which the Prime Minister is familiar, so that the briefs can be kept compact. The usual arrangement is for the briefs for these Summits to be coordinated by the Cabinet Office, so let us do the same this time. I gather that No 10 have earmarked Thursday 27 May at 4.00 pm for the briefing meeting for Versailles. This would mean producing the briefs by 21 May, which would really be a bit early. You will hardly have been able to report on the Personal Representatives meeting on 14/16 May and we know from bitter experience how many last minute papers and developments have to be taken into account. I would recommend a briefing meeting on 2 or 3 June with briefs reaching Ministers on 27 May, before the Spring Bank Holiday. | ?

6. The precise relationship between the Versailles and Bonn Summits is not yet clear, so it is too soon to determine our objectives at each on issues which are likely to be discussed at both. But the briefing for the NATO Summit will have to be available before the Prime Minister goes to Versailles (i.e. by 3 June). We hope that briefing can reflect the fact that the NATO meeting should address a limited number of key issues, such as those highlighted in the Foreign and Defence Secretaries' minutes to the Prime Minister on 3 March. And for a number of subjects, in particular as regards East/West economic relations, much of the same material can serve for Versailles and Bonn. But it will be necessary to take stock of developments at Versailles and during the Reagan visit, so I think a briefing meeting on 8 or 9 June would be advisable. I suggest that as for previous Summits the briefing should be coordinated in the FCO. | ?



7. Many of the subjects likely to come up with President Reagan will be covered in the briefs for Versailles and Bonn. The important thing for that visit will be to produce a really good and clear steering brief, in which we would expect to focus on the Anglo-American relationship within the Alliance, plus one or two special subjects of bilateral concern. Subject to your views I would recommend that there should be a briefing meeting on Monday 7 June, before President Reagan arrives. If that renders otiose a subsequent briefing meeting on the NATO Summit, then well and good. Nearer the time Antony Acland will send you the usual objectives letter but I suggest that the Cabinet Office should coordinate the briefs.

8. You will want to discuss the precise requirements and timings with No 10, to whom I am copying this letter. But I thought it would be useful to set out some ideas at this early stage.

7-6-84

Michael Palliser

Michael Palliser

cc: J Coles Esq
NO 10

APR 1982

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5 6 7 8 9 10 11

CONFIDENTIAL



Mr Scholar
✓
Econ Pol
Mr Wiles A.S.C. 2/4

10 DOWNING STREET

Sir Kenneth Couzens, KCB,
HM Treasury,
Parliament Street,
London, SW1.

1 April 1982

Dear Ken,

VERSAILLES SUMMIT, 3-6 JUNE 1982
A MACRO-ECONOMIC ASSESSMENT

I believe that the general drift of the paper is correct. And I would like to add only one really substantial statement. This is in connection with the discussion of the United States Federal deficit on page 23. We express our anxiety that the United States Government reduces the Federal deficit, and I think it would have been a good idea to argue that it should be progressively reduced over future years. But the important point is how do they do this? I would like to say that the best way to reduce the deficit of the United States would be to reduce Federal spending programmes rather than increase tax rates. This will release the economic initiatives of the private sector of the United States economy to the great benefit of the rest of the world.

I think this will be helpful to the United States Government. It also reflects the general view, with the exception of the French, that public sectors are too large and should diminish.

I have a few detailed comments. The first full paragraph of page 2, fourth line after "problems". "Often this is due to the fact that countries have not allowed energy costs to be reflected in the prices of energy." Then continue "The IMF has sharply"

Page 5, third line after table. After aggregates, insert "reflecting primarily an expansion of bank credit," then continue "have risen more rapidly".

Page 5, sixth line after table. Delete "reflecting the higher rate of inflation".

Page 7. I think Table 6 and the discussion is a little misleading. Japan's monetary growth is indeed likely to exceed the increase in prices, but Japan's growth of real output is likely to be positive and reasonably high. Much of their monetary growth is simply to finance an increase in real output. I think the best measure of inflationary monetary expansion is the growth of the money supply (M1) less the growth of the GDP. This will give the inflationary effect on prices.

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Page 8, second paragraph after Table, line 5. I think instead of "personal savings" this should really be "private savings". The next paragraph deals with personal savings, but does not talk about savings by the corporate sector. I should have thought this element is quite important in many countries; it used to be enormously important in Britain.

Page 12. I think the last sentence on this page is too strong. Why don't we delete the reference to the petro currency status. And just say sterling has also declined from the peaks reached in 1950.

Page 13. I am very interested in the supply side policies. I would very much like to see a draft when you have got one available.

Page 15. I am not at all sure that the first sentence is correct. Many countries that did not have expansionary policies did rapidly increase activity. For example, Taiwan, although it inflated briefly in 1974, inflation was stemmed in 1975 and remained at around 3% until 1978. Yet the growth rate in 1976-79 was as high or even higher than it had been in the years before 1974. I am nervous of this because it does imply that one can get an increase in activity by expansionary policies, and I doubt very much whether we can.

Page 16. It is a pity we cannot refer here in Table 10 to public investment. I suspect it is included in public consumption, but it seems to me worth a mention.

Page 17. I think that in the last paragraph the thrust of the argument is that there will be an increase in the dispersion of inflation rates. This is rather a serious matter and probably deserves a bit more airing.

Page 18. The "it" that leads this does not refer to inflation but might be taken to be by some translator. I should have said rather "The improving labour competitiveness and substitution of labour for capital should also help bring about a recovery.....".

I think we should make more of the threat of protection in the last sentence of page 20.

At the top of page 22 there is a suggestion of a wage push theory of inflation. Furthermore, there is also a suggestion that high real wage increases can be sustained by inflation. True the inflation has to keep on increasing, but even so I think we should redraft those sentences. Should we not emphasise here also the need for free capital movements? This will probably annoy the French, but what matter? At the end of the first full paragraph on page 22 we are saying essentially that the policies of the Summit group of countries are just about right. Is that the impression we wish to give?

Page 25, fourth line. Before "restrictions on sale" insert "subsidies and". Ditto in sixth line.

Page 25, first full paragraph. In the first sentence should we not make the point that this would enable other taxes to be reduced rather than public expenditure to be expanded?

CONFIDENTIAL
- 3 -

Page 25/26. There is a littly sally into supply side policies here, and it might be worth considering whether the main discussion of supply side efficacy shouldn't be in this position rather than earlier as in the present draft. I think supply side policies go automatically with the elimination or at least the reduction of protection.

Best wishes.

Yours

Alan

ALAN WALTERS

CONFIDENTIAL

Econ Pol.

Ref: A07838

MR. INGHAM

c Mr. Whitmore *X* *h* *W*

Economic Summit - Media

Thank you for your minute of 17th March.

2. I will certainly take into account the points you make in our next Sherpa discussions which are to be on 23rd - 25th April.

ROBERT ARMSTRONG

Robert Armstrong

18th March 1982

Even P.A.

~~M. C. S.~~ 17
KEL

17

SIR ROBERT ARMSTRONG

cc Mr Whitmore ✓

ECONOMIC SUMMIT - MEDIA

You will recall the problems we ran into in Ottawa when the Prime Minister tried to fulfil an undertaking to Canadian TV, made well before her arrival, to give them an interview. Eventually the Canadian Government in an effort to block the Prime Minister's appearance on their TV during the conference secured the agreement of Heads of State and Government that their radio and tv interviews should come after the conference. Meanwhile, of course, other Ministers at the conference were getting up at unearthly hours to give interviews in the streets of Montebello to US channels, some of whom had sent the village priest away on holiday while they converted his presbytery into an operational HQ.

The French organisers of Versailles claim an understanding between Heads of State and Government similar to that formally concluded at Montebello - none before the end of the Summit.

I have no objection to this provided it is a watertight undertaking and provided:

- it is accepted that the agreement does not preclude Heads of State or Government from making broadcasts on other matters should the need arise; we must not exclude the possibility of the Prime Minister responding to other - eg domestic - situations;
- any agreement distinguishes between Heads of State and Government and other participating Ministers who, as I say, were very active in Canada; and
- any breach of the agreement by one Head of State or Government releases others.

No doubt you will take these points into account in your Sherpa discussions.

B. INGHAM



PO B
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10 DOWNING STREET

From the Private Secretary

16 March 1982

Preparations for the Versailles Economic Summit

The Prime Minister has seen your letter of 16 March containing the advice of the Foreign and Commonwealth Secretary on preparations for the Versailles Summit. She notes Lord Carrington's views and has commented that she would like all these questions to be considered at the restricted meeting which has been arranged for 24 March. She is inclined to doubt whether, if preparations continue on present lines, the Summit will be as valuable as she would wish it to be.

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

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

BF

Prime Minister



I suggest that I reply saying that you note these views and would like all these questions to be considered at the retreated meeting arranged by 24 March which will consider preparations for Versailles.

Foreign and Commonwealth Office

London SW1A 2AH

16 March 1982

Dear Sir

Agree? Yes - but I do not like the way things are going. A.S.C. 15/3

Preparations for the Versailles Economic Summit

Lord Carrington has seen Sir Robert Armstrong's minute of 4 March, describing the latest meeting of Personal Representatives, as well as your minute of 8 March giving the Prime Minister's views.

wonder if the summit is worthwhile.

Is the F.O. the whole of economic affairs?

Lord Carrington is grateful to Sir Robert Armstrong for his effective interventions on the handling of political discussion. Arrangements for preparing the discussion are now on the right lines. As for the political discussion at the Summit itself, it would be very useful if, as Sir R Armstrong suggested, provision could be made for Foreign Ministers to be present with Heads of State and Government for at least one session, and ideally for both the lunches. This would still allow Heads of State and Government to discuss political topics alone, if they wished, at the dinners. German and American support on this issue at the last Personal Representatives' meeting was welcome and the French now seem ready to think again about the arrangements. But we may need to keep the pressure on them at the next Personal Representatives' meeting.

not

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It is also welcome that all, including apparently the French, have agreed that political discussion should be prepared by political representatives before the meeting of Personal Representatives fixed for 14-15 May. Sir Antony Acland and Julian Bullard will carry the responsibility for this, in line with the arrangements set out in George Walden's letter of 17 February 1981 and endorsed in Michael Alexander's reply of 18 February. Sir Antony Acland also looks forward to supporting Sir Robert Armstrong at the enlarged meeting of Personal Representatives due on 23-25 April.

It is satisfactory that all agree that the UK should prepare the macro-economic review for this Summit. But the position taken on the issues by the Americans showed no flexibility or understanding. There is a risk of serious differences on economic policy between the Americans and the Europeans at the Summit. There may be a similar, if less conspicuous, gap on matters concerning developing countries.

The most difficult point concerns Community representation, where a problem arises because the Presidency this year is not held by a regular Summit participant.

/Lord Carrington



Lord Carrington sees the force of the Prime Minister's view that only one person should represent the Community at any restricted sessions and at meals among Heads of State and Government; and notes that in her view this should be the Belgian Prime Minister rather than the President of the Commission. Although the French have considerable support among the Summit participants in pressing for a single representative, this evidently conflicts with the agreement reached in the Community in 1977 (and embodied in a decision of the Foreign Affairs Council in November that year). This provides that both the Presidency and Commission would 'take part in those sessions at which items are in the competence of the Community are discussed'.

On the assumption that the Community is prepared to modify that agreement and accept that only one of the Presidency or Commission should be present, then we know that as between M. Martens and M. Thorn, the French, Germans and Italians all favour M. Thorn. He has already attended restricted sessions at past Summits; and the Commission rather than the EC Presidency is responsible for speaking on matters of Community competence. Future prospects also have to be borne in mind. The choice of the Presidency to take part in the restricted sessions at the Summit might work well this time with M. Martens. But it could prove a very awkward precedent if and when a future Summit were held during the Presidency of a difficult small country, eg Greece (as might be the case next year).

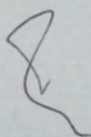
There are also drawbacks in the Italian suggestion that the Prime Minister should act as Presidency representative in restricted meetings, on the grounds that the UK held the Presidency last. It would cause particular bad feeling with the Belgians if we supported such a device. It has not been used before in the Summit context and will not necessarily help us in future years. Once Spain and Portugal are in the Community, we shall have the Presidency held by three non-Summit countries in a row. Lord Carrington hopes the Italians can be discouraged if they pursue this idea.

For all these reasons Lord Carrington sees advantage in keeping our heads down on this subject. He suggests that we should continue to leave it to the French, as hosts, to work out a solution with the Presidency and the Commission. If the matter comes back to the Foreign Affairs Council (as it may well) there seems every advantage, in the context of our relations with the smaller Community members, in having kept out of the debate. We can decide at that stage which way to go.

/I am



I am sending copies of this letter to David Wright
(Cabinet Office) and to John Kerr (HM Treasury).

Yours ever,


(B J P Fall)
Private Secretary

A J Coles Esq
10 Downing Street



11 5 MAR



Econ.

Policy



10 DOWNING STREET

MR. COLES

I have set up the attached meeting for 1830 on Wednesday, 24 March. Sir Robert Armstrong's Office told me it had to take place during the last fortnight of this month.

N.B. The Foreign and Commonwealth Secretary has to leave at 1915 for supper with the Chinese Ambassador.

es.

8 March 1982

CONFIDENTIAL

cc FCO
HMT

Econ Pol

HL



10 DOWNING STREET

cc Caroline Stephens
Alan Walters

From the Private Secretary

SIR ROBERT ARMSTRONG

Preparations for the Versailles Economic Summit

BF || The Prime Minister has seen your minute of 4 March. In general, before the preparations are taken any further, she would like to discuss the various issues with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer. We shall be making arrangements separately.

As regards the question of the representation of the European Community at the Summit, the Prime Minister's view is that there should be one representative only but that he should be the Belgian Prime Minister rather than the President of the Commission. The Prime Minister would find it difficult to contemplate the President of the Commission taking precedence.

With regard to paragraph 9 of your minute, the Prime Minister is inclined to think that energy should be given a prominent place at the Summit. She believes that the present developments with respect to oil prices are of great importance.

As regards the world macro-economic review (your paragraph 12) the Prime Minister would like Professor Alan Walters to be consulted at every stage in the preparation of this review.

Finally, on international trade, the Prime Minister considers that the Summit will need to adopt a position on Japan and that preparation for this should be put in hand now.

I am sending copies of this minute to Brian Fall (Foreign and Commonwealth Office) and John Kerr (H.M. Treasury).

A. J. COLES

8 March 1982

CONFIDENTIAL

9

These plans are running away from us without any

Prime Minister

Ref. A07714

PRIME MINISTER

The Foreign Secretary may have views on who should represent the Community (para 5 to 7 below) - you may care to advise Chancellor. await them. A.J.C. 5/2

I attended a meeting of Personal Representatives in Paris at the weekend to carry forward the preparations for the Versailles Economic Summit.

2. The French Personal Representative circulated a proposed programme for the Summit meeting, a copy of which I attach. This gave rise to two procedural problems which we discussed.

3. First, the President has proposed that the formal sessions should all be used for discussion of economic subjects, with political discussions confined to the meals. This is in line with the position which President Mitterrand, like his predecessor, has taken, that these are occasions primarily for economic and not for political discussions among Heads of State or Government. The President has also proposed that Heads of State or Government should take dinner on Friday 4 June and lunch on Saturday 5 June on their own, without either Foreign Ministers or Finance Ministers being with them.

4. I reminded my colleagues that both at Venice and at Ottawa it had been found useful to have one session, in the afternoon of the first full day, at which Heads of State or Government and Foreign Ministers engaged in discussion of political matters. I also thought that, when it came to the point, Heads of State or Government might find it convenient and desirable to have their Foreign Ministers with them for at least one of the three meals - perhaps lunch on Saturday 5 June - as well as on Sunday 6 June, as already proposed. What I had to say on this was supported by my German and American colleagues. The French President's Personal Representative emphasised that the proposals represented his President's wish as to what should happen, but indicated that the President would be prepared to rethink the arrangements in the light of comments from his fellow Heads of State or Government. We are to revert to the subject at a subsequent meeting, and I shall seek instructions in due course.

5. The second procedural problem was the representation of the European Community. After the London Summit in 1977 the European Council decided that at Economic Summits the Community should be represented by the Presidency of the Council and the Presidency of the Commission when matters of Community

competence were under discussion. This will be the first Economic Summit at which the Presidency of the Council has not been held by one of the four EC member countries who are members of the Summit in their own right. The President of the European Council for the time being is the Belgian Prime Minister. The French President, through his Personal Representative, has made it clear that he is not prepared to have more than one representative of the European Community at meals or restricted sessions of Heads of State or Government only, and that it is up to the European Council whether their representative at such sessions should be the Belgian Prime Minister, as President of the Council, or Mr Thorn, as President of the Commission. The French President would be perfectly prepared to see both the President of the Council and the President of the Commission at plenary Summit sessions.

6. The Personal Representatives of the non-European members of the Summit made it clear that their Heads of State or Government supported the French President in thinking that there should only be one representative of the European Community (apart from those who are members of the Summit in their own right) at meals or sessions confined to Heads of State or Government. The Personal Representatives of the Belgian Prime Minister and the President of the Commission reserved their position on the matter. The Personal Representatives from the other EC countries simply noted the French President's proposals, and agreed that the matter would have to be further discussed. In private talks with my French, German and Italian colleagues it emerged clearly that not only the French President but also the Federal Chancellor and the Italian Prime Minister did not want to have more than one representative of the European Community at restricted sessions, and wanted that one to be Mr Thorn and not the Belgian Prime Minister. On the other hand, Mr Thorn's Personal Representative made it clear that he was still hoping to persuade the non-European members of the Summit to agree that the European Community might have two representatives at meals and restricted sessions of Heads of State or Government only. The French Personal Representative said to me (and has since repeated on the telephone) that his President very much hoped that you would be able to support him in the position which he had taken on this.

We cannot have the President of the Council ranking below the Commission.

One only of the Council is more important than the Commission.

7. The Italian Personal Representative, again in private discussion, suggested that this problem underlined the need to review the present arrangements for the Presidency of the Council; and he suggested that it should be resolved by resorting to a device which had been adopted on one or two occasions, whereby the Community would be represented by an immediate past President or an immediate future President. The immediate future President would not solve this problem, since he is the Prime Minister of Denmark; so this really amounted to a suggestion that you should be invited to represent the Presidency of the Council at meals or restricted sessions of Heads of State or Government only. I said to the Italian Personal Representative that, if his Prime Minister was minded to pursue this suggestion, it would be very much for him to make it, since for obvious reasons you could not do so yourself.

8. On the substance of the Summit, most of our time was spent on defining the issues which were likely to be uppermost at the Summit meeting itself and putting in hand the preparations for those subjects.

9. There was general agreement that energy was unlikely to feature largely in this Summit. It seemed probable that North-South matters would not feature largely in the discussion at the Summit, though the communique would need to include a section on the subject. There could be a difficult negotiation on this: the French President, supported by the Canadian, Italian and Japanese Prime Ministers, will want the Summit communique to use words which at least reaffirm the positions of Ottawa and Cancun and if possible advance beyond them. It was clear that the United States representatives, on the other hand, thought that they had been pushed a long way at Ottawa and Cancun, that the developing countries were totally divided and split (as appeared from the recent conference at New Delhi), and that the United States could not be expected to contemplate any further advance until there had been some sign of a response from the other side.

10. The main subject for discussion at the Versailles Summit was thought likely to be the general economic situation, with particular reference to the levels of unemployment and the problems of recovery and to the effects of high American interest rates and volatile exchange rates on the economies of the European countries and of Canada. I emphasised that it would be important to stress that the continuing reduction of inflation was an indispensable condition of sound recovery.

*On the
Community
oil prices
are very
important
just now.*

My French and German colleagues both emphasised the very serious consequences for their economies, for the capability of their Governments to sustain defence programmes, and for the cohesion of the Alliance, if as a result of the policies now being followed by the United States administration American interest rates remained high. The German Personal Representative pointed out that American policies had a variety of widespread effects; for instance, high American interest rates were one of the factors keeping the value of the yen down and thus preventing the rise of the yen which would bring about some of the adjustments in Japanese trade and payments that were required. In reply we were treated to a pure re-statement of "Reaganomics" from Mr Beryl Sprinkel, speaking on behalf of the United States Treasury. High interest rates were not an objective of American policy, and the administration were as keen to see them come down as anybody else. They were the results of pursuing a policy of moderate monetary growth. Experience showed that an easier monetary policy in the United States would simply push up interest rates, not bring them down. Though American GDP was likely to fall in the first quarter of 1982, it would rise by about the same amount in the second quarter, and more strongly thereafter. For the time being the fiscal deficit was high, but there was no possibility that the President would reduce his tax cuts, because that would be to diminish the incentive effect which would produce the buoyancy of revenue which would in the end bring the deficits down. American GDP could be expected to rise more strongly in the second half of the year: a figure of 5.2 per cent was mentioned. This statement was greeted with an incredulity bordering on despair by my French, German and Canadian colleagues, who made it clear that their Heads of State or Government were bound to want to spend a good deal of time on these matters at the Versailles Summit, if there had been no change in the position by then.

11. In previous years discussion of the macro-economic situation by Personal Representatives and at the Summit has been based on a world macro-economic review prepared by the Chairman of the United States Council of Economic Advisers, in his capacity as Chairman of the Economic Policy Committee of the OECD. If we had followed that precedent this year, we should have been in danger of getting a review which would have been so far from the position of the European countries that they would have been compelled to put in alternative reviews. I therefore

*Please see that Man
Watters is engaged on this
operation at every stage. He must
also come to the*

proposed that this year we (the United Kingdom) should undertake the macro-economic review, in the hope that we should be thought to be sufficiently between the two extremes. This offer was accepted, and the review will therefore be prepared by the Treasury, in consultation with the Bank of England. I agreed that in the preparation of the review Sir Douglas Wass, Sir Kenneth Couzens and Mr McMahon would consult the Economic Policy Committee of the OECD informally (that will help to appease the Americans) and will also consult the German Ministry of Finance (that will appease the Europeans).

12. Personal Representatives agreed that the Versailles Summit would need to address the problems of international trade. The main concern here will be to reassert the collective commitment to an open multilateral trade system, and to prepare positions for the Ministerial meeting of the GATT which is to take place in November. European Personal Representatives served notice that questions of Japanese trade were also likely to arise.

13. The French Personal Representative had suggested that the Versailles Summit, in addition to discussing the traditional Summit subjects, should address one or two special themes of longer term significance which could be discussed in greater depth. I and other Personal Representatives welcomed this proposal, but suggested that it was unlikely that there would be time for the Summit to consider more than one such subject. The French President's Personal Representative committed his President to preparing a discussion paper on technology, economic activity and employment, as a basis for a discussion on how and where technological development could be expected to create new problems of unemployment and new possibilities of employment. We thought that this sort of discussion, and its reflection in the Summit communique, would help to show that Heads of State or Government were not confining their gaze to the immediate and relatively grim short term outlook but were looking ahead to the longer term prospects for economic recovery and regeneration. An outline of such a paper produced by the President's Personal Representative was extremely dirigiste in its approach; our discussion suggested that a more prudent approach would start from the premise that technological development and the economic opportunities which it created would be determined largely by the operation of market forces, and that Government intervention should concentrate on encouraging such trends and removing obstacles

*We need
to take
a position
on Japan
and that
requires
operation*



rather than on attempts to direct the course of events. The French Personal Representative said that he would like to take away his outline paper and reconsider the matter in the light of discussion; we could expect a perfectly different paper next time round.

14. The Personal Representatives are to meet again on 23-25 April to consider working documents commissioned at last weekend's meeting. At that meeting they will also give a "second reading" consideration to the first draft of a possible communique. That discussion will deal with questions of substance and balance rather than of drafting. There will be a final meeting of Personal Representatives on 14-16 May to carry the communique drafting a stage further. That meeting will be preceded by a meeting of political representatives, to prepare as may be necessary for political discussion at the Versailles Summit.

15. I am sending copies of this minute to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

REA

ROBERT ARMSTRONG

4 March 1982

*Le Conseiller Spécial
auprès
du Président de la République*

PREMIER PROJET DU DEROULEMENT
DU SOMMET DES NATIONS INDUSTRIALISEES

A VERSAILLES

Vendredi 4 juin 1982

A partir de 16 h :

- Arrivée des Chefs d'Etat et de Gouvernement à l'aéroport. Accueillis par un membre du gouvernement.
- Transport des Chefs d'Etat et de Gouvernement par hélicoptère, au GRAND TRIANON, et transport des délégations, par la route, au TRIANON-PALACE.
- Réception des Chefs d'Etat et de Gouvernement, des délégations au GRAND TRIANON par le Président de la République Française.
- Dîner offert par le Président de la République Française au TRIANON pour les Chefs des délégations.
- Dîner offert au Château de Versailles par le Ministre des Relations Extérieures pour ses collègues, par le Ministre des Finances pour ses collègues, par le Représentant Personnel pour ses collègues.

Samedi 5 juin 1982

08 heures 30 - Petit déjeuner de travail de chaque Chef d'Etat et de Gouvernement au TRIANON.

09 heures 20 - Départ des Chefs d'Etat et de Gouvernement en petite voiture individuelle du TRIANON vers le Château.

09 heures 30 - Entrée des Chefs d'Etat et de Gouvernement par l'escalier de la Reine dans la Salle du Sacre.

De 09 heures 45 à 10 heures 00 - Pool de photographes et des caméras de télévision dans la Salle du Sacre.

10 heures - Fermeture de la Salle du Sacre et début du Sommet.

11 heures 30 - Pause-café.

11 heures 45 - Reprise des travaux.

13 heures - Arrêt.

13 heures 15 - Déjeuner.

Les Chefs d'Etat et de Gouvernement déjeunent dans le Salon de la Paix.

Les Ministres des Affaires Etrangères, les Ministres des Finances et les Représentants Personnels déjeunent dans les salles où ils ont dîné la veille.

Les autres membres des délégations déjeunent dans la Salle des Batailles.

14 heures 45 - Pool de caméras.

15 heures 00 - Reprise des travaux.

16 heures 30 - Pause-café.

16 heures 45 - Reprise des travaux.

18 heures 00 - Arrêt des travaux.

18 heures 00 - Conférence de Presse du Président de la République Française dans la Salle des Congrès.

19 heures 15 - Retour au TRIANON, repos.

21 heures 00 - Dîner des Chefs d'Etat et de Gouvernement au TRIANON, les Ministres des Relations Extérieures, les Ministres des Finances, les Représentants Personnels dînent dans les mêmes salles que le déjeuner. Dîner des délégations au TRIANON-PALACE.

Dimanche 6 juin 1982

08 heures 00 - Petit-déjeuner de travail au TRIANON des Chefs d'Etat et de Gouvernement.

09 heures 00 - Départ du TRIANON vers la Salle du Sacre.

09 heures 15 - Pool de caméras.

09 heures 30 - Début du Sommet.

11 heures 00 - Pause-café.

13 heures 00 - Fin de la séance.

13 heures 15 - Déjeuner des Chefs d'Etat et des Ministres des Relations Extérieures dans la Salle du Conseil du Roi. Déjeuner des Ministres des Finances et des Représentants Personnels dans leur salle de déjeuner habituelle.

14 heures 30 - Photographies des Chefs d'Etat et de Gouvernement (lieu à préciser).

15 heures 00 - Retour à la Salle du Sacre.

16 heures 30 - Départ des Chefs d'Etat et de Gouvernement pour la Conférence de Presse finale, Salle des Congrès.

16 heures 45 - Conférence de Presse commune des Chefs d'Etat.

17 heures 30 - Fin de la Conférence de Presse commune.

De 17 heures 30 à 19 heures 00 - Les Chefs d'Etat et de Gouvernement peuvent donner des Conférences de Presse spécifiques à l'Orangerie.

19 heures 30 - Arrivée des invités pour le dîner d'apparat à la Galerie des Glaces.

20 heures 00 - Arrivée des Chefs d'Etat et de Gouvernement pour le dîner. Dîner pour 200 couverts (principaux membres des délégations - pas plus de 10 - plus des personnalités du monde entier invitées par la France).

21 heures 30 - Fin du dîner et début du spectacle à l'Opéra.

23 heures 00 - Feu d'artifice.

Lundi 7 juin 1982

Départ des Chefs d'Etat et de Gouvernement.

Fin du Sommet.

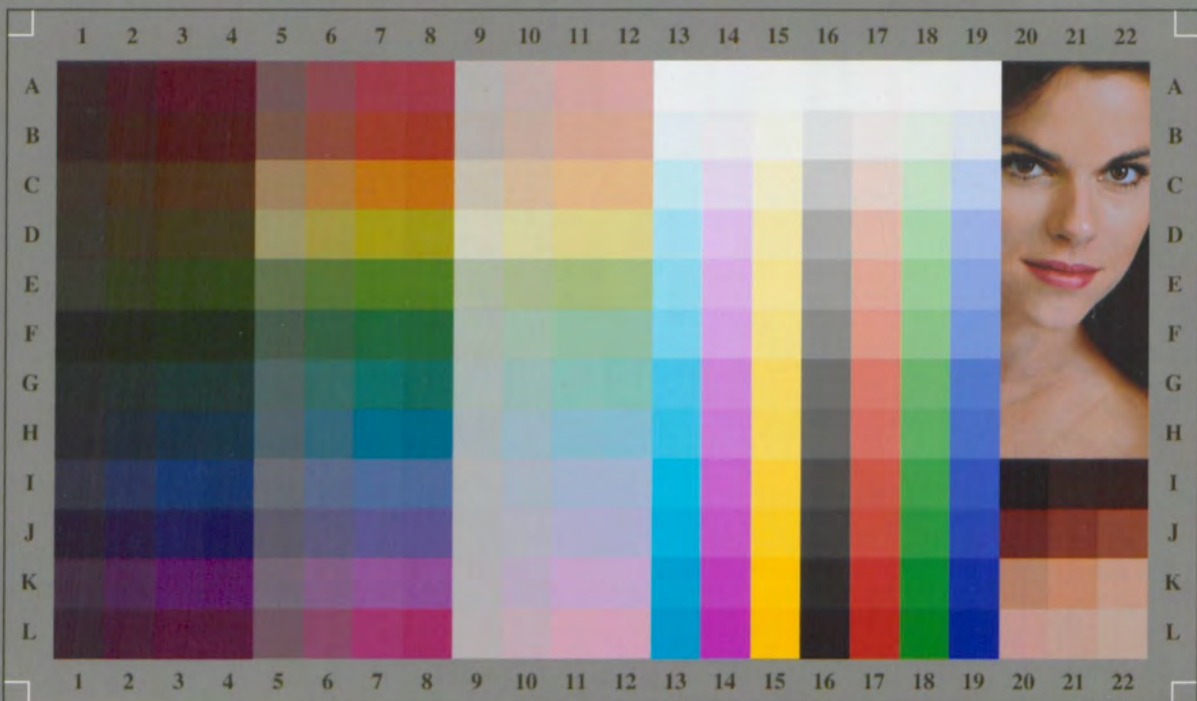
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