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PREM 19/1004

PART II

240

CONFIDENTIAL FILING

WILLIAMSBURG ECONOMIC SUMMIT
28-30 MAY.
~~JUNE~~ 1983.

ECONOMIC

POLICY

(POLICY FILE)

PART I MAY 1979.

PART II SEPTEMBER 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.10.82.							
11.10.82.							
18.10.82							
20.10.82							
21.10.82.							
22.10.82							
15.11.82							
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1.2.83							
14.2.83							
25.2.83							
16.3.83							
21.4.83							
28.4.83							
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PREM 19/1007

Related file:-

USA: PM's visit to Washington to receive the
Winston Churchill Award 1983. Nov 82 (ADMIN)

PM Tours Abroad: Econ Summit Williamsburg (ADMIN)
~~ADMIN~~ Sept '82

PM Tours Abroad: Invitations from various organisations: USA Pt 2.

PART 11 ends:-

AJC to S. RTA 28.4.83

PART 12 begins:-

Fco to AJe 29.4.83



10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

Meeting of Finance and Trade Ministers
of the Seven Summit Countries

Thank you for your minute of 28 April recording M. Attali's statement to you that the French Finance and Trade Ministers would be refusing the American invitation to the above meeting.

As I have informed Mr. Fall orally, M. Durieux rang me this morning to explain the Commission's position (in essence that the Commission proposed to attend the meeting on certain conditions, in particular that it should be informal, should not constitute a preparation for Williamsburg and that the plan to hold a further meeting on the following day should be abandoned).

M. Durieux sought our reaction and asked what our own intentions were. The FCO will be replying to his enquiry direct.

I should be grateful if in due course the FCO could let me have a brief account of this matter, including the French position, which I can show to the Prime Minister.

I am copying this minute to Mr. Fall (Foreign and Commonwealth Office), Mr. Kerr (HM Treasury) and Mr. Rhodes (Department of Trade).

E. J. COLES

28 April 1983

Brc

SPEAKING NOTE

A. Defence Sales to the US

1. Believe British industry can offer a range of equipment which would cost effectively meet US military requirements. We are not asking for any favours or special treatment. All we want is a chance to compete and to be allowed to deliver the contracts we win. By same token this allows the UK to continue to consider US equipment on its merits.
2. Recently the US Administration has been very helpful in resisting protectionist demands by Congress, and we are particularly grateful for Secretary Weinberger's personal assistance in reinstating the waiver of the Berry Amendment on specialty metals.
3. There have, however, been a number of cases where US Services have selected British equipment, but UK industry has subsequently been barred from supplying, eg:
 - a. Martin Baker ejector seats - I am pleased to hear that Martin Baker will be allowed to compete for F-18 ejector seat order - a pity this problem occurred in the first place;
 - b. combat support boats - now in danger of being designated a "small business set aside" after Fairey Marine won contract. I understand a compromise arrangement is being considered, but this is difficult to accept where a UK design is at issue.
4. In other cases, eg 81mm mortar, after the British equipment has been chosen it has been subjected to drawn-out testing over several years by US Forces and production orders still not placed. This mortar is in British Army service and has been operated in all climatic conditions. US Forces seem to ignore our own experience with weapon.

The Searchwater radar is another example - after RAF radars were made available for testing for over six months,

/ with ...

with very satisfactory results, we now understand the DOD are considering a totally untested US radar instead.

B. Security Problems faced by UK-owned Firms in US

5. Several British companies have bought US firms, hoping to improve their chances of winning US defence contracts, only to find that the security clearances needed to allow them to compete for orders for certain classified projects is withdrawn, eg Systron Donner (EMI), Cincinnati Electronics (Marconi). We treat US-owned companies in UK in exactly the same way as the rest of British industry.

C. Technology Transfer

6. We support US efforts to prevent militarily valuable technology being passed to the Soviet Union. However, tighter US security regulations are being applied too widely and are impeding co-operation within NATO, eg:

- a. signs that US industry is being prevented from sharing fully with us information needed for collaborative projects such as MLRS; *(Multiple launch rocket system)*
- b. there have been restrictions on British military and scientific personnel attending conferences and seminars - even General Moore's presentation on the Falklands classified "No Foreign". However, I now understand that Secretary Weinberger is reviewing these regulations. I am grateful for his efforts to alleviate this problem.

PROBLEMS IN EQUIPMENT CO-OPERATION WITH THE US -

BACKGROUND NOTES

Over recent months a number of problems have arisen in equipment co-operation with the US. Several factors have contributed to somewhat unhelpful American attitudes, including their dissatisfaction with the effectiveness of COCOM in controlling the flow of militarily valuable technology to the Eastern bloc (although the UK has adopted a more helpful policy than most in this area), and protectionist and anti-European attitudes on the Hill encouraged by the effects of recession on US industry and by beliefs that the European Allies are not pulling their weight. The effects have shown in DOD unwillingness to fight hard for co-operative interests.

2. A great effort has been made by Defence Ministers and Procurement and Sales officials to persuade the Americans to take a more co-operative line, on the grounds that this is in their own long term interests. These representations at last appear to have made some progress.

Defence Sales

3. On Defence Sales, the major problems have stemmed from protectionist measures proposed by Congress which stymied a number of deals. However, the Department of Defense is fighting back and at the recent meeting of the UK/US Defence Equipment Rationalisation Committee (DERC) it was discovered that:

a. the waiver of the Berry Amendment restricting the import of specialty metals has been restored by House Appropriations Committee and should now be passed into law. (It may still affect bar metal, but not defence equipment). The Defence Secretary himself testified in support of the waiver;

b. it is now expected that Martin Baker will be allowed to enter the new F-18 ejector seat competition.

/ However ...

However, other problems often encountered will be less easy to overcome. These include the US Forces' tendency to perform stringent and drawn out tests on UK equipment, and the activities of the Small Business Administration which has claimed that the combat support boat, currently supplied by Fairey Marine, should be built by small businesses in the US.

Security Problems faced by UK-owned Firms in US

4. British companies realise that in order to improve their chances of winning major production orders in the US they have to enter teaming arrangements with American industry or agree licensed production. An alternative which has its attractions is for British companies to purchase US firms. When this has happened, however, the US companies find that the security clearances needed to allow them to compete for orders requiring highly classified information are withdrawn, even though the work force remains 100% US. In contrast we treat US-owned companies in the UK in exactly the same way as British industry. Representations about this have been made at up to Ministerial level and the US are now seriously considering what can be done to alleviate the problem. This is a complicated issue, however, involving more than one American Department and no immediate solution is in sight.

Technology Transfer

5. The US are making a major effort to clamp down on the flow of militarily valuable technology to the Soviet bloc and regulations restricting the flow of technology are being strictly enforced. Unfortunately they are being applied in an inflexible way and are adversely affecting the flow of technology within the Alliance. Even in the case of collaborative projects, such as MLRS, the US are reluctant to engage in essential technology sharing.

6. A particularly annoying manifestation of this problem has been that UK scientists and military personnel have been

/ excluded ...

excluded from seminars and conferences which they would previously have expected to attend. This matter has been raised by HMA Washington with Secretary Weinberger who has agreed to review regulations in an effort to promote international defence co-operation.

The Current Position

7. There are signs, particularly from the recent DERC meeting, that the constant UK pressure on all these problems is beginning to have an effect. The Americans seem to be looking for ways round the difficulties, even though solutions are not always readily apparent, and this is reflected in the suggested Speaking Note. It is still advised, however, that by raising these issues with the President, the Prime Minister can help to ensure that they are followed up rigorously by the DOD. In doing so, however, the Prime Minister should avoid undue criticism of the US system (which is often as frustrating for them as it is for us) but stress that it is only through competition that both Governments can ensure that our joint capability and resources are employed to the best effect. Unless our companies are seen to have the opportunity to bid into US programmes it will be difficult for the MOD to continue to buy US equipments where it is most cost effective to do so.

010
Ref. A083/1215

MR COLES

Monsieur Attali, the Special Adviser to the President of the French Republic, rang me this morning to inform me that the French Finance and Trade Ministers would be refusing Mr Donald Regan's invitation to the Finance and Trade Ministers of the seven summit countries to meet in Paris in the margins of the forthcoming OECD Ministerial meeting.

2. Monsieur Attali said that a subsidiary reason for this decision was that the French Government did not regard it as acceptable that the United States Secretary to the Treasury should issue an invitation to his colleagues in other summit countries to attend a meeting in Paris without any prior consultation: he should have at least engaged in prior consultation, and it would have been better to propose to the French Government that they should organise such a meeting. But the main reason for refusing the invitation was that the French President was not prepared to accept that the meeting should be held and presented as part of the preparations for the Williamsburg Summit. That Summit was a meeting of Heads of State and Government, and preparations for it were to be made by the Personal Representatives of those Heads of State or Government: meetings of the kind proposed could only complicate and confuse the process, and add to the bureaucratic process of preparation ^{and} to the degree of public expectations of the Summit in a way which President Mitterrand thought that President Reagan and all his colleagues wished to avoid.

3. It would of course be up to Finance and Trade Ministers of other Summit countries to decide whether or not to accept Mr Regan's invitation; the French Government would naturally have no objection if any of them decided not to accept.

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

RA

ROBERT ARMSTRONG

28 April 1983



10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

ECONOMIC SUMMIT: WILLIAMSBURG

The Prime Minister read with interest your minute of 20 April reporting on the recent meeting of Personal Representatives in Williamsburg.

With regard to your paragraph 13, the Prime Minister does not want to travel in Concorde to the United States, in view of the expense.

I am sending copies of this minute to Brian Fall (Foreign and Commonwealth Office), John Kerr (HM Treasury), John Rhodes (Department of Trade) and Julian West (Department of Energy).

ALCOLES

21 April 1983

A

Prime Minister.

A.J.C. 29/4.

Ref. A083/1131

MR COLESEconomic Summit: Williamsburg

I went to Williamsburg, Virginia, from 15 to 17 April for a further meeting of Personal Representatives for the preparation of the Williamsburg Summit. I was accompanied by Mr Littler (Treasury) and Mr Evans (Foreign and Commonwealth Office). The meeting was held at Williamsburg in order that Personal Representatives could get a clear impression on the ground of the administrative and logistical plans for the Summit itself. It promises to make a very agreeable venue, though one which will involve a good deal of moving around, albeit over short distances.

Substantive Issues

2. There was some discussion of the invitations which had been issued by Mr Donald Regan to Finance and Trade Ministers of Summit countries to hold a meeting in the margin of the OECD Council of Ministers on 10 May, and of the proposal by the United States Secretary for Commerce to summon a separate meeting of Trade Ministers. There was evident and widespread suspicion of United States motives in proposing these meetings. The United States delegation was at pains to assure the rest of us that there was nothing conspiratorial or sinister about the invitations, and that they were not to be regarded as preparation for the Williamsburg Summit. It became pretty evident that Mr Regan had issued his invitations to the meeting of Finance and Trade Ministers on 10 May without consulting either the White House or the State Department; and the Secretary for Commerce, not to be outdone, had thought in terms of a separate meeting of Trade Ministers, again without much consultation in Washington. It was noted that Mr Regan's invitations had now been issued, and it was accepted that the meeting would go ahead, on the understanding that it would be simply an exchange of views over dinner: the United States delegation emphasised that they were not looking for any follow-up. A number of delegations hoped that the



separate meeting of Trade Ministers would not be proceeded with.

3. On the general economic situation, the conclusions at the meeting of Personal Representatives were very much in line with those reached at the Prime Minister's meeting on 13 April. The Summit should be able to note the signs of economic recovery in the industrialised countries and the prospects for sound and sustainable (ie non-inflationary) growth. It would be important to emphasise the need to prevent a renewed rise, and so far as possible facilitate a further fall, of inflation; and the desirability of avoiding a renewed rise of interest rates. The Summit might well go further than noting these points: the Heads of State or Government might commit their countries to try to conduct national policies which were consistent with these general aims. In this connection the Summit would be able to commend the work done by Finance Ministers on intervention and on multilateral surveillance since Versailles, without needing to go into detail on these technical subjects. Some countries (eg the French and the Italians) showed signs of wishing that the Summit might prescribe policies for individual countries; this was quickly dismissed by the British, German and American delegations as harking back to the "locomotive" theories of the Bonn Summit 1978. The United States delegation was defensive on the subject of the size of the Federal budget deficit: the United States Treasury representative pointed out that the President had never been able to get his original budget proposals past the Congress. It was generally agreed that the Summit could and should, as part of its "message" to the developing countries, emphasise that sound and sustainable recovery of the economies of the industrialised countries was a precondition of sound economic recovery in the developing countries.

4. On trade and finance, there was general agreement that the Summit should emphasise the need to avoid an increase of protectionism and urge elimination and reduction of protectionist measures as circumstances permitted. That would be essential to sound and sustainable recovery. The Summit might also stress the importance



for the developing countries of increased access for their exports to markets in industrialised countries.

5. It was agreed that there could be no master plan for dealing with problems of country indebtedness: each country would have to be dealt with ad hoc. The reduction of oil prices could well create new problems for Mexico and Nigeria, though it should relieve the problems of non-oil-exporting developing countries. The Summit might recognise that two conditions were necessary to enable developing countries to deal with their debt problems: the ability to earn money to service debt by selling exports in industrialised countries, and a reduction in interest rates, particularly in the United States.

6. On East-West economic relations there was very little discussion. The United States delegation said that they wished to await the results of the studies now in hand in the OECD, the IEA, COCOM and NATO. Personal Representatives would need to revert to this subject and to its treatment at the Summit at their own last meeting before the Summit. Privately, however, a member of the State Department in the United States delegation told Mr Evans that he thought that the White House would advise the President not to make an issue of East-West economic relations at Williamsburg, provided that there was reasonable progress in the various studies, provided that decisions were taken on two points (any two, it seemed) in the forthcoming High Level Meeting of COCOM, and provided that the French, Germans and Italians were able to say that they would not be dependent on a single source of supply (sc Siberian gas) for more than 30 per cent of their gas requirements. It remains to be seen whether this condition could be satisfied.

Final Statement

7. We had a first discussion of the possible mood and themes of the President's final statement. There is to be no discussion of a draft of the statement until after the first full day's meetings of the Summit itself; but Personal Representatives agreed to discuss a framework of themes, to be collated by the United States Personal



Representative on the basis of suggestions made by other Personal Representatives, at the final meeting of Personal Representatives before the Summit, which will be restricted to Personal Representatives only and held in Paris on 11 and 12 May. There was a general agreement that the mood of the statement should be one of realistic optimism. I suggested that a thread in the statement should be the opportunities which economic recovery would offer, provided that prudent policies were followed:

- (i) to achieve sound and sustainable (ie non-inflationary) growth;
- (ii) to avoid renewed pressures on interest rates, and thus ease the problems of dealing with indebtedness of debtor countries;
- (iii) to bring about conditions in which there would be greater stability and less volatility in exchange rates;
- (iv) to stem and if possible reverse the tide of protectionism;
- (v) to make it possible for developing countries to increase their exports in industrialised country markets;
- (vi) to facilitate a recognition of the implications of security considerations for East-West economic relations.

8. It was agreed that the Summit should take note of the report of the Working Group on Technology, and of the progress made since the report was submitted. One or two other matters were suggested for possible discussion at the Summit and mention in the final statement, including (by the Germans) environmental pollution and the problems of acid rain (or, as the German delegate said, acid drops), and (by the Japanese) the fight against cancer. I expressed some doubts whether these matters would fit conveniently into the sort of final statement which the President would want to make; but a number of delegations thought that the Summit ought to "show a human face". As expected, the Germans, supported by the Italians, the French and the Japanese, thought that the Summit should "send a message" to the meeting of UNCTAD which would open the following week.

Programme

9. The proposals which emerged from the discussion were that on the morning of Sunday 29 May Heads of State and Government should



meet on their own and without note-takers (but with simultaneous interpretation). Foreign Ministers and Finance Ministers would have their own separate meetings at the same time. At the end of the morning Foreign Ministers and Personal Representatives would join Heads of State or Government, so that the President and his colleagues could give an account of their discussions. On the basis of that account the United States Secretary of State would give a general press briefing, which would no doubt be supplemented by national background briefings.

10. In the afternoon of Sunday 29 May there would be a plenary session of Heads of State or Government, Foreign Ministers and Finance Ministers sitting together, with one note-taker (in practice the Personal Representative) per delegation. Foreign and Finance Ministers would report the results of their morning meetings. By the end of this afternoon plenary meeting there should be sufficient progress to enable the Personal Representatives to be instructed to prepare a draft of a final statement.

11. On the morning of Monday 30 May there would again be a plenary meeting, which would start its proceedings with consideration of the draft of the final statement which would have been prepared overnight. That meeting would start at a time which would enable each Personal Representative to get the instructions of his Head of State or Government before the meeting began. The length of the meeting would depend upon the discussion of the draft statement. But another consideration would be the timing of the final press conference at which the President would make the final statement. The United States delegation had the press conference scheduled for 2.30 pm. The French, Germans and Italians said that this would be too late for morning newspapers the following day in their countries. It would be preferable for the press conference to be held not later than 1.00 pm. We thought that we should be lucky to meet that deadline, given the need for Heads of State and Government to agree the draft and the processes of translation and reproduction which would have to be completed once the draft had been approved.



--- 12. I attach a note of the general press ground rules now proposed.

13. I am afraid that I had no success in my efforts to persuade the United States delegation that the State Dinner should be brought forward from the Monday evening to the Sunday evening. The arrangements were evidently too far set for that to be possible. It was pointed out that, if (as at Venice and Versailles) the final statement took a long time to finalise, it might well not be possible for the press conference to be held before the middle of the afternoon (despite European publication deadlines); and in that case the interval between the conclusion of the Summit proceedings and the State Dinner might be comparatively short. I made it clear that the Prime Minister would be likely to want to leave immediately after the State Dinner on the Monday evening. The French delegation said that President Mitterrand would want to leave directly after the State Dinner and not wait until the following morning. The French delegation told me that President Mitterrand and his delegation would be travelling in a Concorde: it appears that the Concorde can land at Langley Air Force Base. I wondered whether the Prime Minister might want to consider herself travelling in Concorde on this occasion: apart from keeping up with the neighbours, it would greatly reduce fatigue and jet-lag before her engagements in Washington on arrival and after her return to London.

General

14. I have to report two outstanding and disquieting impressions from this meeting of Personal Representatives:

- (i) It was characterised by a mood of extreme mutual suspicion, amounting almost to hostility, between the United States and French delegations.
- (ii) The United States delegation was incoherent and apparently unable to get its act together. The President's Personal Representative, Mr Wallis, is a very nice man and I believe a good economist, but he is an inexperienced and ineffective Chairman, and there seemed to be marked incohesion between representatives of the White House, the State Department and the Treasury.

Prime Minister

do you want me to find out costs?

(A.S.C. 20/4)

No - much too expensive



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

RA

ROBERT ARMSTRONG

20 April 1983

conqueror

GENERAL PRESS GROUND RULES

-- Each participating delegation will designate two Ministers and a press spokesman as the only official, on-the-record briefers during the Summit. There will be no limit on background briefers. Each country will have a separate briefing room.

-- Before the conclusion of each session, which involves Heads of State or Government, the participants will agree on how they will represent their discussion to the press.

-- Heads of State and Government will agree not to give any press interviews (TV, radio or print) from the time of arrival at Williamsburg until after the concluding press gathering, when the President of the United States will read a Joint Statement.

-- Participating Ministers also agree not to give any press interviews from the time of arrival at Williamsburg until after the final Joint Press Statement, except in connection with scheduled official briefings. (Ministers could pre-tape interviews before arrival at Williamsburg.)

-- Meeting participants will not have any contact with the press, either directly or indirectly, while meetings are in session.

PROPOSED BRIEFING SCHEDULE

May 28 Non-substantive (e.g., logistics, etc.) briefings by press spokesmen to conclude before 9:00 p.m.

May 29 Briefing by Secretary Shultz, following the morning session, on the basis of common guidance agreed to at the end of the session. After Secretary Shultz's briefing, press spokesmen may brief their individual country press on a basis consistent with the common guidance agreed to at the end of the morning session.

Individual country briefings following the afternoon session by Ministers or press spokesman (on the basis of common guidance agreed to at the end of the afternoon session.)

May 30 Joint Press Statement as agreed to by all Heads to be read by the President of the United States after the conclusion of the final Summit session.

Individual country briefings after the Joint Press Statement by Heads of State or Government, Ministers or others.

Background Briefers

Background briefers are free to brief at any time, beginning Sunday morning.

These guidelines represent a sound basis for achieving greater trust and confidence in the handling of public aspects of the Summit. In doing so, they help to ensure the success of the private discussions at the Summit which is the chief purpose of all of our respective endeavors.

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FM TOKYO 180905Z APR 83

TO IMMEDIATE F C O

TELEGRAM NUMBER 211 OF 18/4/83

WILLIAMSBURG SUMMIT.

1. THE JAPANESE WOULD CLEARLY LIKE TO ENGINEER A MEETING BETWEEN MR NAKASONE AND THE PRIME MINISTER IN THE MARGINS OF THE SUMMIT. THEY ARE, HOWEVER, ANXIOUS TO AVOID COURTING A REBUFF AND AS A RESULT ARE RESORTING TO INDIRECT APPROACHES RATHER THAN MAKING A FORMAL PROPOSAL. IN EXPLAINING THIS KATO, DIRECTOR-GENERAL OF THE EUROPEAN AFFAIRS BUREAU IN THE MFA, SAID THAT TETE-A-TETE MEETINGS WERE BEING OR HAD BEEN ARRANGED BETWEEN THE JAPANESE PRIME MINISTER AND PRESIDENT REAGAN, PRESIDENT MITTERRAND AND CHANCELLOR KOHL. THE JAPANESE WOULD MAKE A FORMAL PROPOSAL TO US IF IT APPEARED THAT SUCH A MEETING WOULD BE WELCOME AND PRACTICABLE.

2. IT IS POSSIBLE THAT MOTONO, JAPANESE SHERPA, WILL HAVE RAISED THIS MATTER IN SOME FORM WITH SIR ROBERT ARMSTRONG OVER THE WEEKEND.

CORTAZZI

LIMITED

ERD
ESID
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NAD
ECD
PLANNING STAFF
TRED
ESSD
EESD
NEWS D
PS

PS/LORD BELSTEAD
PS/MR RIFKIND
PS/MR HURD
PS/MR RAISON
PS/PUS
SIR J BULLARD
MR EVANS
MR HANNAY
MR THOMAS
MR DONALD
MR HAYES
MR ADAMS

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ECONOMIC SUMMIT

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10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

Economic Summit: Williamsburg

The Prime Minister held a meeting yesterday, attended by the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister for Trade, yourself and other officials, to consider our policy towards the Williamsburg Summit, prior to the next meeting of Sherpas in the United States this weekend. I record in this minute the conclusions of this meeting following, for ease of reference, the order of items in your minute of 23 March.

General Economic Situation

It should be possible to reach some encouraging conclusions on the prospects for non-inflationary world growth but, the Prime Minister stressed, the emphasis should be on cautious optimism. If, in the event, forecasts were exceeded, well and good. It would be wise to aim for a conclusion along the lines "we have more reason on this occasion to believe that recovery will be sustained".

The Summit could also usefully confirm the increased degree of practical co-operation which had been achieved by G5 Finance Ministers. They would be meeting in Washington before the end of this month when they would give further consideration to the maintenance of discipline by promoting the convergence of prudent policies. If the 5 could be seen to be working out a combined economic strategy in this way, this could provide a measure of confidence. The Jurgensen Report on Intervention in Exchange Rates, which represented a very considerable departure from original French ideas on this matter could, if it led to agreement on the merits of very limited intervention for the

purpose of smoothing operations, have an effect which would at least not be harmful.

The Prime Minister said that underlying all the discussions at Williamsburg of the general economic situation would be the prospect of reducing the US deficit.

International Trade and Debt Financing

As regards international trade, it was desirable that Williamsburg should adopt an anti-protectionist stance, though trade legislation now under consideration in the United States (the Export Administration Act) might complicate this. It was suggested that the Summit might take the line that as recovery takes place, countries should not use the likely worsening of their Balance of Payments position (as imports increased) as an excuse for protectionist measures. But this formula was considered to be too specific. We should instead work for a conclusion that, as recovery commenced, countries should endeavour to reduce protectionist measures to a minimum in accordance with circumstances.

The controversy over EC/US agricultural exports might cause difficulty but, on the other hand, this subject might not loom large at Williamsburg.

The Germans might well press for Williamsburg to send a signal to UNCTAD 6 which would begin shortly after the Summit - though the kind of message the Germans appeared to have in mind seemed to be devoid of significant content.

As regards international debt, many schemes were currently under discussion. The Summit should reaffirm its support for co-operation between the IMF, central banks and the BIS.

As regards the IDA, it was desirable that Williamsburg should be able to record a United States decision to meet their IDA 6 commitments. But that depended more on the US Congress than on anything we ourselves could do.

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It was unlikely that IDA 7 would be the subject of much discussion at Williamsburg. The Chancellor of the Exchequer confirmed that the UK's proportional contribution to IDA 7 would be less than that to IDA 6. The Prime Minister said that in general she was averse to a bigger proportion of our aid being spent multilaterally than bilaterally. She was concerned that the inclusion of China in the IDA arrangements would work in the opposite direction.

East/West Economic Relations

It was undesirable that this subject should constitute a separate item on the agenda. Our general aim should be to incorporate it in the discussion of other subjects and do little more than note progress on the various studies. But it was clear that there could be controversial exchanges on this matter. The United States still appeared determined to achieve a clear statement at Williamsburg on what should and should not be done with regard to trade with the Soviet Union; while the Germans had made it plain that they would agree to very little more than stocktaking. It was to be hoped that the United States could be persuaded to raise at Williamsburg only such matters in this field on which there had been prior agreement.

Political Co-operation

Williamsburg should not issue public statements in this field unless there was a good reason arising from the emergence of a particular issue at the time. In the margins of the Summit there might well be some discussion of INF stationing.

I am copying this minute to Mr. Fall (Foreign and Commonwealth Office), Mr. Kerr (H.M. Treasury) and Mr. Rees (Minister for Trade's Office)

A. J. Wiles .

14 April, 1983

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FM ROME 131500Z APR

PS TO PM. 10. DOWNING ST.

TO IMMEDIATE FCO (CABINET OFFICE)

TELNO. 178

OF 13 APRIL 1983

INFO ROUTINE FCO (FOR ERD) AND TREASURY (FOR UNWIN)

INFO SAVING WASHINGTON, TOKYO, PARIS, BONN, OTTAWA

FOLLOWING FOR PS/SIR R ARMSTRONG

M.S.
This is the kind of thing you
are in for.

A.S.C. 1/2

AJC

Ughh,

Mes 14/4

1. I HAVE BEEN ASKED TO PASS THE FOLLOWING ITALIAN DRAFT PAPERS FOR THE 17TH APRIL SHERPA MEETING AT WILLIAMSBURG TO SIR R ARMSTRONG FROM THE ITALIAN SHERPA, REMO PAOLINI: STRENGTHENING MULTILATERAL SURVEILLANCE

I - REAFFIRMATION OF OBJECTIVES:

SUSTAINABLE, NON INFLATIONARY GROWTH OF OUTPUT IN VIEW ALSO OF REDUCING UNEMPLOYMENT.

II - DISCUSSION OF MEDIUM TERM PERSPECTIVES:

WAYS IN WHICH DOMESTIC POLICIES, INTERNATIONALLY COORDINATED, SHOULD CONTRIBUTE TO IMPROVE PROSPECTS OF A SUSTAINED AND BALANCED GROWTH. THERE IS EVIDENCE IN SOME OF OUR COUNTRIES OF A SPONTANEOUS RECOVERY FROM STAGNATION, BUT THERE ARE UNCERTAINTIES AS TO THE REAL POTENTIAL OF THIS RECOVERY. ADJUSTMENT AND EXPANSIONARY POLICIES SHOULD INTERACT AND BE MUTUALLY SUPPORTIVE TOWARDS AGREED OBJECTIVES SUCH AS REVITALIZATION OF ECONOMIES, TRADE PROMOTION, GREATER STABILITY IN THE INTERNATIONAL FINANCIAL SYSTEM AND IN THE CURRENCY MARKETS.

III - POLICY AREAS:

1. MONETARY POLICY. MONETARY POLICY INDICATORS SHOULD BE MONETARY AGGREGATES, INTEREST RATES, AS WELL AS EXCHANGE RATES. THE CHOICE OF MONETARY POLICY INTERMEDIATE TARGETS CANNOT EXCLUDE INSTITUTIONAL CONSIDERATIONS. DEPENDING ON INTERNAL OR EXTERNAL, MONETARY OR REAL SHOCKS, GOVERNMENTS SHOULD LOOK AT VARIOUS INDICATORS TO ASSESS MONETARY POLICY STANCES.

2. FISCAL POLICY. NOT ONLY GOVERNMENT TRANSFER PAYMENTS ARE RELEVANT BUT BOTH SIDES OF THE GOVERNMENT BUDGET SHOULD BE CONSIDERED ACCORDING TO THEIR CYCLICAL AND STRUCTURAL COMPONENTS. MORE WEIGHT SHOULD BE ASSIGNED TO EFFORTS TO LIMIT STRUCTURAL IMBALANCES.

3. EXCHANGE RATE POLICY. IN THE SHORT-RUN THERE IS A ROLE FOR INTERVENTION TO SMOOTH ERRATIC FLUCTUATIONS. A LONGER-TERM INFLUENCE ON EXCHANGE RATES IS CERTAINLY PLAYED BY MONETARY POLICIES, BALANCE OF PAYMENTS TRENDS AND ADMINISTRATIVE CONTROLS.

4. EMPLOYMENT POLICIES. THEY SHOULD REFRAIN FROM RELYING HEAVILY ON WORK SHARING AND ENLARGING THE PUBLIC SECTOR WORK FORCE. THEY SHOULD CONCENTRATE MAINLY ON INCENTIVES FOR ENTERPRISES TO HIRE YOUNG PEOPLE.

5. INDUSTRIAL POLICY. COOPERATION ON TECHNOLOGY SHOULD BE INCREASED TO PROMOTE INNOVATIVE INDUSTRIAL RESTRUCTURING (FOLLOW-UP TO REPORT ON TECHNOLOGY, EMPLOYMENT, AND GROWTH COMMISSIONED AT VERSAILLES).

IV - ASSESSING PROGRESS ON CONVERGENCE OF ECONOMIC RESULTS:

IMPLEMENTATION CRITERIA AND PERFORMANCE YARDSTICKS SHOULD BE DEVELOPED AT APPROPRIATE LEVEL AND IMPROVED ON THE BASIS OF EXPERIENCE.

CONFIDENTIAL

WORKING OUTLINE ON TRADE, DEBT AND FINANCE: THE CRITICAL ROLE OF DEVELOPING COUNTRIES IN THE WORLD ECONOMY

I. OBJECTIVES

- A. PROMOTE GREATER OPENNESS OF TRADE AND FINANCIAL SYSTEMS,
- B. ASSURE ABILITY OF FINANCIAL SYSTEM TO MANAGE CURRENT DEBT PROBLEMS,
- C. PROVIDE BETTER COORDINATION OF TRADE AND FINANCIAL POLICIES AND
- D. IMPROVE ECONOMIC INTEGRATION BETWEEN DEVELOPED AND DEVELOPING COUNTRIES INCLUDING TECHNOLOGICAL TRANSFERS TO AND MAINTENANCE OF LEVEL OF INVESTMENTS IN LDC'S

II. IDENTIFICATION OF LINKAGES

- A. BETWEEN OPENNESS OF MARKETS AND SOLUTION OF DEBT PROBLEMS, INCLUDING LINKAGE BETWEEN FINANCING AND TRADE,
- B. BETWEEN AVAILABILITY OF FINANCING AND SUCCESS OF ECONOMIC ADJUSTMENT IN LDC'S, INCLUDING ABILITY TO MAINTAIN ESSENTIAL IMPORTS AND
- C. BETWEEN GROWTH IN DEVELOPED COUNTRIES AND GROWTH IN DEVELOPING COUNTRIES INCLUDING THE PROBLEM OF REAL INTEREST RATES LEVEL.

III. RECOMMENDATIONS FOR CONSIDERATION AT SUMMIT

A. TRADE

- 1. OPERATION OF CURRENT SYSTEM
AVOID NEW PROTECTIONIST ACTION: EFFORTS TO DISMANTLE EXISTING BARRIERS OVER TIME: REAFFIRM SUPPORT FOR OPEN TRADE SYSTEM:
- 2. NEW INITIATIVES
REINFORCE COMMITMENTS TO GATT WORK PROGRAM IN ORDER TO AVOID, IN THE COMMON INTEREST, CURRENT DISPUTES INCLUDING THOSE IN AGRICULTURAL SECTOR AND CONFLICTS OF JURISDICTION.

B. DEBT

- NO MAJOR REFORM OR "MASTER PLAN" SHOULD BE CONSIDERED AT PRESENT: CONFIRM AGREEMENT ON STRATEGY WHICH SHOULD STRESS THE ASSURANCE OF A MINIMUM NET CREDIT FLOW TO LDC'S. PROPOSED ELEMENTS:
- 1. EFFECTIVE ADJUSTMENT IN BORROWING COUNTRIES: IMPORTANCE OF AVOIDING NEW TRADE BARRIERS.
 - 2. AVAILABILITY OF FINANCING FROM OFFICIAL RESOURCES (IMF, MDB'S, IDA AND SIMILAR FACILITIES, BILATERAL AID PROGRAMS), INCLUDING THE POSSIBILITY OF INTEREST RATE SUBSIDIES ON NEW LOANS OR RE-SCHEDULED LDC'S DEBT.
 - 3. AVAILABILITY OF SHORT-TERM TRANSITIONAL FINANCING FROM OFFICIAL CREDITORS (GOVERNMENTS AND CENTRAL BANKS).
 - 4. ROLE OF COMMERCIAL BANKS SAFEGUARDING THEIR MAINLY SHORT-TERM FINANCING CAPACITY: EXPORT CREDIT PROGRAMS
 - 5. SUSTAINED, NON-INFLATIONARY RECOVERY IN DEVELOPED COUNTRIES.
 - 6. INDIRECT MEASURES TO ALLEVIATE INTEREST PAYMENTS BURDEN ON LDC'S: REVENUES STABILISATION PROGRAMS FOR COMMODITIES PRODUCERS (STABEX FORMULA).

C. COORDINATION

- 1. MORE FREQUENT MEETINGS OF TRADE MINISTERS OF SUMMIT COUNTRIES (I.E. QUADRILATERAL).
- 2. AD HOC MEETINGS OF TRADE AND FINANCE OFFICIALS AT ALL LEVELS.

CONFIDENTIAL

3. MORE FREQUENT GATT MINISTERIALS THAN IN PAST.

WORKING OUTLINE ON EAST-WEST ECONOMIC RELATIONS

(NOTE: THIS OUTLINE SHOULD BE DEVELOPED IN MAY AFTER COUNTRIES HAVE REVIEWED WHAT HAS BEEN ACCOMPLISHED IN THE VARIOUS STUDIES/WORK PROGRAMS CURRENTLY UNDERWAY. IN GENERAL, THE OUTLINE WOULD ADDRESS THE FOLLOWING POINTS).

I. AGREED GUIDELINES ON OUR APPROACH TO EAST-WEST ECONOMIC RELATIONS

II. REVIEW OF ARRANGEMENTS PREVIOUSLY REACHED. (RECAPITULATE UNDERSTANDINGS RESULTING FROM STUDIES NOW UNDER WAY IN THE DIFFERENT FORA).

III. RECOMMENDATIONS FOR FURTHER WORK.

(ASSESSED AS A FUNCTION OF THE REVIEW IN III, DETERMINE WHAT STEPS HEADS OF STATE/GOVERNMENT MIGHT RECOMMEND TO VARIOUS INSTITUTIONS TO ENCOURAGE THE COMPLETIONS OF STUDIES AND IF NECESSARY THE FOLLOW-UP TO THE WORK ALREADY DONE.

FCO PSE PASS SAVING ADDRESSEES

BRIDGES

(REPEATED AS REQUESTED)

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PS/MR RAISON
PS/PUS
SIR J LEAHY
SIR J BULLARD
MR EVANS
MR ADAMS
MR HANNAY
MR THOMAS
MR HAYES
LORD N GORDON LENNOX

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NORTH/SOUTH

CONFIDENTIAL - 3 -

A.S.C. 13. / 4

- 1. MR COLES - to check it fits with your programme. cc Miss Wallace
- 2. PRIME MINISTER

WASHINGTON/WILLIAMSBURG MEDIA

John Coles has asked me to minute you separately on the media aspects of this visit which will be a top-drawer political occasion! It will certainly be invested by the media with enormous significance whether or not you have called an election by then.

First, you are to give an on-the-record press briefing for American correspondents on May 25 before you leave.

Second, there will be a high quality travelling media team of up to 16 on your 'plane.

Third, the trip gives you an opportunity to play not merely to domestic radio, television and the daily press, but also to the Sunday press; it is a weekend story.

Fourth, it gives you an opportunity to get over your point of view across the United States where you excite enormous interest. At the same time you will speak direct in Washington (given the American way of life) to a very large diplomatic audience if, as you agree, you use breakfast TV.

My proposals are framed against:

- (i) your known wishes about the shape of the visit;
- (ii) the advantage to be derived from a ready and willing media receptively in tow; and
- (iii) the fact that London is 5 hours ahead and a problem for newspapermen.

Thursday, May 26

Outward trip: I recommend no media beyond meeting travelling press party on the 'plane.

Friday, May 27

I recommend:

Breakfast TV - Live in Residence or Blair House with:

- NBC "Today" (5m audience);
- ABC "Good Morning America" (6m audience);
- CBS "Friday Morning" (less than other two).

I would propose you do this on exactly the same lines as in the hotel room on your last visit to New York. There is no point in leaving any of these networks until later in the day; they get tighter and more compressed, especially on a holiday weekend.

The outstanding question for Friday is whether, after the usual appearance before the microphones and cameras with the President on the White House lawn, lunch, and calls on Messrs. Weinburger and Volcker, you would like to see:

- (a) British correspondents; and/or
- (b) US public radio.

You have a speech at dinner in the Residence at 7.30pm.

I would recommend that:

- (i) the Foreign Secretary meets the British press, bearing in mind you will have appeared on the White House lawn; and
- (ii) you give an interview to American public radio which is serious-minded, would let it run a bit, and would broadcast you across the nation.

We should need an early (noon) text of your Churchill speech to get any publicity in the UK.

Saturday, May 28

You have decided not to go visiting on Saturday morning and instead to give some time to the media.

I recommend a reasonably leisurely start with:

9.00am (2pm in London) - British correspondents, both resident and travelling; this will come at exactly the right time for the Sunday newspapers and for the broadcasting media.

✓ 9.30-10.00am - Short news interviews for British radio and TV.

Break for coffee

10.30-noon

I recommend:

10.30-11.15am - An on-the-record briefing for leading American editors (whom the Embassy would assemble); and either

✓ 11.15-noon - Meeting with leading US women's editors; you have never done this but you could usefully do so given the fascination which I know you hold for women journalists everywhere; or

11.15-noon - Any national networked US radio and TV programme who have shown interest, subject to agreement on format, etc.

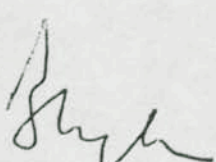
✓ I prefer the women journalists.

Saturday pm; Sunday and Monday am.

By agreement you are hors de combat along with all Heads of State and Government until the Summit and national press conferences at the end of Williamsburg.

Agree at Williamsburg to:

- usual press conference and UK radio and tv interviews?



B. INGHAM

13 April 1983

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FM WASHINGTON 130055Z
TO IMMEDIATE FCO
TELEGRAM NUMBER 967 OF 12 APRIL 1983
INFO PRIORITY MODUK

MR JULIAN CRITCHLEY MP

1. WE UNDERSTAND THAT MR JULIAN CRITCHLEY MP, WHO IS IN WASHINGTON WITH THE EUROPEAN PARLIAMENTARY COMMITTEE ON NUCLEAR WEAPONS IN EUROPE, IS BEING QUOTED BY REUTER AS HAVING SAID THAT WHEN SHE COMES HERE FOR THE WILLIAMSBURG SUMMIT THE PRIME MINISTER MAY ASK THE PRESIDENT FOR DUAL KEY ARRANGEMENTS OR QUOTE A POWER OF VETO UNQUOTE FOR CONTROL OVER CRUISE MISSILES AT UK BASES.

2. WE CONTACTED MR CRITCHLEY TO DRAW HIS ATTENTION TO THE TERMS IN WHICH HE WAS BEING QUOTED BY REUTER. MR CRITCHLEY SAID THAT HE WAS SIMPLY TRYING TO DESCRIBE THE PRESSURES THE GOVERNMENT WAS UNDER ON THIS ISSUE IN BRITAIN AND THAT SUCH PRESSURES MIGHT INCREASE. HE SEEMED TO FEEL THAT REUTER HAD QUOTED HIM OUT OF CONTEXT. WE TOLD HIM OF THE LINE NO.10 WERE TAKING IN RESPONSE TO PRESS ENQUIRIES ABOUT HIS REMARKS.

3. FCO PLEASE PASS TO PRESS OFFICER AT NO.10 DOWNING ST.

WRIGHT

(REPEATED AS REQUESTED)

LIMITED
DEFENCE. D.

ACOD
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NAD

WED

NEWS. D.
PS

PS/MR. HURD

PS/PUS

SIR. J. BULLARD

MR. WRIGHT

MR. GILMORE

MR. GOODISON

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PRIME MINISTER

MEETING OF MINISTERS AT 1700 HOURS ON WEDNESDAY:

WILLIAMSBURG

This is the first Ministerial Meeting to consider policy for Williamsburg.

The Sherpas will meet again on:

- (a) Friday, 16 April in Williamsburg;
- (b) In Mid-May at a venue to be arranged.

Alan Walters will, as you wished, attend (b) but not (a).

The United States are inviting Trade Ministers to attend ^a ~~the~~ preparatory meeting on 27/28 April in Brussels - and Finance Ministers to attend a further meeting on 10/11 May in Paris.

I attach Sir Robert Armstrong's report of 23 March on the last Sherpa meeting in San Diego. I also attach a minute by the Chancellor of the Exchequer of 16 March and President Reagan's message of 28 January.

The main aim of your meeting will be to give Sir Robert Armstrong Ministerial guidance for the next Sherpa meeting. I suggest you take three subjects in turn:

(a) The General Economic Situation

(Paragraphs 5-9 of Sir Robert Armstrong's minute)

What should the main message of Williamsburg be?

Perhaps the Chancellor should lead on this.

(b) International Trade and Debt Financing

(Paragraphs 10-14 of Sir Robert Armstrong's minute)

The Minister of Trade and the Chancellor could lead on these subjects.

/(c)

(c) East/West Economic Relations

(Paragraphs 15-17 of Sir Robert Armstrong's minute)

The Foreign and Commonwealth Secretary could lead.

The main current issue is whether, as the United States insist, this should be a separate item on the Agenda.

A.J.C.

12 April 1983

MR. WALTERS

for VC
c. Sir A. Parsons
Mr. Scholar

US ECONOMY AND THE WILLIAMSBURG SUMMIT

Thank you for your minute of 11 April.

In my minute of 25 March I was concerned simply to deal with your prediction, in your minute of 22 March, of what would be the main message about aid emerging from San Diego (did you mean Williamsburg?). I simply quoted Sir Robert Armstrong's report on the point.

As regards the Foreign and Commonwealth Secretary's minute of 8 March, I have read it again and can find nowhere in it the implication "that Regan and, to some extent, Shultz were interested in entering into some agreement, however vague, about limiting exchange rate oscillations and using intervention and other techniques to stabilise exchange rates".

A. J. COLES

12 April 1983

for VC

cc Sir Anthony Parsons
Mr. Scholar

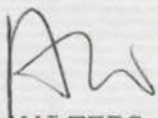
MR. COLES

US ECONOMY AND THE WILLIAMSBURG SUMMIT

I do not think you have interpreted in your memo of 25 March, what I meant to convey in my memorandum of 22 March.

The main point I was making was that the Foreign and Commonwealth Secretary's minute of 8 March gives a misleading impression of the views of Don Regan and George Shultz. The Foreign and Commonwealth Secretary's minute implied that Regan and, to some extent, Shultz were interested in entering into some agreement, however vague, about limiting exchange rate oscillations and using intervention and other techniques to "stabilise" exchange rates. I was told by Martin Feldstein when he visited with Vice President Bush that as far as he knew the United States and the Treasury in particular were very much against exchange rate intervention and maintaining pseudo-fixed or crawling peg parities. Last week I saw Feldstein in Washington and he was very anxious to make it clear that all such speculation, whether in the press or elsewhere, that Regan and Shultz were interested in such intervention in exchange markets was quite false.

The second point I raised was that if aid is discussed at the Summit, and Geoff Littler believes it is a proper subject for discussion at Williamsburg (see para 8 of his memorandum of 23 March to the Chancellor) then it would be in the context of either IDA replenishment, or an IMF "link scheme" issue of additional STRs. Again, the latter was suggested to me in conversation as one of the likely proposals for discussion. Indeed, it comes under (b)(iii) of your memo summarising Sir Robert Armstrong's paper. The link scheme arrangement is quite different from general quota increases or extensions of the GAB.


ALAN WALTERS
11 April 1983

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GRS700

RECOMMENDED DISTRIBUTION PS TO PM, NO 10 DOWNING STREET.
12 APRIL 1983

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FROM UKREP BRUSSELS 111848Z APR
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MY TWO IMMEDIATELY PRECEDING TELEGRAMS: MEETINGS OF TRADE AND
FINANCE MINISTERS OF THE SEVEN.

FOLLOWING IS COMMISSION SUMMARY OF U.S. IDEAS ON TRADE FOR
WILLIAMSBURG:

WILLIAMSBURG SUMMIT
PREPARATION OF AGENDA ITEM CONCERNING TRADE AND DEBT
MAIN POINTS MADE INFORMALLY BY THE U.S. SIDE

STRENGTHEN COMMITMENT TO "REFRAIN FROM TAKING OR MAINTAINING
ANY MEASURES INCONSISTENT WITH THE GATT"
WE WOULD LIKE TO SEE THREE THINGS EMERGE FROM THE SUMMIT IN THIS
AREA:

1. SUMMIT LEADERS SHOULD PUT THEIR PERSONAL STAMPS OF APPROVAL
ON THE COMMITMENT TO KEEP THE TRADING SYSTEM OPEN. AGREEMENT TO
DISCOURAGE THE ENACTMENT OF NEW TRADE BARRIERS SHOULD BE STRONG
AND CLEAR IN STATEMENTS MADE BY INDIVIDUAL SUMMIT LEADERS TO THE
PRESS.
2. SUMMIT LEADERS SHOULD ALSO MAKE CLEAR THEIR DETERMINATION TO SUPP-
ORT THE DISMANTLING OF EXISTING TRADE BARRIERS AS ECONOMIC
RECOVERY PROCEEDS.
3. IF A SUMMIT DOCUMENT IS ISSUED, IT SHOULD CONTAIN STRONG
LANGUAGE IN SUPPORT OF FREE TRADE.

AGREE TO MORE FREQUENT MEETINGS OF TRADE MINISTERS
INCREASED CONTACTS AT THREE LEVELS SHOULD BE ADVOCATED:

1. WE SHOULD PROPOSE GREATER EMPHASIS ON AND MORE FREQUENT MEETINGS
OF SMALL GROUPS OF TRADE MINISTERS SUCH AS THE QUADRILATERAL
MEETINGS INITIATED BY AMBASSADOR BROCK. SUCH INFORMAL MEETINGS
MIGHT FROM TIME TO TIME BE EXPANDED SOMEWHAT TO INCLUDE TRADE
MINISTERS FROM OTHER COUNTRIES OR COULD AT TIMES INCLUDE
FINANCE MINISTERS. THE PRIME PURPOSE OF THESE MEETINGS WOULD BE TO
IMPROVE COMMUNICATION AND COOPERATION AMONG KEY MINISTERS AND TO
FOCUS ATTENTION ON CRITICAL ISSUES AS THEY AROSE.
2. IN LIGHT OF THE GROWING IMPORTANCE OF THE TRADE/MONETARY
RELATIONSHIP AND OF THE NECESSITY OF ACHIEVING A SUCCESSFUL
RESOLUTION OF THE CURRENT DEBT SITUATION AND ASSURANCE THAT
SERIOUS PROBLEMS WILL NOT RECUR, SUMMIT LEADERS SHOULD CONSIDER
AD HOC MEETINGS OF TRADE AND FINANCE OFFICIALS AT ALL LEVELS.

RESTRICTED

/ SUCH MEETINGS

SUCH MEETINGS COULD INCLUDE REPRESENTATIVES FROM MAJOR DEVELOPING COUNTRIES

3. WE SHOULD PROPOSE CALLING ANOTHER MEETING OF THE GATT MINISTERS, PROBABLY IN 1985. THIS MEETING SHOULD TAKE PLACE ONCE RECOVERY IS WELL UNDERWAY AND THERE SHOULD BE SUFFICIENT TIME AVAILABLE TO PREPARE THE GROUNDWORK FOR NEW TRADE INITIATIVES.

- SUMMIT LEADERS SHOULD INDICATE THAT TRADE MINISTERS MUST MEET MORE FREQUENTLY TO DEVELOP COOPERATION TO ADDRESS THE CRITICAL TRADE ISSUES. THESE MEETINGS SHOULD BE FREQUENT ENOUGH TO MAINTAIN CONTINUITY AND PROGRESS, BUT NOT SO FREQUENT THAT THEY BECOME RITUALISTIC.

- WHEN GROWTH IS STRONG SUCH MEETINGS WILL HELP TO LAUNCH LIBERALISATION: WHEN THINGS ARE MORE TROUBLED THEY WILL SERVE AS A BRAKE AGAINST BACKSLIDING TOWARDS PROTECTIONISM.

ADVOCATE INITIATING A NORTH-SOUTH ROUND OF TRADE NEGOTIATIONS
SUMMIT LEADERS SHOULD INSTRUCT THEIR TRADE MINISTERS TO CONSULT WITH DEVELOPING COUNTRIES AND PREPARE A PROPOSAL BY THE END OF THE YEAR FOR A MUTUALLY ACCEPTABLE, BENEFICIAL ROUND OF TRADE NEGOTIATIONS THAT COULD COMMENCE AS EARLY AS 1984.

ADVANTAGES OF INITIATING SUCH NEGOTIATIONS INCLUDE:

1. THEY WOULD HELP TO ENSURE GROWTH AND HELP RESOLVE THE DEBT PROBLEM.
2. THEY WOULD REVERSE PUBLIC PRESSURE IN DEVELOPED COUNTRIES FOR PROTECTION AGAINST LDC IMPORTS THAT HAS BEEN GENERATED BECAUSE OF THE DIFFICULTY IN GAINING ACCESS TO LDC MARKETS.
3. THEY COULD LEAD TO SIGNIFICANT EASING OF ACCESS TO INDUSTRIAL COUNTRY MARKETS FOR LDC GOODS THAT WOULD SUPPLEMENT, NOT REPLACE GSP BENEFITS.
4. THEY WOULD BRING LDCS MORE FULLY INTO THE GATT SYSTEM AND PROVIDE A VIABLE ALTERNATIVE TO WORKING ON TRADE THROUGH UNCTAD.

FCO ADVANCE TO:

FCO - EVANS HANNAY CROWE GOWLLAND
CAB - PS/SIR R ARMSTRONG HANCOCK LAMBERT
DOI - WRIGHT
DOT - GRAY WILLIAMS MEADWAY HEALEY
MAFF - ANDREWS
TSY - LITTLER

BUTLER

ADVANCED AS REQUESTED

FRANK EXTERNAL

ECGD (E)

ADD. DISTN.

ECONOMIC SUMMIT



pc: vk
pc FERB

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

Williamsburg

Your minute of today's date to Mr. Butler.

The Prime Minister agrees that the best arrangement would be for Mr. Walters to attend the meeting of Personal Representatives in the middle of May in Washington (but not the meeting in Williamsburg on 16 April).

A. J. COLES

31 March 1983

B

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A0.83/1014

MR. BUTLER

The next meeting of Personnel Representatives is to be at Williamsburg on 16 April. It will be, so far as plenary sessions go, a one-day business: the Personnel Representatives will pregather on their own in Washington the previous evening (for a discussion which is likely to be purely procedural), and will spend Sunday morning being shown what is what at Williamsburg.

2. The crucial preliminary meeting is likely to be the following one, in the middle of May, in Washington.

3. I imagine that the Prime Minister will want Professor Walters to be at

her meeting on 13 April. I think that
the most productive use of his time is
likely to be for him to be at that meeting,
and then to come to the Washington
meeting in May.

RA

31. iii. 83



fcc J Coles

HL

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

We spoke about your minute of 28 March (A083/0965) about the suggestion that Professor Walters should attend the meeting of Personal Representatives in April. You subsequently told me that the meeting is to take place at Williamsburg.

A relevant factor is that Professor Walters is currently in Washington and is not due to return until 12 April. He can therefore attend the meeting of Personal Representatives (or some part of it) and have any discussions on related topics in Washington without having to make a special journey.

But we ought to warn him that he may need to delay the date of his return. Subject to your advice, I would like to do this (or Mr. Coles will in my absence).

E. E. R. BUTLER

31 March 1983



Ref. A083/0965

MR BUTLER

Professor Walters has sent me a note, to ask that, since the Prime Minister wishes him to attend the meeting of Personal Representatives in April, he should be put on the list for circulation of papers.

2. There is of course no problem about sending Professor Walters copies of papers.

3. There is, however, a problem about attendance at the meeting of Personal Representatives. It has been a rule for some years - certainly since before I became the Prime Minister's Personal Representative - that Personal Representatives may be accompanied by only two "experts" at the table for their plenary meetings (restricted meetings are for Personal Representatives only). An exception is made only for the host country, who may be supported by one or two extra people. It has been desirable and important to hold to this rule, to prevent a proliferation of people which could still further bureaucratise the process of Summit preparation: we come under constant pressure, mainly from the Italians and the Japanese, to make exceptions to the rule. I have always strongly supported the stand that has always been taken to resist that pressure, generally successfully.

4. I am supported at plenary sessions by "experts" from the Treasury (Mr Littler) and the Foreign and Commonwealth Office (Sir Antony Acland), or his deputy if he is unable to come). The representation from other countries is similar.

5. If Professor Walters were to attend these plenary meetings, he would therefore have to displace either the Treasury or the Foreign and Commonwealth Office representatives, at least for those sessions at which the matters of primary interest to him were discussed. There are obvious difficulties about either: both the Treasury and the Foreign and Commonwealth Office have a good case for being there; their counterparts from other Summit



countries are round the table; and, if one of them was to yield place to Professor Walters, there would be some loss of face involved, and we could expect strenuous protests from the departmental Minister concerned.

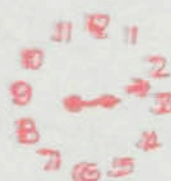
6. There will of course be no problem about including Professor Walters in the Prime Minister's party for Williamsburg itself. I wonder, however, whether we could explore other ways of associating him with the preparatory process which did not create these problems. For instance, he could be brought into the process of preparing the briefs that are produced for those attending meetings of Personal Representatives, and into the preparation of any documents which we send to other Personal Representatives. And perhaps the Prime Minister could ask him to go to Washington and discuss the issues which will arise at Williamsburg with Mr Sprinkel of the United States Treasury or Mr Wallis of the State Department - though we should obviously have to tell the Treasury and the Foreign and Commonwealth Office, if anything like that was envisaged.

RIA

ROBERT ARMSTRONG

28 March 1983

28 MAR 1983



GORDINGTON



10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

ECONOMIC SUMMIT: WILLIAMSBURG

The Prime Minister read with interest your minute of 23 March.

Your report will of course be considered further at the meeting that has been arranged for after the Easter Recess. It may help you to know that the Prime Minister's marginal comments on your minute indicated:

- (a) some doubt about the wording of the first item suggested by President Reagan for the Williamsburg agenda ("an integrated consideration of domestic and international aspects of sustained free world economic recovery");
- (b) approval of the opposition to the idea of an international commission to rebuild the consensus for free trade;
- (c) some doubt on the statement in your paragraph 13 that short-term transitional financing should be available from governments and central banks for debtor countries.

On your paragraph 23, recording the comment made by some delegations that Heads of Government might want one of the meals to include Foreign Ministers, the Prime Minister has observed that the amount of work done tends to be in inverse ratio to the size of the group.

With regard to your paragraph 25, the Prime Minister proposes to attend the Church Service in the Episcopal Church in Williamsburg.

We shall take up separately the question of whether Mr. Thatcher will wish to attend the dinner on Monday, 30 May.

I am copying this minute to Mr. Fall (FCO), Mr. Kerr (HM Treasury), Mr. Rhodes (Trade) and Mr. West (Energy).

A. J. COLES

25 March 1983

dc CS
 ✓ Put Toward Abroad:
 Williamsburg Sept 8
 (Adnan)
 E

MR. WALTERS

cc. Sir A. Parsons
Mr. Scholar

US ECONOMY AND THE WILLIAMSBURG SUMMIT

Thank you for your minute of 22 March. You suggested that the main message about aid from San Diego would be an American intention to decrease their contributions to IDA and other agencies.

This does not seem to have been the case. Sir Robert Armstrong's report (please ask to see the whole report if you wish) states:

- (a) the increase in quotas in the IMF agreed by the Interim Committee and the extension of the general arrangements to borrow were noted as developments which the Williamsburg Summit could welcome. There was no mention of the idea of a further issue of special drawing rights to help the developing countries;
- (b) on international debt management, there was general agreement that there could not be an agreed master plan for handling problems of debtor countries. The elements in the approach to the problem should be:
 - (1) there should be effective policy adjustments in borrowing countries; IMF conditionality rules were important in this connection;
 - (2) short-term transitional financing should be available from Governments and central banks;
 - (3) in the medium term, resources should be provided through the IMF (subject to conditions on the policies to be followed by borrowing countries), the World Bank and its agencies, bilateral aid programmes, and also (and especially, subject to commercial prudence) from the commercial banks, who would continue to have the major role;
 - (4) the open market trading system should be preserved, and the creation of new trade barriers avoided;

(5) sustained non-inflationary recovery in the industrialised countries would be the greatest contribution those countries could make to the recovery of the developing countries.

A. J. COLES

25 March 1983

Prime Minutes

①

We have arranged a meeting immediately after Easter to discuss Williamsburg.

A.J.C. $\frac{23}{3}$

Ref. A083/0892

MR COLES

Economic Summit: Williamsburg

I went to San Diego, California, from 16 to 18 March for a meeting of Personal Representatives for the preparation of the Williamsburg Summit. I was accompanied by Mr Littler (Treasury) and Mr Evans (Foreign and Commonwealth Office).

Substantive Issues

2. President Reagan's message of 28 January had highlighted two broad topics for the Williamsburg agenda:
 - (1) "an integrated consideration of domestic and international aspects of sustained free world economic recovery", which would cover international economic policy, international financial issues (including the international institutions), trade, and North-South issues;
 - (2) East-West economic relations.
3. There was general agreement among the Personal Representatives that there should be no attempt to split the general economic discussion at Williamsburg into separate subjects or chapters; but there was considerable resistance to any suggestion that East-West economic relations should be treated as a separate agenda item on an equal footing with the general economic discussion. This was most sharply articulated by the French representatives, who said that, if President Reagan insisted on treating East-West economic relations as a separate agenda item, President Mitterrand would insist on North-South economic relations being likewise taken as a separate item.
4. The discussion at San Diego fell broadly into three main sections:



- (1) the general economic situation and the prospects for Williamsburg;
- (2) international trade and debt financing;
- (3) East-West economic relations.

5. On the general economic discussion, there was broad agreement on the theme for the Williamsburg Summit. The Americans were able to point with some confidence to the signs of recovery in the United States economy, and we, the Germans and the Japanese could foreshadow the prospect of some upturn in our Gross Domestic Product in 1983. The French and the Italians were more reserved about the prospects for their own economies, and more cautious about the prospects for sustained world economic recovery. Nonetheless, it was generally agreed that, on the outlook as now foreseen, the Summit should be able to sound a note of optimism and confidence on the prospects for world recovery, and to agree upon the need for the industrialised countries to pursue, each according to its own needs and circumstances, policies which would generate employment and sustained economic recovery without leading to a recrudescence of inflationary pressures.

6. There was some discussion of the effects of the fall in oil prices, and general agreement that, provided that the fall was moderate and gradual, it would contribute to the recovery of the economies of the industrialised countries.

7. There was general agreement upon the need in all countries to control budgetary deficits. The United States representatives recognised that the Administration had not succeeded in bringing down the federal deficit in this term, but were hopeful of doing so by 1988. Some apprehensions were expressed round the table about the possibility that the trend towards economic recovery might be stopped in its tracks by a rise in United States interest rates, which would directly retard activity in the United States itself and would cause acute problems for debtor countries.

8. There was a good deal of discussion on international monetary developments. The increase in quotas in the International Monetary Fund (IMF) agreed by the Interim Committee and the extension of



the General Arrangements to Borrow (GAB) were noted as developments which the Williamsburg Summit could welcome. There was no mention of the idea of a further issue of Special Drawing Rights to help the developing countries. The meeting heard reports on the progress of the studies of intervention and of multilateral surveillance commissioned at the Versailles Summit. Conclusions of the intervention study would be that intervention could play a useful role in helping to secure greater stability of exchange markets, but only a minor and supportive one. The main emphasis must be on wider economic policies and performance. Nevertheless the reports of the studies and the intention of Finance Ministers to follow them up might be noted with approval at Williamsburg.

9. Some delegations - notably the French and the Japanese - stressed the need for greater stability of exchange rates, and the French referred to the "Stabex" scheme for stabilising international commodity prices. The United States delegation reiterated the view that intervention in exchange markets was of only marginal and very short-term significance in this regard: greater stability of exchange rates would follow from greater coherence of economic objectives and greater convergence of policies towards those objectives. There was a suggestion from the United States, which we supported as worth pursuing by Finance Ministers, that these ideas might be developed into fuller guidelines for the outlines of a medium-term strategy which could be used to strengthen the surveillance process and could again be welcomed at Williamsburg.

10. On international trade, there was general agreement that the interests of the industrialised countries and of the developing countries would both be served by the preservation of the open market trading system. The debtor countries would not be able to discharge their debts unless they were able to export to international markets: thus trading opportunities were directly relevant to debt management. It would be very important for the Williamsburg Summit to reaffirm the commitment of the industrialised countries



to the maintenance of the open market trading system, to the avoidance of the creation of new barriers and the removal of existing barriers.

11. The United States delegation made a number of procedural suggestions in this area, notably that:

- (a) there should be more frequent meetings of Trade Ministers of the Summit and other industrialised countries;
- (b) there should be more joint meetings of Trade and Finance Ministers;
- (c) it was not satisfactory that last year's GATT Ministerial meeting had been the first for nine years, and another should be envisaged for 1985;
- (d) there might be something to be said for the Summit setting up an international commission of twelve wise men to rebuild the consensus for free trade.

12. The European Community representatives pointed out that the first two of these suggestions needed to take account of the fact that trade was a matter of Community competence: at international meetings the Community should be represented either by the Commission alone or by the Commission accompanied by representatives of each of the member states. No objection was raised to the idea of another GATT Ministerial meeting in 1985. There was no enthusiasm for the idea of an international commission to rebuild the consensus for free trade: what was needed was not a re-examination of the arguments in favour of free trade but the political will to eschew protectionism.

13. On international debt management, there was general agreement that there could not be an agreed master plan for handling the problems of debtor countries; they would have to continue to be dealt with ad hoc, as with Mexico and Brazil. The elements in the approach to the problem should be:

- (1) there should be effective policy adjustments in borrowing countries; IMF conditionality rules were important in this connection;



- (2) short-term transitional financing should be available ?
from Governments and central banks;
- (3) in the medium-term, resources should be provided
through the IMF (subject to conditions on the policies
to be followed by borrowing countries), the World Bank
and its agencies, bilateral aid programmes, and also
(and especially, subject to commercial prudence) from
the commercial banks, who would continue to have the
major role;
- (4) the open market trading system should be preserved,
and the creation of new trade barriers avoided;
- (5) sustained non-inflationary recovery in the industrialised
countries would be the greatest contribution those
countries could make to the recovery of the developing
countries.

14. There were no signs of a French initiative on North-South relations. The Canadian representatives suggested that the developing countries would be looking to Williamsburg for the industrialised countries' response to the New Delhi statement of the meeting of the non-aligned countries. This suggestion did not attract any significant support: the more general feeling was that the message from Williamsburg to the developing countries should be on the lines of the points in paragraph 13 above.

15. On East-West economic relations the United States representatives argued strongly, in the light of the Versailles experience, against attempts to get the subject off the Williamsburg agenda: such attempts would not succeed, and would merely lead to an unsatisfactory discussion and outcome at Williamsburg. We should recognise now that the subject would be discussed, and get it into the right perspective. The United States was not seeking a trade war with the Soviet Union; but it should be recognised that trade with the Eastern bloc was not like other trade. It was therefore suggested that the Williamsburg Summit, basing itself on the principles set out in the Shultz "non-paper" summary of conclusions of



November 1982, should consider:

- (1) the action taken to date in NATO, the OECD, the IEA and COCOM as a result of the Shultz "non-paper";
- (2) the security implications of the trade aspects of East-West relations;
- (3) the possibility of further follow-up action.

This would lay the foundations for a more careful and considered strategy on economic relations with the Soviet Union, which could give important strategic advantages.

16. This produced long and unhappy responses from the French and German representatives, and to a less extent from the Italians and the Japanese. The Germans argued for a dual strategy of avoiding trade with the East which gave the Soviet Union opportunities for political blackmail, while being ready for dialogue, negotiation and cooperation: the Federal Republic needed this dual strategy in order to preserve a modus vivendi in a divided Europe and a divided Germany. The French representative said that the French Government was engaged in the various studies which were in progress, and these studies would probably yield good results if they were conducted objectively and were not pursued towards biased conclusions. If attempts were made to use the Williamsburg Summit as an occasion for seeking to establish a body of doctrine on East-West economic relations, the Williamsburg Summit would run into the same sort of trouble as the Versailles Summit. The French Government would attach more importance to specific decisions and action in COCOM and on the OECD consensus on credit than to trying to establish common doctrine which could prove an unachievable aim.

17. The discussion in the meeting was inconclusive, but contacts in the margins of the meeting showed that this was likely to be the most difficult subject to handle at Williamsburg and in the preparations beforehand. It seems likely that there can be common ground on noting and endorsing the work done in the OECD, the IDA and COCOM as a result of the Shultz "non-paper", and



perhaps on instructions for other specific studies of that kind; but the French will not be willing to countenance any explicit reference back to the principles in the Shultz "non-paper", and will probably have the support of the Germans and the Italians in resisting any attempt by the Americans to introduce into the discussion at Williamsburg or into the public statement at the end of it any general "doctrinal" statements on East-West economic relations.

18. On energy, it was agreed that the implications of the fall in oil prices should be considered in the course of the general economic and monetary discussion; and that unless there was a sharp further fall in oil prices which led to great uncertainty and confusion in the oil markets, there should be no need to call for a report from the High Level Energy Monitoring Group.

19. On the report of the Technology Working Group commissioned as a result of President Mitterrand's initiative at Versailles, the meeting agreed that the report should be published simultaneously in Summit country capitals on 23 March. Personal Representatives would have before them at their May meeting reports from members of the Working Group on progress in following up the proposals and projects set out in the report. The Williamsburg meeting might be asked to agree arrangements for monitoring future progress in this area. The British delegation said that any such arrangements should not involve the erection of any new international bureaucracy.

20. On terrorism and hi-jacking, the meeting noted that this could be reviewed nearer the date of the Summit, but agreed that the assumption should be that, unless something occurred between now and then which called for a reaction from the meeting at Williamsburg, there would be no discussion of the subject at Williamsburg and no reference to it in the final statement.

Administrative Issues

21. Personal Representatives discussed the schedule of meetings at Williamsburg proposed by the Americans, with a view to reducing the amount of moving round by Heads of State or Government and



maximising the time for discussion. We agreed to propose as follows:

- (1) Proceedings on Sunday 29 May should start with a short plenary session which would provide opportunity for a photocall and a statement of welcome by the President.
- (2) Heads of State or Government should meet on their own for the rest of the Sunday morning, with simultaneous interpretation but without notetakers. No attempt should be made to prescribe or suggest an agenda for this meeting in advance. At the same time there should be separate meetings of the Foreign Ministers on their own, to discuss political issues, and of Finance Ministers to discuss specific financial and monetary issues (eg the intervention and multilateral surveillance studies).
- (3) In the afternoon of Sunday 29 May the Heads of State or Government and Finance and Foreign Ministers should meet in plenary session with Personal Representatives as notetakers. The President would report on the morning's discussions of Heads of State or Government; Foreign Ministers and Finance Ministers would report on their meetings in the morning. The object would be that by the end of the afternoon's discussion the Personal Representatives would have material (and if necessary instructions) which would enable them to put in hand the preparation of a draft of the President's final statement.
- (4) There would be a plenary meeting on the morning of Monday 30 May. The first business of that meeting would be to consider the draft of the President's final statement; the object would be to have the draft agreed in time for the President to make the statement at a joint press conference of Heads of State or Government not later than 1.00 pm (so as to be in time for the morning editions of European newspapers the following morning).

22. There would be simultaneous interpretation at the formal meetings. Interpretation at meals would have to be provided by "whispering" interpreters. This is likely to be even more of a



problem than at previous Summits: neither the French President, nor the German Chancellor, nor the Italian or Japanese Prime Ministers have any English.

23. The Americans are at present proposing that dinner on Saturday 28 May and lunch and dinner on Sunday 29 May should all be taken in separate Ministerial groups: Heads of State or Government on their own, Foreign Ministers on their own, and Finance Ministers on their own. Some delegations (including the British) said that their Heads of Government might want one of the Heads of State or Government meals to include Foreign Ministers: perhaps lunch on Sunday 29 May. We shall need instructions if we are to press for this or any other variation from the American proposal.

when we go to the larger groups - we don't see very much work done!

24. The Americans propose a State dinner for all Ministers and delegates on the evening of Monday 30 May. The President will preside and Mrs Reagan will be present. The spouses of other Heads of State or Government will be welcome at the dinner. They will not be expected to come to Williamsburg before the afternoon of Monday 30 May, but those who come to the United States for the dinner will be provided with a programme of events over the weekend in Washington.

25. The President has in mind himself to attend a short church service in Williamsburg's Episcopal Church before the plenary session on Sunday 30 May. Any other Head of State or Government or Minister who would like to attend will be welcome, but the service will not be a Summit event. Invitations will not be issued, but the Americans would like to know in advance who will be attending.

Yes not

26. Arrivals at the airport and at Williamsburg will in principle be in reverse protocol order, and departures in protocol order. Departures from these orders can be arranged by negotiation.

*Prime Ministers
do you wish
to press for a
change?*

A.J.C. 23/3

*Prime Ministers
Will you
attend?*

A.J.C. 23/3

Press arrangements

27. The Americans now expect 6,000 (six thousand) journalists at Williamsburg.

28. The following briefing arrangements are provisionally proposed:

- (1) No briefing or interviews by Heads of State or Government until after the final joint press conference.
- (2) National briefings by official spokesmen after the morning meeting on Sunday 29 May.
- (3) A "Presidency" briefing by a spokesman for the President after the afternoon meeting on Sunday 29 May (content to be broadly agreed at the meeting), supplemented by national briefings by Ministerial or official spokesmen at will.
- (4) Press conferences and interviews by Heads of State or Government after the final press conference.

29. The Americans propose to insert photocalls into the schedule at various points: for instance, at the opening plenary session, and when Heads of State or Government walk from their meeting to lunch on Sunday 29 May.

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

A handwritten signature in dark ink, appearing to read 'RTA'.

ROBERT ARMSTRONG

23 March 1983

MR. COLLES

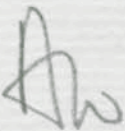
US ECONOMY AND THE WILLIAMSBURG SUMMIT

Foreign and Commonwealth Secretary's minute of 8 March. I think the Foreign Secretary's ideas spring from somewhat vague and misleading remarks that were made by Don Regan and George Shultz. During the visit of Vice President Bush and Martin Feldstein I brought up the press reports that had appeared intimating that Don Regan was more interested in some exchange control mechanism and intervention than he had hitherto appeared to be.

Feldstein said that both Regan and Shultz were apt to talk in rather vague terms about possible initiatives which might have some desirable consequences. However, they would not be proposing any such initiatives themselves. In fact in some cases Feldstein said they were merely saying there were two sides to the question.

I think much of the Foreign and Commonwealth's Secretary's understandings should be reviewed in that light. For example, it is quite inconsistent with existing decisions by the United States to "do more through the IDA". Indeed they have already announced that they are proposing a substantial reduction in the replenishment for IDA 7. And they have already reduced to about one-third their contributions to the Inter-American Development Bank and the Asian Development Banks. At least these are the proposals of the Administration which need to be ratified by Congress. But it is very unlikely Congress will propose any increase; on the contrary they are more likely to decrease the contributions.

I suspect this will be the main message about aid from San Diego.


ALAN WALTERS
22 March 1983

GRS 750

UNCLASSIFIED

FM UKMIS GENEVA 221435Z MAR 83

TO PRIORITY FCO

TELNO 114 OF 22 MARCH 1983

INFO WASHINGTON, UKDEL OECD, UKDEL IMF/IBRD, UKREP BRUSSELS.
INFO OTHER EC POSTS, UKMIS NEW YORK

PREPARATIONS FOR THE WILLIAMSBURG SUMMIT

1. THE US DEPUTY SECRETARY OF STATE, KENNETH DAM, GAVE AN ON THE RECORD ADDRESS HERE YESTERDAY (21 MARCH) AT THE BEGINING OF A TOUR MAINLY CONCERNED WITH DISARMAMENT ISSUES WHICH WILL INCLUDE OSLO, COPENHAGAN, BONN AND BUDAPEST. IT CONCENTRATED ON THE NEED FOR THE SUMMIT PARTNERS TO FORGE A STRATEGY FOR NON-INFLATIONARY GROWTH. (FULL TEXT BY TODAYS BAG TO THOMAS (AUS, FCO) GRAY (DOT) UNWIN (TREASURY) AND GREGSON (CABINET OFFICE)).

2. DAM SAID THAT THE SIGNS OF ECONOMIC REVIVAL SHOULD BE EVEN MORE OBVIOUS BY THE END OF MAY. WILLIAMSBURG WOULD DIFFER IN TONE AND CONTENT FROM OTTAWA AND VERSAILLES. IT WOULD BE FLEXIBLE, INFORMAL AND EMPHASISE POLICIES TO PROMOTE GROWTH ''WITHOUT REIGNITING INFLATION''.

3. AFTER ANALYSING THE CAUSES OF THE RECESSION IN STANDARD TERMS HE ARGUED THAT THE STRATEGY OF THE INDUSTRIALISED COUNTRIES SHOULD INVOLVE:

(A) COMBATTING PROTECTIONISM.

ALTHOUGH THE GATT MINISTERIAL HAD FAILED TO ACCOMPLISH ALL THAT WAS NECESSARY IT HAD KEPT THE GATT SYSTEM TOGETHER AND MOVING SLOWLY BUT POSITIVELY. NOW THE MINISTERIAL OPEN TRADE PLEDGE NEEDED TO BE TRANSLATED INTO CONCRETE MEASURES. PROTECTIONIST MEASURES SUCH AS UK AND FRENCH VOLUNTARY RESTRAINT AGREEMENTS WITH JAPAN ON AUTOMOBILES THREATENED TO CHOK OFF RECOVERY. PRESIDENT REAGAN HAD PLEDGED THE US TO OPEN TRADE. BUT THE U S WOULD MEET OTHER NATIONS' ''TRADE DISTORTING PRACTICES'' (SUCH AS CAP SUBSIDIES), PARTICULARLY WHEN THEY AFFECTED AREAS SUCH AS AGRICULTURE AND SERVICES WHERE THE US HAD A COMPARATIVE ADVANTAGE, THROUGH SERIOUS NEGOTIATION AND SELECTIVE ACTION (EG WHEAT FLOUR TO EGYPT).

(B) STRENGTHENING THE INTERNATIONAL FINANCIAL SYSTEM.

IMPORTS CUTS COULD ONLY FREE SO MUCH FOREIGN CURRENCY IN DEBTOR COUNTRIES. EXPORT GROWTH WAS ESSENTIAL. A STRATEGY OF BRIDGING FINANCE PLUS ADJUSTMENT PROGRAMMES LINKED TO IMF AND COMMERCIAL LENDING HAD BEEN SUCCESSFUL (BRAZIL, MEXICO). BUT PRIVATE LENDING IN THE SECOND HALF OF 1982 SHOWED A PRECIPITOUS DROP. THERE WAS A NEED FOR EXTENDING NEW MONEY TO LDCS, BOTH FOR DEBT SERVICE AND TO ENCOURAGE SOUND POLICIES.

THE

THE INTERNATIONAL ECONOMY WAS TOO VULNERABLE TO ALLOW A CONTINUED DECLINE IN LENDING TO THE THIRD WORLD; DAM WAS CONFIDENT CONGRESS WOULD RECOGNISE THE JUSTIFICATION FOR THE IMF QUOTA INCREASE.

(C) IMPROVING THE MONETARY SYSTEM.

FINANCIAL FLOWS WERE HAVING A POWERFUL EFFECT ON EXCHANGE RATE MOVEMENTS. THE APPRECIATION OF THE DOLLAR WOULD INCREASE THE US TRADE DEFICIT. VOLATILITY OF EXCHANGE RATES WAS ANOTHER COMPLEX PROBLEM: THE US BELIEVED "THAT A CONVERGENCE OF UNDERLYING ECONOMIC POLICIES WAS NECESSARY TO ACHIEVE GREATER EXCHANGE RATE STABILITY".

HE REFERRED TO THE INITIATIVE ON MULTILATERAL SURVEILLANCE TAKEN AT VERSAILLES.

(D) DEVELOPING A UNIFIED ALLIED APPROACH TO EAST-WEST ECONOMIC RELATIONS.

THE ECONOMIC MILITARY AND POLITICAL AIMS OF THE WESTERN DEMOCRACIES WERE INTER RELATED (A THEME FREQUENTLY UNDERLINED IN THE SPEECH). WILLIAMSBURG SHOULD SEE THE DEVELOPMENT OF POLICIES BASED UPON A NEW CONSENSUS.

4. IN RESPONSE TO QUESTIONS, DAM SAID THAT PRESS REPORTS OF NEW U S INITIATIVES ON GATT REFLECTED ONLY INTERNAL EXPERT LEVEL DISCUSSIONS WHICH HAD NOT YET MATURED. THESE DISCUSSIONS IMPLIED A RECOGNITION THAT GATT WAS NOT MOVING FAST ENOUGH, AND THAT AREAS SUCH AS SERVICES, AGRICULTURE AND FINANCE AND TRADE RELATED INVESTMENT WERE NOT ADEQUATELY COVERED. BUT HE REITERATED THE ADMINISTRATION'S COMMITMENT TO THE OPEN TRADING SYSTEM. PRESIDENT REAGAN WOULD USE HIS FULL LEVERAGE TO COUNTER PROTECTIONIST PRESSURES FROM CONGRESS.

5. DAM ALSO REAFFIRMED THE US COMMITMENT TO NEGOTIATE DIFFERENCES WITH THE COMMUNITY, MEETING "UNREASON WITH REASON" AND SAID THAT THE TALKS IN WASHINGTON LAST WEEK OFFERED HOPE FOR PROGRESS.

6. SEE MY IFT.
FCO PLEASE PASS SAVINGS
MARSHALL

REPEATED AS REQUESTED

LIMITED

ERD
ESID
WED
FED
NAD
ECD
PLANNING STAFF
TRED
ES & SD
EESD
NEWS DEPT
PS
PS/MR RIFKIND
PS/MR HURD

PS/MR RAISON
PS/PUS
MR EVANS
SIR J BULLARD
MR HANNAY
MR THOMAS
MR DONALD
MR HAYES
MR ADAMS
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ECONOMIC SUMMIT



Pl. copy to:-
 Mr. Walter
 Sir A. Saran.

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

Prime Minister

To note.

M

A.J.C. 15/3

FOREIGN AND COMMONWEALTH SECRETARY

US ECONOMY AND WILLIAMSBURG SUMMIT

Thank you for your minute of ^{in box} 8 March. We ought perhaps to review progress after the meeting on 16-18 March of Summit Personal Representatives, but I thought I should let you know at once that I am a little worried by some of the ideas you report from George Shultz and Don Regan.

2. Taking first the four main elements you ascribe to George Shultz:

- if the creation of an adequate level of global liquidity means more world-wide monetary expansion, I see a good deal of objection to it. With the increases in IMF quotas and GAB resources we have already substantially expanded the credit resources available to countries in balance of payments difficulty. The prospect of a very large US current account deficit this year is likely to add to the liquidity of the rest of the world. The case for still more global liquidity at this juncture has certainly not been made;
- preserving open markets is an admirable objective on which I comment further below;
- under the heading of improving the international monetary system, I would gladly include what we have already done in the IMF Interim Committee, and what I hope we may be able to do on exchange rate volatility in the longer run (and also on interest rates, which you mention);



- I agree also that political stability of developing countries needs to be strengthened, and the effective handling of debt situations, as well as the maintenance of flows of aid and credit, have an important part to play, but I would be chary of going very far beyond this in the area of financial support.

3. Turning now to the points which, according to the telegram from San Francisco, Regan would like to pursue at the Summit:

- the US interest in countering protectionism could be very valuable. I understand that the OECD Secretary-General is hoping to make this a major issue at the Ministerial Council in May. I think we should work on it ourselves, and aim to develop a practical proposal, which should as a minimum involve self-restraint by the leading industrial countries at the Summit, but should preferably go wider;
- it is good that Regan is interesting himself in possibility of expanding IBRD, and doing more through the IDA: did you get any impression whether he expects congressional difficulties to diminish?
- at all my recent meetings with Regan, he - and our German and Japanese colleagues - have been firm in rejecting the idea that industrialised countries should take special measures to stimulate their economies in order to act as the locomotive of recovery. I am sure that this rejection is right: the preferred alternative is a recipe for rekindling inflation.

4. I should like to reflect on the suggestion of a joint preparatory meeting of Summit Foreign Ministers and Finance Ministers. It would be difficult to mount such a meeting without considerable publicity.



But it might I suppose be possible for some of us to get together reasonably discreetly in the margins of the OECD Ministerial Council, if we at that stage felt the need for further and special preparation.

5. Let's take stock when we have Sir Robert Armstrong's report of his talks in California.

6. Copies of this minute go to the Prime Minister and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be "G. Howe".

GEOFFREY HOWE

16 March 1983

USA : Economic Situation

Pt 2

CONFIDENTIAL



Handwritten initials and a checkmark: "Jee" and "R" with a checkmark.

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

ECONOMIC SUMMIT

Your minute of 14 March described our present approach to the Economic Summit and brought to the Prime Minister's attention the general steering briefs for your meeting of the Personal Representatives on 17 and 18 March in San Diego.

You had a brief discussion about this with the Prime Minister this morning. As you know, the Prime Minister expressed concern about our current approach as illustrated by the briefs. In general, she thought we must resist all proposals which removed the pressures upon countries in economic difficulties to take steps to put their house in order. She was concerned that proposals, for example to make it easier for developing countries to borrow from the IMF, worked in the opposite direction. She considered that Williamsburg should reiterate the message of Versailles that each country must take the necessary internal measures to solve its economic problems. We must not encourage commercial banks to go beyond prudent limits. Nor did we need new institutional arrangements. She was doubtful whether it would be right to attempt to carry further the general ideas agreed at Versailles for promoting greater stability in exchange rates.

On procedure, the Prime Minister was concerned lest the preparations for the Summit should confine the participants too closely. The Prime Minister wishes to avoid a situation where Heads of State and Government are constrained by a rigid framework. She said that, depending on the results of the San Diego meeting, she might wish to send President Reagan a personal message about this matter.

It was agreed that, in the light of your eventual report on the San Diego meeting, there would be an early meeting under the Prime Minister's chairmanship to discuss the preparations for Williamsburg. We shall make arrangements separately for this.

May I leave it to you to bring this minute to the attention of others in Whitehall as necessary?

Handwritten signature: "A. V. COLES"

15 March 1983

CONFIDENTIAL

Handwritten mark: "A"

Ref. A083/0838

PRIME MINISTER

See overpage. This is quite different from the basis on which Mr...

- (1) Content with the general approach, especially X below?
- (2) Would you like a small meeting in the next two weeks to take a preliminary look at the main issues for Williamsburg? A-J.C. 14. 3

I am working and a lot of these briefs in (in my view) of a wide and Economic Summit nature and will not be.

I seek leave of absence from the Cabinet on Thursday 17 March in order to be present as your Personal Representative at a meeting of the Personal Representatives on 17 and 18 March in San Diego, California.

See my minute to Sir R. Amstrong. A-J.C. 16. 3

2. I shall be accompanied by Mr Richard Evans, Foreign and Commonwealth Office, and Mr Geoffrey Littler, Treasury.
3. The agenda for the meeting was in effect set by the message which President Reagan sent to you on 28 January (copy attached).
4. You may like to see the general steering briefs which have been prepared for me for this meeting, and the suggested answers to the questions in President Reagan's message, which will provide me with the framework for my contribution to the discussions.
5. The general aim for Williamsburg must be that the seven major industrialised countries should reach a broad consensus on the general direction which the financial and economic policies of each of them should be given. That general direction must be one of building on the signs of economic recovery now apparent in the United States and elsewhere, seeking positively to promote that recovery, in so far as that can be done without renewed inflation, and seeking to avoid policies (of high interest rates, or of trade protectionism) which would put the recovery at risk. The steering brief mentions the possibility of a framework for a collective strategy, somewhat on the lines of the United Kingdom's own medium-term financial strategy, covering the Summit countries collectively and individually, to be worked out with actual numbers. This seems to me likely to be an over-ambitious and unattainable objective; but a declaration which committed the seven Summit countries collectively to prudent policies which permitted a recovery of economic activity and a measure of growth without putting at risk what has been achieved in recent years in reduced inflation and improved efficiency would be a reasonably satisfactory outcome.

The Versailles Commission for 2 d. right-1



6. It may be possible at Williamsburg to take a stage further the general ideas agreed at Versailles for promoting greater stability in exchange rates: the United States Administration is less strongly opposed to intervention in markets than it was two years ago. The San Diego meeting may help to show what prospects there are of this.

7. We shall also be discussing possibilities of strengthening the machinery for international financial and economic co-operation, including possibilities of closer links between the IMF and the GATT. Both the United States and the German Administrations have been showing some interest in this recently, and it will be in our interests to be willing to explore the idea further, and encourage the United States and German Administrations to come forward with specific ideas.

8. Various other matters will no doubt come up, including the effects of the reduction of oil prices, and North-South relations; but the object will be to deal with these not as separate subjects but as part of the general international economic and financial situation and prospects.

RA

ROBERT ARMSTRONG

14 March 1983

I do not like the way that
 is developing. We are not seeking any
 new institutional arrangements or links.
 We are in danger of becoming
 committed to something fundamentally
 wrong just for the sake of saying
 something in a committee

GENERAL ECONOMIC AND FINANCIAL TOPICSBACKGROUND/STEERING BRIEFUK Objectives

A "fireside chat" with the kind of rambling agenda so far suggested will not do. Particularly given the poor command of English of several participants, this could not lead to any clearly agreed comments and ideas on the international economic scene, which the world and its press will expect. Leaving President Reagan as independent rapporteur would be particularly worrying, because some ideas may need considerable pressure on the United States if agreement is to be reached.

2. Therefore the objectives at the 16-18 March meetings should be:

- to identify more clearly some focal points of discussion, which should correspond to what are likely to be the main preoccupations of the leaders and their constituencies in May;
- to prepare the ground for a very few points on which the Summit could publicly agree, launch an idea, or bless some development already taking place.

Background

3. Emergence from recession is bound to be the dominant theme: is it happening? How to encourage it? How to avoid threats to it? How to achieve sustained subsequent recovery without inflation? What about employment prospects?

4. There have recently been a few welcome signs of economic recovery - with a good moral to be drawn from the fact that they appear in the four countries with the best record on inflation: Japan, Germany, the United Kingdom and the United States. Easing (but not a collapse) of oil prices will help. But real interest rates remain very high; the recovery is not yet, and may not be by May, widely spread and robust; and there are potential disruptive threats, particularly of debt problems and trade protectionism, which could cause setbacks.

5. The US economy is dominant, and potential US developments are still a major cause of worry. There is encouragement in recent signs of renewed activity and optimism, and inflation prospects for a year ahead seem very good. But:

- failure to get the Federal Budget under better control is a threat for the future and damages confidence now;
- this is the main reason why US interest rates may be difficult to bring down and hold lower; and temporary success would leave worries about future growth of money supply and inflation;
- the mood of Congress towards other countries is intermittently alarming: probably the GAB and IMF increases of resources will go through, but bilateral aid and contributions to IDA may suffer and bouts of protectionism are all too likely;
- the prospect of a very large US balance of payments deficit will add to tensions.

It is not impossible to envisage a path through all these worries, but it would be dangerous at this stage to overlook them.

6. Germany and Japan are likely to take approaches closely similar to that of the United Kingdom: the same worries about the United States; the same emphasis on prudence and refusal to accept demands for additional and artificial stimulus of economic activity; similar concerns about debt problems, protectionism, etc. France, Italy and Canada are likely to be ready to endorse the need for prudent policies for themselves, but anxious to press the other four countries to expand more rapidly in order to foster a more helpful environment.

Line to Take

7. The sensible focal points for discussion, and for public agreement or comment, go together. It would make sense to concentrate on no more than three or four, very much in descending order as set out below, unless some development between now and the Summit draws one of the special points towards the end into unexpected prominence.

8. First, broad strategy. We have from Versailles, most recently reiterated in the IMF Interim Committee in Washington, the makings of a consensus on desirable economic and financial policies of the Summit countries. It would be an important step forward if we could spell out the vague concept of convergence. It would also present a positive appearance if the policy prescriptions for individual Summit countries could be set in the framework of a collective strategy over the next few years. If we could get that far, something resembling the UK's own medium-term financial strategy, covering the Summit countries collectively and individually, and with invitations to other OECD countries to ally themselves with it, might be worked out with actual numbers (for monetary, public sector deficit and inflation targets).

9. If we are able to pursue the suggestion that the UK should prepare a background paper on progress in the world economy, we would have an excellent basis on which to advance, between March and the last meeting of Sherpas before the Summit, a basic proposition which the Summit could be invited to discuss and endorse. The March meeting could ^{be} the opportunity to manoeuvre the others into acceptance of the need for a general statement on the economies of leading industrial countries and their prospects and intentions. Obviously care will be needed not to push too far at this stage with what the United States in particular might resent as an attempt to over-organise the Summit.

so do I.

10. Secondly, exchange rate stability. Another inheritance from Versailles - and one which owed much to British initiative in prior discussion and speeches at IMF annual meetings, etc - is the study of exchange rate movements and intervention under Jurgensen (French official). The Report will be discussed by financial Sherpas on 16 March. Prospects are that there will be agreement that intervention can play a useful role and should be used where appropriate (an important shift away from United States benign neglect), but that it cannot make much contribution towards stability unless fundamental economic performance, particularly on inflation rates, between countries comes closer than in recent years (some concession here by France). This could provide the basis for a modest agreement to explore, and even begin in practice to operate, ideas of coordinated intervention against the background of (we must hope) a growing convergence of performance.

11. There is an important link between these two first headings: the arrangements also envisaged at Versailles to institute surveillance of the economies and currency movements of the five countries whose currencies make up the SDR (US, UK, Germany, Japan, France). It is the intention to hold another surveillance meeting around the end of April.

12. Thirdly, poorer developing countries. Setting aside those developing countries which have been sufficiently advanced, or have sufficient potential resources, to attract commercial lending, and many of which now present important debt problems, there is some need to look at the position of the poorer developing countries, which have suffered from the recession and from low demand and price for their commodity exports, and have seen a decline in the real value of official aid flows. One of the most important channels of aid for them is the International Development Association, and the unwillingness of the US Congress to ratify amounts offered by the US Administration has not only left prospective IDA flows in great doubt, but now threatens the basis of renewal of future IDA flows. If it were possible to make progress here, which inevitably depends on the US, it would be an important step forward.

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13. One further interesting possibility in the general aid field is that of promoting a new issue of SDR through the IMF, perhaps one in which wealthier countries would refrain from taking up their share. The subject will be discussed further in the IMF between now and the autumn. The question is contentious (and the UK's own attitude still uncertain), because the value of a move of this kind for developing countries has to be weighed against the obvious inflationary dangers of pumping additional liquidity into the world financial system. But the point could at this stage be put down as a marker for further consideration in May.

14. Fourthly, staving off threats. Three points most obviously arise, and treatment of all of them will depend on developments between now and the Summit:

- any measure or statement which can be made to strengthen moves against protectionism;

We must be realistic about this - we all make various statements - we all protect ourselves a bit of protectionism. not

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- further action which might become necessary if the measures already being taken to deal with major debt problems prove to be inadequate;
- oil prices.

Q1 - What are we doing domestically to achieve our common goal of sustained non-inflationary growth? Are we progressing towards our goals? What more do we seek to do?

A1 - The Summit countries agreed at Versailles on the need for prudent monetary policies and for greater control of budgetary deficits if inflation and real interest rates were to be reduced and a durable basis laid for increased growth and employment. The pursuit of these policies over the medium-term still seems to us essential to secure a lasting economic recovery. We need therefore to assess our policies both collectively and individually in this light.

Summit countries have in general continued to try to moderate monetary growth, but rates of increase have varied sharply between countries and in some cases - particularly in the United States - institutional changes and shifts in liquidity preference have made it difficult to interpret monetary movements. Nevertheless, in broad terms a firm but flexible monetary stance, coupled with the sharp slowdown in inflation that we have seen over the past year, is leading to an overall rise in real monetary growth which should in turn be consistent with rising real output. It will be important to ensure that we sustain this prudent stance.

Success in reducing budget deficits has in many cases proved elusive. General government budget deficits in the Summit countries as a whole rose last year to about 4 per cent of GDP on average and seem likely to be similar - if not higher - this year. Part of the increase has been due to the recession.

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Some countries have acted particularly vigorously to offset this effect (Japan, Germany and the UK), but in others, structural factors have added to cyclical factors (the US, France and Canada). It is important to set current budgetary policies in the medium-term framework. Those countries where structural deficits are most stubborn have perhaps the greatest need to set them on a convincing declining path. Those where the structural deficit is being brought under control need perhaps to ensure that adequate attention is paid to cyclical factors.

The reduction in inflation and the depressed level of activity has been accompanied generally by a reduction in nominal interest rates. This has been most marked in the United States. Interest rates have also fallen in other countries. Rates, however, remain historically high relative to inflation levels. Reasons for this are unclear, but the persistence of high budget deficits and uncertainty about future inflation may be important contributory factors. This reinforces the need for prudent policies and lower budget deficits both to improve inflationary expectations and to bring down real interest rates.

The reduction in inflation and fall in nominal interest rates in our countries have helped to create the conditions for recovery - the first signs of which are now appearing. We share the view that a moderate rise in world activity and trade seems likely during the course of this year. Our task

both collectively and individually is to ensure that steady policies both leave enough scope for growth in the short-term while preventing a resurgence of inflation in the medium-term.

The way in which Summit leaders see the prospects and policies for sustained economic recovery must surely be a key feature of what comes out publicly at the end of the meeting. It will be worth considering whether this could be couched in terms which put a collective stamp on the slightly different efforts required from individual countries, and provide a collective context - a kind of medium-term financial and economic strategy for the leading industrial countries collectively.

[We should revert to the idea of a paper by the UK as background for discussion of the progress of the world economy as a whole, which would give the opportunity for spelling out a future strategy in disciplined but reasonably attractive terms]

Q2 - What are the implications of our policies for other countries, particularly developing countries?

A2 - Within the Summit group, policies in individual countries can affect interest rates, inflation and activity in others even under floating exchange rates. In recent years interest rates have fluctuated widely with accompanying volatility in exchange markets. The free movement of capital tends to transmit monetary pressures relatively rapidly between countries. This makes it particularly important that the Summit countries all adhere to their joint purpose of reducing real interest rates. In individual countries this implies that monetary control must be supported by adequate budgetary policies.

Imbalances in domestic policies can also contribute to external payments imbalances. A disturbing feature of most of the forecasts for the period ahead is the prospect of growing current payments imbalances between some of the major countries. The prospect of a significant current deficit in the United States, offset by surplus in Japan and Germany poses the risk of further volatility in exchange markets. We need to consider how the balance of domestic policies affects the balance between domestic and external activity in our economies.

Policies in the major countries as a whole clearly have a marked impact on smaller economies, including developing countries. The determination of the major countries to

reduce inflation necessarily involved a period of sluggish activity in their own economies, and this disinflationary process has been transmitted to the developing countries. The most marked effects have been through the slowdown in their export revenues due to depressed world trade and weak commodity prices and through the rise in their debt service costs due to higher world interest rates.

The reduction in inflation and interest rates in the major economies and the prospect of a recovery in activity and trade should ease the problems of developing countries giving them growing markets, firmer prices for their products and reduced debt costs. It will be important, however, that they themselves continue their own adjustment efforts.

They will require finance from official institutions and commercial banks while they carry out this process. In the case of the least developed countries there will be a continuing need for aid flows.

[Points on which it would be appropriate to focus are: debt problems and the need for (satisfaction with) a major IMF role with enhanced resources - see also Q.5; and increased flows of official aid, where IDA and the willingness of the United States to contribute adequately to it may be the most important single feature.]

Q3 - What actions which other countries might take are compatible or incompatible with our individual efforts?

A3 - The interest of the Summit countries as well as the rest of the world is that the recovery that is now in prospect should be both durable and broadly based. The recovery will only be a lasting one if it is not accompanied by a renewed rise in world inflation and interest rates from which individual countries cannot insulate themselves. This implies that major countries need to avoid excessively expansionary monetary and fiscal policies. The United States by the size of its economy and the importance of the dollar in world financial markets bears a special responsibility both to maintain moderate monetary growth and to ensure that its budget deficit is on a convincing downward path.

All countries need to contribute appropriately to the recovery. The decline in world markets in 1982 - both in Summit partners and in non-oil developing countries - was a particular factor hindering growth in the UK where domestic demand was rising satisfactorily. A broadly-based recovery of world activity and trade is in all our interests. Thus it is important that in these countries where inflation has been brought under control this should result in a rise in domestic activity. This will then contribute to the overall recovery.

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It is important, too that countries should eschew protectionist measures. Liberal trade offers the best prospect for improving efficiency among the major countries, and by offering growing markets to developing countries it should make it easier for them to service their debts and adjust their economies.

[This is probably the best heading under which to press the argument against protectionism and any related proposals (separate Department of Trade brief) and to hold any appropriate discussion of oil prices (separate Department of Energy brief)].

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Q4 - What are the current obstacles to a better inter-relationship among our domestic policies, international trade relationships and world financial requirements?

A4 - Divergent inflation performance as well as different policy emphases continue to make exchange rates volatile and in particular cases have been accompanied by increased protectionist pressures.

A narrowing between Summit countries' inflation rates can only be achieved through greater convergence of policies. In view of the Versailles commitment to seek lower inflation, this implies a particular need for firm policies by those countries with above-average inflation rates. A narrowing of inflation differences should help to reduce exchange rate fluctuations.

At the same time it will be necessary to narrow real interest differentials. This implies at least in part that countries tailor their fiscal policies to take account of the pool of domestic savings available rather than rely excessively on the provision of additional funds from overseas, which may complicate other governments' financial plans and lead to disruptive exchange rate movements.

Differences of performance or inconsistency of policies between countries may lead to payments imbalances or exchange rate movements, but these should not be met by protectionist measures but rather by improved policy coordination.

Q5 - What is the proper role of the various international institutions in dealing with the inter-related problems of domestic policy, expanding trade and an open financial system?

A5 - The IMF has a key role in providing finance to countries undertaking firm adjustment programmes. Many of the major debtor countries now have IMF programmes, but the adjustment process is likely to be slow and we cannot rule out further countries seeking IMF help. The Fund, therefore, must be provided with adequate resources. The enlarged and enhanced GAB, together with the recently agreed quota increase, need to be implemented promptly.

from enough because we are constantly including it. too easy for them to get out of their hands

The Fund also has an important role in surveillance of countries' economies and policies, particularly as regards exchange rate and payments regimes. These regular discussions provide a useful opportunity both to examine individual countries' performance and to promote the open trade and payments system.

The BIS has played a welcome and valuable role recently in providing short-term finance to debtor countries in the interval before an IMF programme can be agreed. The BIS has been particularly well-placed by reason of its expertise and the information at its disposal both to monitor short-term liquidity problems and to mobilise resources quickly. Recent experiences have demonstrated the importance of countries going to the IMF at an early stage but in the event of further short-term problems the BIS may still have an important role.

The higher the resources the freedom the variety of debtors countries The dollar basis when we are not

The World Bank's major role is to provide long term development finance to its developing member countries. IBRD and IDA loans for economically viable projects and medium term structural adjustment programmes complement the balance of payments assistance available from IMF and BIS. IFC has a useful role in promoting private sector development. Of the three World Bank affiliates IBRD and IFC make few demands on member Governments. However, IDA which lends on near grant terms to the poorest countries has to rely almost exclusively on donor country contributions. It is generally agreed that scarce aid resources should be concentrated on the poorest countries which are unable to borrow commercially and that LDC Governments should be pressed to adopt sound economic policies. IDA is the most effective instrument for pursuing both these aims and it is important that donor countries should continue to provide it with adequate resources on an equitable basis.

N.B. This means that aid should not go to the countries among the 3rd world
 The World Bank Group is also an important source of economic policy advice for its borrowing countries, it analyses development policy issues more generally in its annual World Development Reports and is a useful form for discussing new proposals such as the idea of a multilateral investment insurance agency.

The GATT continues to have a key role in safeguarding the open trading system. It is important that we press ahead with the work agreed at last autumn's Ministerial meeting. It is important, too, that we recognise that maintenance of the open trading system requires consistent response across a wide front involving not only the various international bodies but also bilateral arrangements and domestic policies. The GATT of course deals with the major tariff barriers to trade, but the IMF considers competitive exchange rate manipulation and barter deals, while the OECD considers export credits.

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ECONOMIC SUMMIT: PERSONAL REPRESENTATIVES, 16-18 MARCH

BRIEF NO 3: EAST-WEST ECONOMIC RELATIONS

POINTS TO MAKE

1. President Reagan's questions will play important rôle in focussing discussion by Heads of State and Government at Williamsburg. We have attempted to answer them (Annex A). Entirely right that leaders should have a general, philosophical exchange. But this should be in the context of the follow-up work to which we are all committed in the Summary of Conclusions.

2. Believe that we are, overall, making good progress in this work. The OECD dossier for the Ministerial in May is in hand. The NATO Security Study is underway. Work on the Energy Study is making good progress. COCOM's High Level Meeting next month looks like being a success. Discussion of Other High Technology is beginning. Too early to predict precisely what the overall state of play on this work will be at Williamsburg. But with good will and a constructive spirit there should be a reasonable dossier for Heads of State and Government to examine there.

3. Work in hand is most sustained and comprehensive so far undertaken in this field. Believe it is essential on four grounds :-

- a) Must take proper account of concern expressed about security implications for West of our current policies in this field. Essential to check that there is no conflict;
- b) We should try harder to reach consensus on what economic policy should be towards the East. This may require a measure of compromise from all of us;
- c) By talking and working together we reduce the risk of

unilateral measures which damage Western unity;

- d) Specific problems in this field are more easily soluble if we can create an overall framework, based on the facts.

4. Pipeline dispute showed damage caused by different perceptions and unilateral actions. Also highlighted damage West suffers from extraterritorial legislation. Am sure Summit leaders will want to discuss this at Williamsburg.

ECONOMIC SUMMIT: PERSONAL REPRESENTATIVE'S MEETING 16-18 MARCH

BRIEF NO 3: EAST-WEST ECONOMIC RELATIONS

ANNEXES

- A Responses to President Reagan's questions (his message of 28 January to the Prime Minister)
- B Summary of Conclusions, with manuscript annotations
- C Detailed account of the specific work in hand
- D A note on strategic exports
- E Recent conversation between Mr Pym and Secretary Shultz

ESSENTIAL FACTS

The Work

1. Agreement last November on the text of a Summary of Conclusions (Annex B), which led to lifting of the pipeline sanctions, committed Summit partners (and, later, non-Summit EC and NATO partners minus Greece) to specific bits of work, later allotted as follows :-
 - i) An OECD ex-post review of East-West Economic Relations;
 - ii) An OECD/IEA Energy Study, including European projected energy requirement and dependence on imports (during the course of which Europe would not sign new contracts for purchasing Siberian gas);
 - iii) A NATO Study on the Security Aspects of East-West Economic Relations;
 - iv) Furtherwork in COCOM, including a second High Level Meeting next month;
 - v) Immediate examination of need for controls on Other (non-COCOM) High Technology, including oil and gas technology;
 - vi) 'Work urgently further to harmonise export credit policies'.

2. i) and ii) and iii) may be completed before the Williamsburg Summit which President Reagan sees as the key deadline. The Summit can also take stock on iv). The difficulty lies with v) and vi), which are the most controversial items. The Americans have only just tabled proposals on v). They realise that none of their partners will readily accept controls beyond COCOM, and may eventually settle for agreement to review the position at regular intervals. On vi), no doubt recalling their failure to persuade partners before and at the Versailles Summit, the Americans have so far put forward no specific proposals, although in OECD Consensus negotiations they have proposed a general tightening of export credit terms for all rich markets (including the Soviet Union).

3. In her message of 13 November 1982 to President Reagan, the Prime Minister said :-

'although we cannot be committed in advance to the outcome, I will instruct my officials to contribute wholeheartedly and expeditiously to the agreed programme of work'.

4. Although President Mitterrand initially disowned the Summary of Conclusions, the French are participating fully in the follow-up work. But they, and the Germans, and Italians seem less concerned than us about the importance the Americans attach to a serious and fundamental examination of the subject.

5. The Canadians and Japanese seem likely to agree in general to what other Summit partners can accept. But the Japanese are particularly resistant to the idea of controlling exports of other high technology.

6. It is unclear what the Americans expect to get from this exercise. The President and many other people in Washington want recognition that technology transfer should be tightened (both that with military applications and that which generally enhance Soviet economic power to damage the Alliance), that the subsidy element in exports should be further reduced if not eliminated, and that Europe is in danger of mortgaging its security by buying Siberian gas. As the minimum the Administration expects recognition that American concern over Western economic policy towards the East merits more attention than hitherto, that Western policies may need some fine tuning and more coordination, and that the subject should be kept under regular review. This outcome would suit us well. Anything more radical would probably not be acceptable to our EC partners, or to Japan.

Extraterritoriality

7. Pipeline dispute highlighted problems caused by powers in Export Administration Act, which affected, for 'foreign policy' not security reasons companies outside the United States who were part-owned by Americans or held US licences, products and technology sold by the US to European companies for re-export to the Soviet Union, and jeopardised existing contracts. British (and Canadians) long engaged in dialogue with Americans about extraterritoriality. Other Europeans, and Community, became interested during pipeline dispute.

The Export Administration Act is up for renewal in October. While bearing in mind the risk of linkage between progress in this field and concessions to the Americans on East-West economic relations, it is a good time to press objections to its excessive pretensions. American industry also concerned about its implications. But US Administration wishes to preserve President's existing wide powers.

DRAFT ANSWERS TO PRESIDENT REAGAN'S QUESTIONS

Question 1: What is the strategic and economic importance of East-West trade for each of our countries and economies?

Answer: East-West trade is in itself relatively small. It absorbs only some 2% of UK foreign trade, less for the USA, and only about 4% for the EC as a whole. But it is concentrated in certain sectors where it is of major importance to those concerned, and where business lost cannot be replaced elsewhere. European and Japanese exports to the USSR and East Europe are mainly industrial goods and manufactured products. US exports are primarily of grain. The large size of orders and the profitability of the business make it attractive to Western concerns. In the particular sectors concerned, the employment implications can be major. This is sometimes in depressed areas: for example, some 1,700 Clydeside jobs depended on John Brown Engineering delivering for the Siberian pipeline. Approximately half of total East-West trade is with the Soviet Union, some 75% of whose exports to the West are of hydrocarbons, and only around 5% machinery/manufactured goods.

2. There are two broad strategic questions :-

- (i) Whether we can use trade as a lever to influence Soviet behaviour in other (political and military) fields, by developing or restricting it;
- (ii) Whether a reverse leverage exists, whereby the Soviet Union and Eastern Europeans could exert pressure on the West by threatening restrictions of exports (eg oil and gas), refusing to import as normal (eg American grain), or threatening default (on debt owed to the West).

There are no easy answers to these questions. The two trading systems are so different that it is difficult to compare the benefits

/to

to either side and assess who derives the greatest advantage.

Past history has shown that the Soviet Union has been relatively impervious to attempts to gain political concessions through economic pressures (eg the Jackson-Vannik amendment on Jewish emigration in return for MFN status). But care obviously needs to be taken to ensure that dependence in individual sectors is kept within reasonable limits.

3. East-West trade has to be seen in the context of the need to maintain our security interests while maintaining a stable and lasting peace. We must create stable relationships, including trading relationships, in which we can pursue our own commercial and industrial interests while safeguarding our security. This means not contributing to the Soviet military effort and maintaining the technological gap in our favour - we all participate in COCOM, and are fully committed to the enforcement of its controls - while pursuing trade which confers an appropriate balance of advantage to both sides (no-one has suggested that we wage economic warfare on the Warsaw Pact nations). Within the limits of commercial and financial prudence we must also define carefully what our security interests really are, and whether trade in certain categories of goods in either direction may affect them. This is why we welcome the studies now underway, and look forward to their results.

Question 2: What are our respective national policies and institutions that affect this trade?

Answer: Outside COCOM goods, British policy towards East-West trade and economic relations is based on the principle of commercial advantage. As a trading nation depending on raw materials, our economy cannot survive, let alone grow, unless world trade expands. It follows that we cannot justify restrictions on trade except for closely defined defence reasons, or in certain limited circumstances, for political reasons. We believe that British companies should be able to trade normally in the Soviet and Eastern European markets. To this end we should to the maximum possible extent promote unrestricted trade. We do not believe in expanding trade with the East solely because it might give the Soviet Union an interest in a more constructive East-West political relationship (although this might be the effect). But by the same token we should not restrict trade in non-strategic goods in normal circumstances simply because of the Soviet Union's ideological and political systems. But we must safeguard our vital interests; hence our commitment to COCOM, and our belief that careful and precise definitions of the limits of its controls, and of the products/technologies to which it should apply, are necessary. These definitions will depend on how we define our strategic interests although it will be detrimental to the interests of all if attempts are made to cast the net too widely for all to agree. We hope the studies will help in this respect, and hope to see some results by Williamsburg.

2. Where our domestic institutions and multilateral institutions are concerned, we believe that the divergent interests of those wishing to expand East-West trade in the interests of unrestricted trade and the generation of employment, and those wishing to
/restrict

restrict it out of security considerations, must be represented
in those fora where policy is defined.

Question 3 : How do we perceive our common interests in this area and the goals served by these interests?

Answer: Our immediate interest in East-West trade, as in trade with other parts of the world, is to expand trade leading to commercial and material benefit for our companies and their employees, and thus national (and international) enrichment. However, with East-West trade in particular care must be taken to ensure that pursuit of our commercial interests does not do damage to our overall strategic interests. This is the reason for COCOM.

2. Governments should avoid generating uncertainty; they should enable their companies to trade knowing that their contracts and other (eg licensing) agreements will be respected, and that the guidelines of what they may and may not buy and sell are, and will remain, clearly defined and predictable. Governments should observe, and urge observance on the East Europeans, of the CSCE provisions in the area of trade and commercial relations. One of the lessons of the pipeline affair is that unilateral action, especially when retroactive, without prior consultation, is more damaging to ourselves than it is to the Russians.

3. We also believe that it is also in our political and economic interests to maintain a policy of differentiation between some East Europeans and others. It makes sense to be cooperative with countries whose political/economic policies tend to increase their degree of independence from Moscow. We should not make the mistake of lumping all the East Europeans together in one basket, either with each other, or with the Russians.

4. Commercial credit, both Government backed and unguaranteed, should continue to be extended to Eastern Europe as a normal part

of our efforts to develop trade. But the normal principles of commercial and financial prudence should apply. Two factors should be borne in mind, and they apply particularly to Government backed credit. First, such credit should be applied in accordance with the OECD Export Credit Consensus. Second, the overall debt of Eastern European countries should be kept down to levels which the countries concerned can realistically be expected to service. We must not forget the lesson of Poland: the Soviet Union will not necessarily act as the lender of the last resort to their East European clients.

5. On imports, we meet the question of reverse leverage, of how much of what products we can safely import. With energy, it is important to have secure long-term supplies at reasonable cost. With the largest proven reserves of hydrocarbons in the world, it is natural that the USSR should be a major supplier. In importing from there we must ensure that our strategic concerns are fully met but, provided the safeguards exist, it would not serve our interests to try to shun a plentiful, relatively cheap, and not inaccessible supply.

6. We believe that the Western nations should consult on East-West trade to avoid disharmony in our respective approaches. We should accept that differences of emphasis between us may exist for valid commercial and structural reasons; but we should recognise that areas of consensus can be found. Examples of a broad based consensus already exist in both COCOM and the OECD Export Credit Arrangement. Preservation and extension of this consensus is essential if we are to pursue sensibly the twin goals of realistically protecting our security interests at the same time as pursuing our commercial advantage.

Question 4 : Are we progressing towards our goal? What more do we need to do? What conclusions of the East/West Studies should be adopted for common action?

Answer: We consider that we are progressing - albeit slowly - towards our goals. The pipeline dispute acted as a catalyst. In our view, it is of the greatest importance to establish an overall framework for East/West trade and economic relations which all can abide by. It is especially important not to attempt to make rules which do not command general acceptance, and not to attempt to enforce in existing institutions restrictions which some see as unrealistic or unwarranted. It is essential to assess the security implications of our trade and economic relations with the East, and then agree on our approach.

2. COCOM is already implementing the agreed conclusions of the High Level Meeting in January 1982. We cannot yet say what more we need to do, nor what conclusions of the studies should be adopted for common action. We must wait until the studies are completed: we are committed to them without prejudice to their outcome and so should allow their results to guide us in our deliberations. The facts themselves should point the direction. As far as the UK is concerned we hope that the studies will help all of us to achieve a more unified and less fractured perspective on East-West economic relations. In the wake of the studies, we would also hope that all of us concerned will agree on the principles underlying our economic relations in the East.

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10 DOWNING STREET

From the Private Secretary

14 March 1983

US Economy and Williamsburg Summit

The Prime Minister has seen the minute of 8 March by the Foreign and Commonwealth Secretary to the Chancellor of the Exchequer on this subject.

She agrees that it is necessary to damp down excessive expectations about the Summit but has commented that the general description of the Summit's objectives given by Mr. Shultz in his testimony to the US Senate (paragraph 6 of Mr. Pym's minute) is precisely the type of public comment which will give rise to excessive expectations.

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

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

10 March 1983

Corrected.

Dear John,

add 1/3

The US Economy and Williamsburg

Mr Pym's minute of 8 March to the Chancellor contains a typing error in paragraph 6. One of Mr Shultz's four elements has been omitted. The second sentence of paragraph 6 should read: 'He identified four main elements in his approach: creating an adequate level of global liquidity; preserving open markets; improving the international monetary system; and strengthening the political stability of development countries.'

I am copying this letter to John Coles and Richard Hatfield.

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

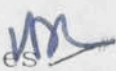
J Kerr Esq
HM Treasury

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110 MAR 1983



M. MATFIELD

cc Mr Coles 
Mr Fall
Mr Goulden
Miss Wallace o/r

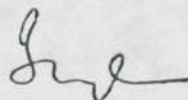
WILLIAMSBURG ADVICE

As promised I have now co-ordinated a line on the contentious point under the heading of Paragraph 5 of my minute to Sir Robert of February 10.

I agree with FCO that our advice on this paragraph should reach the following conclusion:

Against this background, we consider that there should again be no interview restrictions on participating Ministers (as distinct from Heads of State or Government, subject in these cases to a proviso about the need to react to crises).

The question of whether there is to be a formal communiqué is of course a policy decision. If however there is not to be a formal communiqué we need to prepare media opinion in advance. Otherwise the lack of a communiqué could become an issue in itself.



B. INGHAM

8 March 1983



It is mainly this kind of vague letter (para 6) which gives rise to false expectations

cc JV (2)

FCS/83/44

CHANCELLOR OF THE EXCHEQUER

Prime Minister

To see - especially para 7.

A.J.C. 1/3.

US Economy and Williamsburg Summit

1. I read with great interest your minute of 24 February to the Prime Minister about the US economy and the prospects for the Williamsburg Summit. During my recent visit to the United States I discussed these issues with Donald Regan and George Shultz.
2. It is encouraging that there are now more optimistic signs of an upturn in the US economy. The leading and current indicators appear to be moving in the right direction. President Reagan and George Shultz are taking the line that the United States is firmly on the road to recovery and, though Donald Regan sounded a more cautious note, he acknowledged that the corner had been turned.
3. The size of the prospective US budget deficit remains a major cause for concern. There is still a good deal of doubt about the ability of the US authorities to bring it down in the longer term. This uncertainty in turn inhibits a further reduction in interest rates. Nevertheless I had the impression that the US administration is coming to grips with the problem of the deficit with greater resolve than seemed to be the case in the past. Recovery from recession would make their task on the budget much easier.
4. The prospects for world recovery will of course be the principal theme of Williamsburg. I entirely agree that we should damp down excessive expectations about the Summit. At the same time, I was struck by a recent article by Henry Kissinger in Newsweek of 24 January (I enclose a copy). Kissinger took the line that the political as well as economic and financial risks in the present situation are so serious that Western leaders must give a positive and coordinated lead. I think this is right.



5. At Williamsburg, the Prime Minister will be able to point to the successes we have already achieved. We have significantly lowered the level of inflation. We aim to sustain a rate of expansion of domestic demand of around 3% in real terms. This will be a significant contribution to a process of world recovery. I think we should meanwhile be encouraging the other participants to think in terms of what they might contribute to such a process. It seems to me essential that Williamsburg should add to international confidence; and that a necessary condition for this is that the Summit countries should demonstrate that they possess both the will and the capacity to help bring the world out of recession.

6. George Shultz recently argued in his testimony to the US Senate that the opportunities for growth must be seized. He identified four main elements in his approach: ^{preserving} ~~creating~~ open markets; improving the international monetary system; and strengthening the political stability of developing countries. I would have added the reduction of exchange rate volatility and of interest rates. Should we not build on these ideas in planning for Williamsburg?

7. Donald Regan suggested that I should discuss with George Shultz the possibility of a joint preparatory meeting of Finance and Foreign Ministers before the Summit if this seemed likely to be helpful nearer the time. (I enclose a copy of the reporting telegram). I wonder whether the idea of such a meeting, perhaps in April, might have merit? I recognise the difficulties and dangers of an unproductive meeting. There is a risk that the meeting might complicate rather than clarify the issues, and I am conscious of the general desire not to pre-cook the Summit too much and inhibit discussion. But effective preparation at the political level, to which such a meeting could contribute, should help rather than hinder.

creating an adequate level of global activity;



8. When you are free of work connected with the Budget, I should be interested to have your views, in particular on the advisability of a joint meeting as suggested by Regan.

9. I am copying this to the Prime Minister and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'FP', with a horizontal line underneath.

(FRANCIS PYM)

Foreign and Commonwealth Office

8 March, 1983

IMMEDIATE
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CONFIDENTIAL
FROM SAN FRANCISCO 050255Z MAR 83.
TO IMMEDIATE F C O
TELEGRAM NUMBER 16 OF 4 MARCH
INFO IMMEDIATE WASHINGTON.

FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE'S TALKS WITH SECRETARY REGAN: 4 MARCH.

1. REGAN, WHO WAS IN SAN FRANCISCO FOR THE PRESIDENT'S DINNER FOR THE QUEEN, CALLED ON THE SECRETARY OF STATE AT HIS HOTEL ACCOMPANIED BY A NOTETAKER. SIR O WRIGHT AND I WERE ALSO PRESENT. THE MEETING LASTED A LITTLE OVER HALF AN HOUR.

US ECONOMY

2. MR PYM SAID THAT HE HAD HEARD SOME VERY OPTIMISTIC PREDICTIONS. REGAN SOUNDED A NOTE OF CAUTION BUT ACKNOWLEDGED THAT THE ECONOMY HAD TURNED THE CORNER. THE FEAR NOW WAS OF A ROMAN CANDLE UP AND DOWN SIMILAR TO THAT WHICH HAD OCCURRED DURING THE CARTER ADMINISTRATION. HE WOULD BE GLAD TO SETTLE FOR A LOWER SLOPE TO BRING ABOUT SUSTAINED RECOVER. IT COULD BE DONE: IT WAS SURPRISING HOW QUICKLY INFLATION HAD BEEN BROUGHT RIGHT DOWN. BUT TOO MUCH BULLISH TALK ON THE PART OF THE ADMINISTRATION

BUT TOO MUCH BULLISH TALK ON THE PART OF THE ADMINISTRATION
HE MENTIONED THAT THE PRESIDENT HAD A DILEMMA HERE, GIVEN HIS
NATURAL DESIRE TO CAPITALISE ON GOOD NEWS) WOULD MAKE IT HARDER
TO MAINTAIN TIGHT FISCAL POLICIES.

OIL PRICES

3. REGAN SAID THAT FORCES HAD BEEN SET IN MOTION THAT WOULD NOT
BE UNDONE FOR MANY YEARS TO COME. IT WAS WORTH ASKING WHETHER
WE MIGHT GET BACK TO THE DOLLARS 12 TO 14 RANGE, BUT HE HAD
ASKED HIS PEOPLE TO WORK OUT THE IMPLICATIONS OF PRICES AT 25, 20
AND 15 DOLLARS, HE ADMITTED THAT TOO SHARP A FALL WOULD CAUSE
PROBLEMS, BUT WAS INCLINED TO DISCOUNT THEM APART FROM WHAT
HE REGARDED AS THE SPECIAL CASE OF MEXICO (SEE BELOW). THE
OUTSTANDING DEBT OF THE COUNTRIES WHO WOULD BE MOST AFFECTED
(HE MENTIONED NIGERIA, INDONESIA, VENEZUELA, PERU, ECUADOR AND
EGYPT) WAS COLLECTIVELY NO GREATER A PROBLEM THAN GOVERNMENTS
AND FINANCIAL INSTITUTIONS HAD PROVED ABLE TO DEAL WITH OVER
BRAZIL. THERE WOULD BE A STRAIN, BUT IT COULD BE HANDLED AND
THE CORRESPONDING BENEFITS WOULD BE THE GREATER. WEALTH WOULD
START SHIFTING BACK TOWARDS THE OIL CONSUMING COUNTRIES.

INTERNATIONAL BANKING SYSTEM

4. REGAN SAID THAT ONE OF THE LESSONS OF THE RECENT DEBT CRISES IN
LATIN AMERICA HAD BEEN THE LACK OF KNOWLEDGE ON THE PART OF
INDIVIDUAL BANKS OF WHAT OTHERS WERE LENDING TO THE SAME COUNTRY.
THE DITCHLEY GROUP WAS THE BEGINNINGS OF A CLEARING HOUSE WHICH
SHOULD PREVENT THIS HAPPENING AGAIN. WHAT WAS TO BE
AVOIDED WAS THE SORT OF PIE IN THE SKY SUPER-CENTRAL BANK
SOLUTION WHICH FOUND FAVOUR WITH THE G77 AND SOME OTHERS.
THE SECRETARY OF STATE AGREED THAT WE SHOULD WORK ON THE BASIS OF
THE INSTITUTIONS WE HAD.

Mexico

5. REGAN SAID THAT ANY FURTHER LOWERING OF OIL PRICES WOULD INCREASE THE MEXICAN FOREIGN EXCHANGE SHORT-FALL. IT WAS REASONABLE FOR THE INTERNATIONAL COMMUNITY TO EXPECT THE UNITED STATES TO PLAY THE MAJOR ROLE, GIVEN ITS PARTICULAR POLITICAL CONCERNS, BUT THE UNITED STATES COULD NOT DO IT ALL. THEY WOULD HAVE TO LOOK AT THE BIS FOR COLLECTIVE HELP AND ANOTHER OPERATION MIGHT BE NEEDED THIS SUMMER.

WILLIAMSBURG SUMMIT

6. REGAN SAID THAT HE HAD DELIBERATELY HELD OFF PREPARATORY MEETINGS OF FINANCE MINISTERS UNTIL THE POLITICAL SITUATION IN THE PARTICIPATING COUNTRIES WAS CLEARER. HE AGREED WITH MR PYM THAT THE MAJOR COUNTRIES WOULD HAVE TO WORK IN THE SAME DIRECTION TO SECURE A SUSTAINABLE RECOVERY. NEITHER THE UNITED STATES NOR ANYONE ELSE COULD DO IT ALONE, BUT IT WAS DIFFICULT TO THINK IN TERMS OF CONVERGENT POLICIES UNTIL WE KNEW THE RESULTS OF THE GERMAN ELECTIONS AND WHICH WAY FRENCH POLICY WOULD TURN. FINANCE MINISTERS WOULD MEET IN WASHINGTON IN APRIL AND THEN ONCE MORE BEFORE THE SUMMIT. HE SUGGESTED THAT THE SECRETARY OF STATE MIGHT WISH TO DISCUSS WITH SHULTZ THE POSSIBILITY OF A JOINT PREPARATORY MEETING OF FINANCE AND FOREIGN MINISTERS IF THIS SEEMED LIKELY TO BE HELPFUL NEARER THE TIME. THE SUMMIT SHOULD LOOK AT TWO SPECIFIC POINTS:-

(1) PROTECTIONISM: WERE WE CONTENT WITH SLOGANS OR WERE WE PREPARED TO TAKE ACTION? AT THE MOMENT THE US WAS BEING PUSHED BY THE FARM LOBBY INTO SOME VERY ABRASIVE ACTIONS. BOTH SIDES HAD FACTS THAT COULD POINT TO. IT WAS ESSENTIAL THAT POLITICAL LEADERS PUT INTERNATIONAL CO-OPERATION ABOVE THE FARM VOTE. THE FACT THAT BOTH US AND THE FRENCH GOVERNMENT WERE SUBSIDISING SUGAR BEET FARMERS WAS WASTEFULLY EXPENSIVE AND SERVED AT THE SAME TIME TO RUIN THE

WASTEFULLY EXPENSIVE AND SERVED AT THE SAME TIME TO RUIN THE ECONOMIES OF COUNTRIES (E.G. COSTA RICA) WHOSE STABILITY WAS IMPORTANT. US FARMERS WERE BY NO MEANS POOR, BUT WERE POLITICALLY IMPORTANT. MR PYM EMPHASISED THE IMPORTANCE OF AVOIDING A TRADE WAR AND SAID THAT THE TALKS BETWEEN THE US AND THE EC OFFERED THE WAY FORWARD ON AGRICULTURAL TRADE. BEGAN SAID THAT EVEN IF THE US WON A TRADE WAR IT WOULD PROVE A PYRRIC VICTORY: THE US NEEDED THE EC MARKET FOR ITS AGRICULTURAL PRODUCTS.

(11) THE INDUSTRIALISED COUNTRIES SHOULD ASK THEMSELVES WHETHER THEY COULD IN EFFECT ACT AS THE LOCOMOTIVE OF RECOVERY FOR THE WORLD ECONOMY. IF THEY COULD NOT, HOW WOULD WE DEAL WITH THE COUNTRIES WHO COULD NOT GENERATE GROWTH BY THEMSELVES? ONE POSSIBILITY MIGHT BE TO EXPAND THE WORLD BANK, OR TO DO MORE THROUGH THE IDA.

FCO PASS WASHINGTON

BEAVEN

NNNNV ZIISAARSUMDFWTHM

PRESS REPORTS

FOR INTERNAL CIRCULATION ONLY

This article, "Saving the World Economy," by Henry A. Kissinger, former U.S. Secretary of State, appeared on pages 46-49 of *Newsweek*, January 24, 1983.

INTERNATIONAL

Saving the World Economy

The challenge is not simply economic; at stake is the survival of free societies.

By HENRY A. KISSINGER

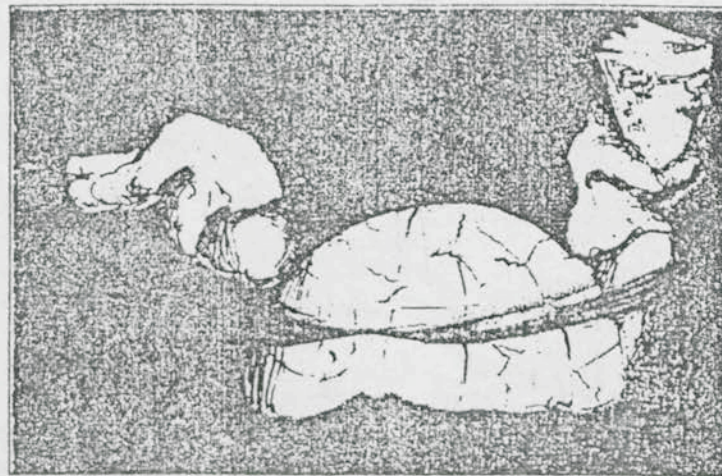
John Maynard Keynes wrote that practical men who believe themselves quite exempt from intellectual influences are usually the slaves of some defunct economist. Politicians these days certainly have many economic theories to choose from; most discordant, not a few of them defunct. No previous theory seems capable of explaining the current crisis of the world economy. Until recently it would have been thought impossible that prices could rise during a recession; that a system of relatively free trade and floating exchange rates could spur embryonic trade wars; that the developing nations, through defaulting on their debts, could threaten the economies of the industrial nations.

When reality clashes fundamentally with expectations, a political crisis is inevitable. That condition is upon us today. Since World War I we have expected progress. The historical business cycle of boom and bust seemed a relic of history. In virtually every Western nation the standard of living rose uninterrupted. Jobs were so plentiful that many countries encouraged the immigration of foreign labor. Although the developing countries lagged far behind, the more advanced among them—such as Brazil, Mexico and South Korea—were beginning to share in the seemingly permanent prosperity.

This illusion of uninterrupted progress was suddenly shattered in the middle '70s. There were many causes: the welfare state grew dramatically faster than productivity; inflation accelerated; high taxation reduced incentives; a generation of economic security eroded the work ethic. But what transformed these structural problems into a crisis was the more than tenfold increase in oil prices between 1973 and 1980. At first it drove inflation out of control and—when governments put on correspondingly severe brakes—it triggered global recession. Thirty million workers are now unemployed in the industrial democracies and their number continues to increase. The developing nations are crushed under the twin burden of debt and collapsing hopes of progress.

No government of an industrial democracy has survived an election since these conditions became chronic. Socialist or liberal governments in West Germany, Britain and the United States have been replaced by conservative ones; conservative governments in France, Greece, Spain and Sweden have been succeeded by socialist ones. The common feature is not the program of the parties but the condition of the societies: restlessness with a recession that seems to have neither remedy nor end; fear of a future to which there are no signposts.

If the peoples of the West lose faith that democratic governments have control over their economic destinies, the economic crisis could become a crisis of Western democracy. Each country will turn inward to protect its immediate patrimony, eroding



• From the Fund's External Relations Department •

cooperation and paradoxically deepening the world recession. In a world of many perils, continuing economic weakness is likely to undermine the democracies' ability to conduct an effective foreign policy or to maintain their collective defense.

Historians will never settle conclusively whether the economic policies of the New Deal overcame the crisis of the '30s or delayed its resolution. But Franklin Delano Roosevelt has earned his place among our great presidents not because of his economic theories but because he restored confidence in the ability of our democratic institutions to master their difficulties. Today's crisis poses a comparable challenge. Now, as then, the first reaction is to cut consumption, reduce imports and expand exports. Now, as then, purely economic measures will not work.

In the first place, economic recovery through austerity almost surely will take longer than the citizens of most advanced democracies will tolerate; in the developing world, austerity may cause

political chaos. More important, a remedy appropriate for the economic ills of one nation may prove self-defeating if applied by many nations at once. If many nations simultaneously reduce consumption and imports and boost exports, none can possibly succeed. Trade will be stifled, recession will be institutionalized and the risks of political instability compounded.

Before this downward cycle goes too far, the governments of the industrial democracies must reverse the process. They must promote

economic growth, and they can do so only in coordination; solitary efforts are bound to fail.

If we do not act, we face many risks, including the loss of the relatively free international trading system that was the basis of postwar prosperity. Contrary to classical economic theory, a free trading system does not run itself; it requires a conscious act of political leadership. In the best of circumstances that task is formidable; deep recession makes it next to impossible.

The Politics of Free Trade

In theory free trade benefits everybody. Tariffs and other trade barriers, it is said, encourage inefficiency, restrict commerce and lower the general standard of living. But the theory of free trade is rooted in a world that no longer exists. Adam Smith first advanced it in 1776, when Great Britain had a near monopoly in industrialization. Competition benefited some British industries and not others, but it did not affect Britain's total employment. As other nations industrialized (almost invariably behind temporary tariff walls), free trade prospered because there were abundant world markets and only a few key nations—no more than four or five—representing homogeneous cultures with comparable living standards operating by the discipline of the gold standard.

...y's world economy, by contrast, contains at least 20 significant trading nations of widely different cultural backgrounds with great variations in labor costs and standards of living, each claiming sovereign control over its economic decisions. In such conditions, competition became more ruthless and its impact more drastic. No longer does one sector of industry within one country benefit at the expense of another; rather whole industries decline simultaneously or even move from one country to another. The problems of our steel and automobile industries require no elaboration; very few television sets are still made in the United States. Many European countries with high expenditures for social welfare and inflexible labor costs are in an even more difficult position.

All political pressures and incentives of the modern democratic state work against the acceptance of the bitter medicine of government-sponsored austerity and cutthroat foreign competition. The loss of jobs sets up fierce pressures for protectionism. Nearly all industrial democracies—even while they give lip service to the ideals of free trade—have sought to nudge the terms of trade in a nationalist direction. Subsidies of exports, nontariff barriers to imports, guaranteed credits, as well as the manipulation of exchange rates become the order of the day. While one or two nations can occasionally manipulate the free-trading system to their advantage, the attempt by all nations to do so will surely wreck it.

The hope for recovery of a cooperative world order depends on the preservation of the free trading system. The industrial democracies must either agree to adhere to the principles of free trade—or else they will live in a mercantilistic world of unilateral actions and bilateral deals. At the same time, the free-trading system will not survive in a world of chronic recession. There is no hope of resisting the tide of protectionism unless the world returns to a path of economic growth.

But recovery will not take place if different countries in the industrialized world continue to pursue incompatible economic policies. America, as the strongest country, must take the lead. It cannot do so, however, in isolation. The industrial democracies must achieve an unprecedented coordination of their national economic policies. No single American initiative would more effectively reverse the deterioration of the Western Alliance than a call for a coordinated program to insure the general economic expansion of the free world. Nothing is more likely to encourage a sound political evolution in the developing countries than the hope that they may share soon in renewed growth. And nothing would more effectively strengthen our hand with our adversaries than the assurance that the democratic world has dedicated itself to the recovery of economic strength.

Exchange-Rates Politics

Perhaps no other field so dramatically illustrates the changing fashions in economic theory and its growing incompatibility with political practice than the current system of international exchange rates. Throughout the 19th century currencies were stable; prices in 1914 were essentially unchanged from 1812. The gold standard gave political leaders an alibi for self-discipline. And even when the gold standard was abandoned after World War I, nations fixed their exchange rates by formal agreement.

As recently as 1969, fixed-exchange rates were still an article of

faith. I remember a meeting of cabinet-level officials when someone suggested a change in the value of the dollar. He was never given a chance to put forward his case. It was explained to him—with the forced patience of the exasperated—that the dollar as a reserve currency had to have a fixed value; indeed it was technically impossible either to revalue or to devalue it for all other currencies would simply follow suit.

Within a few years intellectual fashion had made a 180-degree turn. By 1973 a totally new system of floating exchange rates emerged from largely unilateral American actions. The new rules made possible—indeed encouraged—continuous changes in the value of all currencies. The value of currencies was no longer fixed; the market was supposed to determine it. No country, it was held, would tolerate an overvalued currency because it reduces the competitiveness of exports, or an undervalued one because it creates inflationary pressures. When the value of their currency changed, governments were expected to take immediate remedial action.

Unfortunately, practice belied theory; far from establishing discipline the floating system tended to erode it. When currencies weaken, exports thrive; for a country eager to sell abroad, the incentive to remedy this state of affairs is minimal. Some major trading nations—Japan is the prime example—have even been accused of deliberately maintaining an undervalued currency. Other countries have overvalued their currency to serve domestic policies. The United States, for example, has relied on high interest rates to fight inflation, thus boosting demands for the

dollar. The remedy was successful—at least in the short run—but the consequence was to drain the world's liquidity, reduce global investment, and to weaken the competitiveness of American products, both at home and abroad.

In short, unilateral decisions regarding exchange rates have profoundly affected the world economy and the well-being of many countries that had no part in them. Unpredictability encourages speculation; the system tempts imbalances instead of adjusting them. A

new form of nationalistic competition evolves, all the more bitter for never having to be made explicit; the floating system encourages the myth that governments make no decision at all.

An overhaul of the international monetary system is therefore a precondition to world economic recovery. Secretary of the Treasury Donald Regan's suggestions for reform are an important start; they need to be translated into specific initiatives. While a more fundamental reform is being negotiated, the central banks could in the meantime agree on a realistic range for permissible exchange-rate fluctuations and take action when relationships among major currencies move outside this range. Reform of exchange markets and practices is only a partial step. Monetary reform, like free trade, will not succeed without the coordination of fiscal and monetary policies to prevent the imbalances that give rise to the misalignment of currencies in the first place.

OPEC's Ominous Legacy

Any serious effort to restore the world economy must come to grips with the massive debts of the developing nations and the threat they pose to the international economic and political order. There is a special irony here. For the better part of a decade, the developing countries have been insisting on a massive transfer

Thirty million workers are now unemployed in the industrial democracies. The developing nations are crushed by debt and dashed hopes of progress. Economic recovery through austerity will likely be intolerable even to most advanced democracies; in the developing world austerity could cause political chaos.

INTERNATIONAL

resources in the name of what they called a New International Economic Order. The industrial democracies have either rejected or evaded the proposal. Now it transpires that a vast and virtually unnoticed transfer of resources has in fact been undertaken by the much-maligned capitalist banking system on a scale that not even the most enthusiastic advocates of official aid would have dared to propose.

The energy crisis of the '70s has turned into a parable on the fallibility of human foresight. Each party acting perfectly reasonably in response to immediate pressures nevertheless created an almost insoluble complexity. The oil producers, suddenly awash in dollars, placed their surpluses into Western commercial banks, usually in the form of short-term deposits. The banks, flush with resources unimaginable even a few years earlier, competed fiercely for long-term loans to developing countries—especially to the more advanced countries of Latin America. Governments encouraged the process of "recycling" the petrodollars in order to maintain the oil producers' incentive to pump oil and also to foster the economic growth of the developing world. The passiveness of government and the competitiveness of the banks solved an immediate problem by mortgaging the future. When the short-term deposits of the oil producers were converted into the long-term lending of the banks, the Western financial system became enormously vulnerable.

The industrial democracies have therefore wound up paying for the energy crisis three times: first in the inflation and recession induced by high oil prices; then in the inflationary pressures arising from the massive extension of credit to help developing nations, and finally in the threat to the Western financial system caused by the inability of the developing nations to repay their debts.

The developing countries face a comparable triple jeopardy. First the rising oil prices consumed most if not all of the official aid extended to them. Next the high interest rates caused by the oil-price increases made it impossible to repay the commercial debt that served as a supplement to official aid. Now they confront an austerity from which even stable oil prices may not be able to extricate them. Falling oil prices help energy-importing countries like Brazil; they spell potential disaster to overextended oil-producing debtors like Mexico, Nigeria or Venezuela.

The wealthy oil producers are free of debt, but caught in the vicious circle as well. They have geared their development budgets to rising oil prices. Now that prices are stable and even declining, they are left with a budgetary deficit that they meet by drawing down their balances in Western banks. But this reduces the funds available to help the non-oil-producing developing countries through their debt crisis.

In 1982 interest payments alone ranged up to 45 percent of the total exports of goods and services of the developing countries. An attempt to repay principal—amounting to some \$500 billion—would increase that percentage substantially. These figures spell a crisis. The debtor countries cannot possibly earn enough to meet their present obligations, at least for so long as the recession continues and probably for long afterward.

Creditors and debtors are thus bound together in a system in which disaster for one side spells ruin for the other. The creditor cannot cut the debtor off from further aid without risking not only

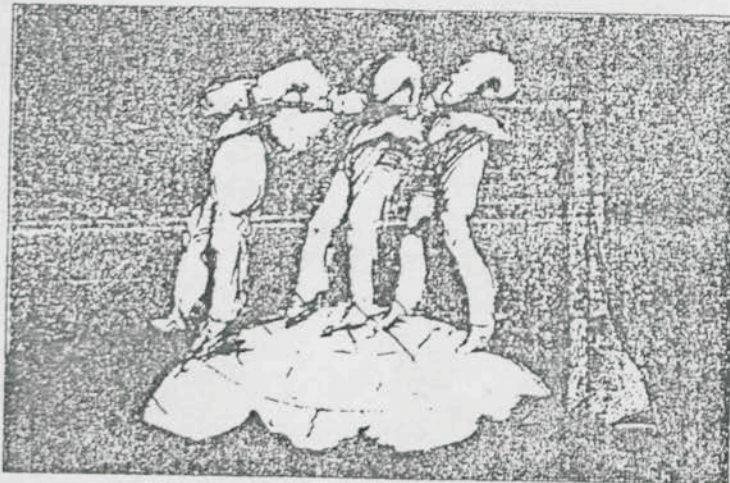
a banking disaster but also a deepening of the recession. The developing countries, after all, absorb more than one-third of U.S. exports (and more than 40 percent of the exports of the industrial democracies). For the United States this is more than we export to the European Community and Japan combined.

Because the debtors can never escape their plight unless they receive additional credits, the comforting view has developed that no debtor country would dare default and wreck its creditworthiness. Unfortunately political leaders march to a different drummer than financial experts. They see the political interests of their country through the prism of their own survival. If pushed into a corner, a political leader may well seek to rally populist resentment against foreign "exploiters." This will surely occur if the so-called rescue operation concentrates primarily on the repayment of interest. A blowup is certain sooner or later if debtor countries are asked to accept prolonged austerity simply to protect the balance sheets of foreign banks.

The key question thus becomes: what is the likely impact on the political structure of the debtor country of the conditions demanded for "rescheduling," or stretching out, their debt payment? At risk here is the internal political evolution of several developing countries, including many important friends of the United States. If the debt crisis winds up spawning radical anti-Western governments, the financial issues will be overwhelmed by the political consequences.

Of course it would be absurd for the International Monetary

Fund (IMF) to launch a rescue operation without seeking to correct the economic practices that brought debtor nations to the edge of the precipice. But the conditions imposed must be relevant to the real problem. How meaningful, for example, is the commitment to austerity of an Argentine military government daily losing legitimacy and in the process of turning over its authority to civilians of a quite different political orientation? With the best of intentions, can these targets be met? And if not, what incentive does such a government have to re-



frain from a politically popular repudiation of debt?

But the IMF conditions can be even more dangerous when they are fulfilled. For then, the debtor country may undermine itself politically. Western governments in economic trouble have occasionally used conditions imposed by international lenders as an excuse to practice an austerity that domestic politics might otherwise have prevented—Britain in late 1976 is a good example. In most developing countries, however, prolonged austerity is bound to shake, perhaps to shatter, the legitimacy of political structures that are the principal expressions of national cohesion and identity.

Few debtor nations have unemployment insurance or other institutions that in the West cushion the social impact of economic downturns. A policy of forcing developing countries to reduce their standard of living drastically over a long period is likely to weaken precisely those moderate governments that are the most likely to accept Western advice. If pushed too far it risks provoking radicalism that will rally public opinion (and perhaps other debtors) by defying foreign creditors. This must be the opposite of the West's intent.

Existing international arrangements are hardly well-designed to recognize this danger, much less deal with it. The principal institution for overcoming the liquidity and repayment crisis of the debtor nations is the IMF. But the IMF's original purpose was

to lead to individual countries that found themselves in temporary difficulty. The IMF has performed this function admirably. But the IMF was not designed to deal with a crisis of the system affecting scores of debtor nations simultaneously.

As country after country admits its inability to pay even interest—and therefore renounces any immediate prospect of repaying capital—the IMF will quickly discover that it does not have the resources to rescue the entire developing world. But even an increase in its resources—and in recent weeks the United States has thrown its weight behind the effort to beef up the IMF's available funds—cannot cure the inherent contradiction in the IMF's basic strategy. As a condition for its assistance, the IMF almost invariably insists on measures that have the effect of contracting the economy, increasing unemployment and reducing consumption, in order to slow imports and shift resources to exports. The problem is that IMF conditions cannot work if applied at the same time in many countries, particularly in a period of global recession.

Above all, austerity in a developing nation is politically bearable only if rapid progress can be shown toward an escape from the vicious circle in which debt service consumes export earnings. The heart of the problem is that the current rescue effort pretends to "solve" a debt problem that is in fact insoluble in the immediate future. In the process it does provide an excuse for banks to continue lending. But our real objective must be to promote a sustained process of growth in the developing world; without it, all the frantic activity of rescheduling is simply delaying the inevitable crisis.

The first step must be to change the bargaining framework; the debtors should be deprived—to the extent possible—of the weapon of default. The industrial democracies urgently require a safety net permitting some emergency governmental assistance to threatened financial institutions. This would reduce both the sense of panic and the debtor's capacity for blackmail. At the same time it would permit a more far-sighted approach to the debt crisis focusing on the long-term growth of the developing world. Simultaneously, new crisis machinery should be created. The IMF needs an early-warning system and advance consultation among the principal lenders so that crises can be anticipated and prevented. But in the end the issue is psychological. The debt problem is the symptom, not the cause, of a structural crisis. The developing world must be given hope for a better future if it is to sustain the immediate and inevitable austerity without convulsions.

The Challenges to America

Only America can lead the world to rapid economic recovery, and we cannot fulfill this role without a long-term economic strategy. The free market is the most successful mechanism of producing prosperity and freedom. But the free market alone will not overcome the present economic crisis. The government must play a crucial role. We need clear decisions in at least two crucial domestic areas relevant to foreign policy.

The first is energy. There are powerful national-security reasons for reducing our dependence on foreign oil, and with it the risk of blackmail. But with oil prices stable or declining, there is little incentive for the large investments needed for systematic development of alternative sources of energy—even though it is

all but certain that within the decade the energy crisis will return. When the recession ends, demand will increase; the Persian/Arabian gulf has surely not seen its last political convulsion. In addition, some oil-producing countries will deplete their reserves. The oil glut is temporary, a breathing space for the democracies to insure themselves against future crises. Since current market conditions do not encourage the necessary investments, the government should provide the incentives to encourage alternative sources—as well as creation of strategic oil reserves.

Similarly if we are serious about free trade, we have an obligation to cushion some of its harmful consequences on our people. International competition and automation can no longer be counted on to create more jobs than they abolish, as theorists used to assure us. High unemployment may in fact become chronic even after the recession ends. And as unemployment reaches the white-collar labor force, discontent may spread to the middle class whose frustrations have historically been the breeding ground of extremism and rampant nationalism. If we prize either domestic or international stability, a conscious strategy to ease the adjustment process is therefore imperative—including programs of retraining, emergency assistance, and tax incentives and other measures to encourage the flow of resources to the sectors with the most potential for growth.

Finally, it is not too early to prepare a fall-back position, in case we and the other industrial democracies fail to coordinate our economic policies; we may then have no choice except to

prepare to insure our competitive survival—deliberately and systematically—in the rough new world of unilateral trade practices and bilateral arrangements that is sure to follow.

This agenda will require a major change in the role of our government. Government, industry and labor must act as partners in setting the broad outlines of a national strategy, which should then be maintained on a bipartisan basis. Of the industrial democracies only Japan has managed this tour de force, and its national strategy

is one reason for Japan's competitive edge in world markets.

In the immediate postwar period the Marshall plan saved the European democracies by offering the vision of a better world. Sacrifice was sustained by hope. The United States faces a comparable challenge today, both toward the industrial democracies and toward the moderate countries of the developing world. Clemenceau said that war is too serious an affair to be left to generals. By the same token the current global economic crisis is too grave to be left to financial experts. The political and moral impetus to restore hope to Western economies must come from the heads of state and their foreign ministers. For the stakes are high: whether the economic system as we have known it will hold together—as well as the political relationships that go with it. The next economic summit at Williamsburg—or perhaps a less public forum—could serve as the launching pad for a new policy.

Nearly two centuries ago the German philosopher Immanuel Kant predicted that eventually world order would come about either through intellectual and moral insight or through the experience of chaos. We are still in a position to make that choice. If the United States does not lead, we will sooner rather than later be confronting a panicky stampede. If we seize the initiative, we can draw from uncertainty and incipient despair an act of creation. And this, after all, is how almost all great creations have come about.

Our real objective must be to promote sustained growth in the developing world; without it, all the frantic debt rescheduling simply delays the inevitable crisis. Only America can lead the world to rapid economic recovery, and we cannot fulfill this goal either in isolation or without a long-term economic strategy.

USA,
Economic
Structure, Pt 2

18 MAR 1983





Prime Minister Econ Summit ②

Not much news here. You do not need to read the attachments.

mf

A.S.C. 251/2

Page 25/2

Ref. A083/0657

MR COLES ✓

I mentioned at yesterday's briefing meeting for the Anglo-Italian bilateral that the United States Secretary of State had given a press conference on 17 February about the Williamsburg Economic Summit.

2. The United States Personal Representative has now sent me a transcript of Mr Shultz's statement and answers to questions and of a comment on them by Mr Eugene Brake. I attach copies herewith.

3. The United States Personal Representative describes Mr Shultz as expressing the hope that the leaders of the Summit countries will have an opportunity for a free, informal and fruitful exchange of views without the need for a rigid agenda; and he hopes that other Personal Representatives will take a similar line in any discussions with the press about the Williamsburg Summit.

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

RA

ROBERT ARMSTRONG

25 February 1983

EUR-509
(BACKGROUND FOR THE WILLIAMSBURG SUMMIT)

EXCERPTS: SHULTZ FEBRUARY 17 NEWS CONFERENCE

SEVEN SET ON INFORMAL SUMMIT, SHULTZ SAYS

WASHINGTON -- THE HEADS OF SEVEN MAJOR INDUSTRIAL NATIONS ARE DETERMINED TO HAVE A "RELATIVELY INFORMAL" ECONOMIC SUMMIT MEETING IN MAY, U.S. SECRETARY OF STATE GEORGE SHULTZ SAYS.

AT WHITE HOUSE NEWS CONFERENCE FEBRUARY 17, SHULTZ TOLD REPORTERS THAT THE LEADERS WANT TO "SPEND A FAIR AMOUNT OF TIME JUST WITH THEMSELVES OR WITH A VERY FEW OTHER PEOPLE AND REALLY TALK OUT SOME OF THESE IMPORTANT (ECONOMIC) ISSUES AND GET SOME IDEA OF WHAT THEIR COUNTERPARTS THINK."

THE ECONOMIC SUMMIT MEETING IS SCHEDULED FOR MAY 28-29 IN WILLIAMSBURG, VIRGINIA, A HISTORIC TOWN RESTORED TO ITS EIGHTEENTH CENTURY APPEARANCE. ATTENDING WILL BE HEADS OF GOVERNMENT FROM THE UNITED STATES, FRANCE, UNITED KINGDOM, WEST GERMANY, ITALY, JAPAN, AND CANADA.

FOLLOWING IS A PARTIAL TRANSCRIPT OF THE SHULTZ PRESS CONFERENCE, INCLUDING ALL SUBSTANTIVE COMMENTS BY THE SECRETARY OF STATE:

(BEGIN EXCERPTS)

SECRETARY SHULTZ: THE MESSAGE OF WHAT WE HAVE TO SAY ABOUT THE SUMMIT, IN A WAY, CAN BE ILLUSTRATED BY A DESCRIPTION OF AT LEAST THE LITTLE BIT I'VE SEEN OF SUMMITS IN THEIR EARLY STAGES. BACK IN EARLY 1975, PRESIDENT FORD GOT AHOLD OF ME -- I WAS A PRIVATE CITIZEN -- AND TOLD ME THAT SOME OF THE LEADERS OF EUROPE HAD THE LEADING INDUSTRIAL DEMOCRACIES TO TALK OVER THE PROBLEMS OF THE INTERNATIONAL ECONOMY, THE THINGS THEY WERE DOING, THEIR PERSPECTIVES ON THEM, AND IDEAS THAT THEY HAD FOR WHAT SHOULD BE DONE ABOUT THEM. AND HE DIDN'T KNOW QUITE WHAT TO MAKE OF THESE SUGGESTIONS, BUT, SINCE IT HAPPENED THAT I KNEW SEVERAL OF THE PEOPLE INVOLVED, WOULD I MIND GOING AROUND AND TALKING TO THEM AND GET A LITTLE CLEARER IDEA OF WHAT WAS ON THEIR MINDS.

SO I DID THAT, AND IT TURNED OUT THAT WHAT WAS ON PEOPLES' MINDS AND WHAT I REPORTED BACK TO PRESIDENT FORD WAS THAT THERE WERE PROBLEMS AND, CERTAINLY, THERE ARE TODAY, AND THAT IT OUGHT TO BE A USEFUL THING FOR THE HEADS OF THESE COUNTRIES TO GET TOGETHER AND SHARE THEIR IDEAS, DEVELOP WHATEVER COMMON THOUGHTS THEY COULD, AT LEAST HAVE A DISCUSSION SUCH THAT, AS THEY RESPECTIVELY WENT ABOUT MAKING DECISIONS ABOUT ECONOMIC POLICY, THEY WOULD HAVE IN MIND THE PERSPECTIVES AND THE THOUGHTS OF THE OTHER PARTIES, AND THAT, IN ORDER FOR THIS TO TAKE PLACE, THEY REALLY HAD TO KIND OF GET TOGETHER AS PEOPLE AND TALK AND GENUINELY SHARE IDEAS, HAVE AN INTERCHANGE.

AND THAT WAS WHAT, IT SEEMED TO ME, THEY REALLY WANTED, AND, AS IT TURNED OUT, PRESIDENT FORD THOUGHT THAT WAS A GOOD IDEA. AND SO THE FIRST OF THESE SUMMITS, THAT WAS HELD AT RAMBOUILLET, EMERGED.

I'VE NEVER BEEN TO ONE OF THEM, ALTHOUGH I'VE BEEN INVOLVED IN HELPING GET SEVERAL OF THEM GOING IN ONE WAY OR ANOTHER. BUT I UNDERSTAND THAT THE RAMBOUILLET SUMMIT WAS A RELATIVELY INFORMAL KIND OF MEETING IN A PLACE THAT WAS PRIVATE. A GREAT DEAL OF THE TIME WAS SPENT WITH THE HEADS OF STATE TALKING WITH EACH OTHER. THEY HAD OTHER PEOPLE AROUND -- FOREIGN MINISTERS AND TREASURY SECRETARIES AND SO FORTH. BUT, BASICALLY, THE EMPHASIS WAS ON AN INTERCHANGE OF VIEWS AMONG THE HEADS OF STATE.

WE FIND NOW THAT THE DESIRE OF ALL THE HEADS OF STATE IS TO HAVE THAT KIND OF A MEETING IN WHICH THE MAXIMUM AMOUNT

OF TIME POSSIBLE IS SPENT WITH THEM BY THEMSELVES, TALKING WITH EACH OTHER, OR WITH OTHERS AROUND, BUT IN -- NOT WITHOUT AN AGENDA, BUT WITHOUT A SORT OF SUPERSTRUCTURED KIND OF AGENDA THAT WOULD SORT OF INTERRUPT THE FREE FLOW OF CONVERSATION AND EXCHANGE AMONG THEM.

SO THAT IDEA IS DOMINATING THE THINKING BEHIND HOW THIS WILLIAMSBURG SUMMIT WILL BE ORGANIZED.

THE AGENDA, OF COURSE, IS NOT REALLY DISCUSSED MUCH, LET ALONE AGREED TO. BUT THE APPROACH TO DOING IT IS FOR THE VARIOUS, THE RESPECTIVE PERSONAL REPRESENTATIVES TO GET DIRECT THOUGHTS FROM THEIR HEAD OF STATE AND TO TRY TO DEVELOP AN AGENDA BASED ON THOSE THOUGHTS. SO, LET'S SAY YOU HAVE AN APPROACH TO THE AGENDAS FROM THE TOP DOWN, AS DISTINCT FROM AN APPROACH WHICH HAS THE RESPECTIVE DEPARTMENTS AND MINISTRY PEOPLE WORKING AWAY WITH EACH OTHER AND DECIDING WHAT THE ISSUES ARE AND TRYING TO FRAME A TIGHT AGENDA LOOKING TOWARD A COMMUNIQUE THAT IS BY AND LARGE PRE-WRITTEN AND SO ON.

SO THAT IS THE APPROACH THAT'S BEING TAKEN AND, OBVIOUSLY, IN THAT KIND OF AN APPROACH THE EMPHASIS IS ON THE INTERCHANGE THAT TAKES PLACE AT THE SUMMIT, AS DISTINCT FROM SOME ANNOUNCEMENT OF SOME SORT AT THE END OF IT. THE EVENT ITSELF AND THE INTERCHANGE IS WHAT IS BEING POINTED AT.

SO THAT'S BY WAY OF INTRODUCTION. AND I'LL BE GLAD TO TRY YOUR QUESTIONS.

QUESTION: WHAT WILL BE THE KEY SUBJECT AT THE SUMMIT AND WHAT WILL THE U.S. PURSUE THE MOST?

ANSWER: WELL, OF COURSE, IT REMAINS TO BE SEEN WHAT THE AGENDA WILL BE. THAT'S WHAT THE HEADS OF STATE, THROUGH MEETINGS OF THEIR PERSONAL REPRESENTATIVES, WILL TRY TO WORK OUT. AND I'M SURE AS THE SUMMIT APPROACHES AND THE SHAPE OF VARIOUS PROBLEMS EMERGES MORE CLEARLY IT WILL GET SET, BOTH IN TERMS OF WHAT SUBJECTS AND IN WHAT ORDER AND WHO'S GOING TO LEAD OFF ON THE SUBJECTS AND THAT KIND OF THING. BUT --

Q: WELL, DO YOU FORESEE IT TO BE ECONOMIC MOSTLY?

A: IT'S AN ECONOMIC SUMMIT TRADITIONALLY. AND IT'S EASY ENOUGH TO THINK OF SUBJECTS. BUT JUST HOW THEY WILL BE FRAMED AND WHAT ORDER THEY COME IN AND SO ON HAS TO BE WORKED OUT.

Q: WHAT DO WE WANT TO DO THERE? WHAT WOULD WE LIKE TO SEE COME OUT OF IT?

A: WELL, WE'RE -- THE PRESIDENT IS THINKING ABOUT IT. IT'S SOME MONTHS AWAY. AND HE WILL BE TAKING PART THROUGH ALLEN WALLIS, IN DISCUSSIONS ABOUT IT. AND I THINK THE RIGHT WAY TO GO ABOUT THIS IS TO LET THAT AGENDA EMERGE FROM THOSE DISCUSSIONS.

Q: IS THE PRESIDENT LIKELY TO HAVE A SPECIFIC SINGLE INITIATIVE LIKE MITTERRAND DID LAST YEAR ON HIGH TECH?

A: IT REMAINS TO BE SEEN HOW THIS AGENDA WILL BE SHAPED. I DON'T THINK THERE'S ANY HIGHLY SPECIFIC THING THAT WILL LIKELY BE PUSHED, ALTHOUGH EVENTS WILL HAVE SOME IMPACT ON THAT AND THE THINKING HAS YET TO EMERGE.

Q: HOW HIGH A PRIORITY WILL THE RESTRICTIONS -- THE STUDY GROUPS THAT YOU ANNOUNCED WHEN THE ADMINISTRATION LIFTED PIPE-LINE SANCTIONS -- HAVE AT THIS SUMMIT? ALL THE STUDY GROUPS ON RESTRICTING CREDIT AND HIGH TECHNOLOGY SALES TO THE RUSSIANS?

A: YES, WELL, THERE ARE FIVE OF THOSE EFFORTS UNDERWAY. AND WHAT THEIR STATUS WILL BE AT THE TIME OF THE SUMMIT, I DON'T KNOW. BUT I BELIEVE THAT THEY WILL HAVE TAKEN PROBABLY A VERY CONSIDERABLE SHAPE.

THERE ARE ACTUALLY THREE MEETINGS AT WHICH THOSE SUBJECTS MIGHT WELL BE TALKED ABOUT. THERE'S THE SUMMIT MEETING IN LATE MAY IN WILLIAMSBURG. THERE WILL BE AN OECD -- THE MINISTERIAL -- MEETING IN PARIS IN THE EARLY PART OF MAY. AND THERE'S A NORTH ATLANTIC COUNCIL MINISTERIAL MEETING IN, I THINK AROUND THE 8TH OR 9TH OF JUNE, SOMETHING LIKE THAT. SO THAT THESE SUBJECTS WILL BE TALKED ABOUT, NO DOUBT, IN ALL THREE SESSIONS.

WHETHER THERE WILL BE SOMETHING OUT OF THE STUDIES THAT GETS A LOT OF FOCUS REMAINS TO BE SEEN. IT JUST DEPENDS UPON WHAT THE STATE OF THEM IS. IT MAY VERY WELL BE THAT THERE'S AGREEMENT ON CERTAIN THINGS AND PEOPLE GO ON ABOUT THEIR BUSINESS AND ABOUT ALL THAT NEEDS TO BE DONE IS TO TALK NOTE OF THEM. BUT IT IS CERTAINLY A POSSIBLE TOPIC, THE GENERAL EAST-WEST ECONOMIC SUBJECT.

BUT I'M NOT TRYING TO PUT THAT OUT IN FRONT OR SAY THIS IS OUR SUBJECT; BUT YOU AND I COULD SIT HERE AND WE COULD SPIN OUT ANY NUMBER OF POSSIBLE TOPICS. THAT'S ONE OF THEM.

Q: WHAT'S THE OVERALL PROBLEM IN THE WORLD TODAY? IS IT WORLDWIDE RECESSION? I MEAN, AT SOME TIMES IT'S BEEN INTEREST RATES. AT SOME TIME IT'S BEEN GROWTH RATES. IT ALL TIES TOGETHER. BUT JUST AS AN ECONOMIST, WHAT'S THE OVERALL PROBLEM IN THE WORLD TODAY THAT THE LEADER WILL REALLY WANT TO FOCUS ON?

A: WELL, I SPENT A GOOD PART OF YESTERDAY AND THE DAY BEFORE DISCUSSING THAT SUBJECT IN THE SENATE FOREIGN RELATIONS COMMITTEE AND THE HOUSE FOREIGN AFFAIRS COMMITTEE. PARTICULARLY THE FORMER WAS DIRECTLY ON ECONOMIC SUBJECTS. AND I'LL REFER YOU TO THAT TESTIMONY.

I'D LIKE TO KEEP THIS SESSION RESTRICTED TO THE SUMMIT MEETING ITSELF....

Q: TELL US ANYTHING ABOUT HOW IT'S SHAPING UP -- OTHER THAN "IT REMAINS TO BE SEEN."

SECRETARY SHULTZ: IF IT SHAPES UP AS WE WANT IT TO, AS THE PRESIDENT WANTS IT TO, AND AS THE OTHERS HEADS OF STATE WANT IT TO -- AND I SUPPOSE IN A SENSE YOU CAN SEE THIS AS A CONTEST BETWEEN THE HEADS OF STATE ON THE ONE HAND AND THE BUREAUCRACIES OF GOVERNMENT AND THE PRESS ON THE OTHER. WE'LL SEE WHICH ONE GETS THEIR WAY.

THE HEADS OF STATE WANT TO HAVE A RELATIVELY INFORMAL MEETING WHERE THEY CAN SPEND A FAIR AMOUNT OF TIME JUST WITH THEMSELVES OR WITH A VERY FEW OTHER PEOPLE AND REALLY TALK OUT SOME OF THESE IMPORTANT ISSUES AND GET SOME IDEA OF WHAT THEIR COUNTERPARTS THINK. THAT'S THEIR IDEA OF HOW THIS SHOULD WORK. AND AS YOU POINT OUT, IT ALWAYS STARTS OUT THAT WAY, AND IT WINDS UP VERY DIFFERENT. THIS TIME THOSE OF US WHO ARE WORKING WITH OUR HEADS OF STATE ARE DETERMINED TO SEE IF WE CAN'T HELP THEM GET THEIR WAY -- AND THEN WE'LL SEE.

Q: ALL EIGHT SUMMITS HAVE STARTED OUT WITH THE SAME PREMISE. IT'S DEJA VU, BUT --

A: AND SOMETIMES IT'S WORKED. I THINK IT WORKED IN RAMBOUILLET PRETTY WELL, AS I UNDERSTAND IT....

Q: MR. SHULTZ, ARE ALL THE HEADS OF STATE COMING?

A: YES. EVERYONE HAS -- EACH GOVERNMENT HAS AGREED ON THE DATES AND THE LOCALE, AND SO EVERYONE WILL SHOW UP.

Q: DO YOU TOTALLY RULE OUT A COMMUNIQUE AT THE END?

A: WHAT WILL EMERGE AT THE END WILL BE UP TO THE HEADS OF STATE TO DETERMINE. (END EXCERPTS)

FUR-426 (2/17/83)

(BACKGROUND FOR THE WILLIAMSBURG SUMMIT)

SUMMIT: JUST A QUIET GET-TOGETHER -- THEY HOPE (650)

BY EUGENE BRAKE
USIA ECONOMICS WRITER

WASHINGTON -- IF THE LEADERS OF SEVEN LEADING INDUSTRIAL NATIONS GET THEIR WAY, THEIR 1983 ECONOMIC SUMMIT MEETING AT WILLIAMSBURG, VIRGINIA IN MAY WILL BE A QUIET OPPORTUNITY TO TALK PRIVATELY AND INFORMALLY ABOUT WORLD PROBLEMS.

ALL THE LEADERS WANT TO AVOID RIGID AGENDAS, PRE-WRITTEN COMMUNIQUE, OR ANYTHING ELSE THAT WOULD IMPEDE A FREE FLOW OF DISCUSSION AMONG THEM. U.S. SECRETARY OF STATE GEORGE SHULTZ TOLD REPORTERS AT A WHITE HOUSE PRESS CONFERENCE FEBRUARY 17.

THE DESIRE IS TO GO BACK TO SOMETHING LIKE THE FIRST OF THE ECONOMIC SUMMIT MEETINGS, HELD AT RAMBOUILLET, FRANCE,

PAGE 02 -- SHULTZ

IN 1975, SHULTZ SAID. THERE, HE EXPLAINED, THE AIM WAS FOR THE LEADERS "TO GET TOGETHER AND SHARE THEIR IDEAS, DEVELOP WHATEVER COMMON THOUGHTS THEY COULD, AT LEAST HAVE A DISCUSSION SUCH THAT AS THEY RESPECTIVELY WENT ABOUT MAKING THEIR OWN DECISIONS ABOUT ECONOMIC POLICIES, THEY WOULD HAVE IN MIND THE THOUGHTS AND THE PERSPECTIVES OF THE OTHER PARTIES."

THE RAMBOUILLET SUMMIT WAS A RELATIVELY INFORMALLY MEETING, HE SAID, HELD IN A PLACE THAT WAS PRIVATE, WITH MAXIMUM OPPORTUNITY FOR THE LEADERS TO TALK TO ONE ANOTHER AS PEOPLE.

THE SUMMIT LEADERS WANT TO HAVE THAT KIND OF MEETING AGAIN AT WILLIAMSBURG. SHULTZ EXPLAINED THAT OTHER PEOPLE WILL BE AROUND TOO -- FOREIGN MINISTERS AND FINANCE MINISTERS, FOR EXAMPLE -- BUT THE EMPHASIS WILL BE ON A FREE INTERCHANGE AMONG THE HEADS OF STATE THEMSELVES AND NOT ON SOME KIND OF ANNOUNCEMENT AT THE END OF THE MAY 28-29 MEETING.

AS SHULTZ DESCRIBED THE PROCESS, THE WAY THE AGENDA IS

PAGE 03 -- SHULTZ

BEING DEVELOPED THIS TIME DIFFERS FROM PAST PRACTICES. IN THE PAST, THE PERSONAL REPRESENTATIVES OF THE SUMMIT LEADERS WOULD GET TOGETHER AND AGREE AMONG THEMSELVES ON AN AGENDA WHICH THEY WOULD THEN RECOMMEND TO THE HEADS OF STATE. THIS TIME THE PERSONAL REPRESENTATIVES -- FOR PRESIDENT REAGAN, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS W. ALLEN WALLIS -- WILL MEET WITH THEIR RESPECTIVE HEADS OF STATE FIRST, GET THEIR LEADERS' IDEAS ON WHAT SHOULD BE TALKED ABOUT AT WILLIAMSBURG, AND THEN MEET TOGETHER TO GET AGREEMENT ON A COMMON LIST.

SINCE THIS PROCESS HAS NOT YET BEEN COMPLETED, SHULTZ COULD ONLY ANSWER "THAT REMAINS TO BE SEEN" TO MOST OF THE REPORTERS' QUESTIONS CONCERNING WHAT MIGHT HAPPEN AT WILLIAMSBURG.

ASKED IF THE RESULTS OF STUDIES ON EAST-WEST ECONOMIC RELATIONS MIGHT BE AMONG THE TOPICS DISCUSSED AT THE WILLIAMSBURG SUMMIT, SHULTZ ACKNOWLEDGED THAT IT WAS "CERTAINLY POSSIBLE," DEPENDING ON THE PROGRESS THAT IS MADE IN THIS AREA IN THE MEAN TIME. BUT HE EMPHASIZED THAT HE

PAGE 04 -- SHULTZ

WAS "NOT TRYING TO PUT THAT OUT FRONT" AS A SUMMIT AGENDA ITEM.

THIS IS NOT THE FIRST TIME THAT OFFICIALS HAVE CAUTIONED REPORTERS THAT SUMMIT MEETINGS ARE INTENDED PRIMARILY TO GIVE THE LEADERS A CHANCE TO BECOME MORE FAMILIAR WITH ONE ANOTHER'S THOUGHTS, AND THAT THEY SHOULD NOT LOOK FOR SUBSTANTIVE AGREEMENTS TO BE ANNOUNCED AT THE END.

REMINDED OF THIS FACT, SHULTZ ACKNOWLEDGED THAT WHAT USUALLY OCCURS IN THE MONTHS PRECEDING A SUMMIT MEETING IS "A CONTEST BETWEEN THE HEADS OF STATE ON THE ONE HAND, AND THE BUREAUCRACY AND THE PRESS ON THE OTHER" -- THE HEADS OF STATE WANTING AN INFORMAL, PRIVATE EXCHANGE OF VIEWS, THEIR SUBORDINATES AND THE PRESS POSSIBLY HAVING OTHER IDEAS.

BUT THIS TIME, HE SAID, THE HEADS OF STATE MAY GET THEIR WAY.

IT HAPPENED AT RAMBOUILLET, HE POINTED OUT.

ITEM

USA

CONFIDENTIAL

USA

✓ CC JV B1



Prime Minister (2)

Ms 25/2

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

PRIME MINISTER

THE US ECONOMY

In my minute of 14 February about the Interim Committee meeting I promised a separate note on the US economic scene. My visit to Washington provided an opportunity for discussions with Secretary Regan and a number of US officials and advisers.

2. Monetary policy appears to be in some disarray. The Fed argue that the apparent faster monetary growth towards the end of 1982 reflects institutional change and inter-mediation, while the stricter monetarists see it as expansionary and hence inflationary. I am inclined to accept a good part of the Fed argument, which implies that the change in the money/GDP relationship last year resulted in US monetary policy being tighter than intended. The difficulties of interpreting monetary conditions when the chosen indicators are subject to distortions is familiar from our own experience but, unlike us, the US authorities also have to contend with the problems caused by large budget deficits.

3. Paul Volcker recently announced higher and rebased monetary targets, but the markets must doubt if they will be maintained - despite his confirmation of the Fed's goals on defeating inflation. The credibility of monetary policy will be further strained if inflation picks up again. For the moment however the Fed will be particularly keen to avoid any significant or lasting increase in short-term interest rates.

/4. I found a

CONFIDENTIAL



4. I found a markedly greater and more widespread buoyancy of opinion about short-term prospects for recovery than before Christmas, although there is a range of opinion over the precise timing and likely strength. The Fed is hopeful of lower inflation this year, in the 3-4 per cent range, with help from lower energy prices and lower labour costs. US productivity growth has been unexpectedly good - rather reminiscent of our own experience. But while the prospects for output and inflation look bright there is a risk of instability of both interest rates and the dollar if the recovery is too rapid. We will be watching for any signs of this developing.

5. Prospective budget deficits at around 6 per cent of GDP in the current fiscal year remain a major source of concern because they could damage current activity by raising real interest rates still further. This could also strengthen the exchange rate, reducing the competitiveness of exposed mature industries and reinforcing demands for increased protectionism. While all agree on the need to tackle high deficits, as yet there is no consensus on how to do so.

6. We also discussed the growing pressure on the major low inflation countries (Japan, Germany, the UK and the US) to adopt expansionary policies and pull the world out of recession. We explained that in terms of our own MTFs lower inflation, by itself, should leave room for higher growth and that it would be wrong to add artificial reflationary action. There will of course be pressure at the Summit for such action, and it will be important before Williamsbury to reduce
/expectations that



expectations that the Summit will produce reflationary initiatives. To this end we need to get across the message that recovery will emerge within a framework of prudent financial policies. There will be opportunities, eg. The May OECD Ministerial meeting, to put across in advance our views on how best to secure a sustainable recovery.

7. Copies of this minute go to the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

G.H.
24 February 1983

RGRGRGR

KK

US Declassified

PRIME MINISTER'S

Econ Pol

PERSONAL MESSAGE

SERIAL No. T/14/83

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OO WHITE HOUSE

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

MISC 055.

14/2/83

cc Mark
Ops.

h-a.

MESSAGE FROM THE PRIME MINISTER TO THE PRESIDENT OF THE UNITED STATES, THE WHITE HOUSE, WASHINGTON DC.

DEAR RON,

THANK YOU FOR YOUR MESSAGE OF 28 JANUARY ABOUT THE ECONOMIC CONTENT OF THE WILLIAMSBURG SUMMIT.

I AM ENTIRELY CONTENT WITH THE APPROACH WHICH YOU PROPOSE ON THIS. MY PERSONAL REPRESENTATIVE WILL COME TO THE NEXT MEETING OF PERSONAL REPRESENTATIVES EQUIPPED TO REPRESENT MY THOUGHTS AND VIEWS ON THE TOPICS YOU HAVE SUGGESTED, AND ON HOW WE SHOULD HANDLE THE DISCUSSION OF THEM.

I HOPE THAT WE ARE GOING TO BE ABLE TO STICK TO THE GENERAL IDEAS ON WHICH WE ARE BOTH AGREED ABOUT THE FORMAT OF THE SUMMIT AT WILLIAMSBURG. DESPITE ALL THAT HAS BEEN SAID, I CLEARLY SEE SIGNS OF A TENDENCY IN THE WORLD'S MEDIA TO BUILD UP THE SIGNIFICANCE OF OUR MEETING, IN THE CONTEXT OF THE SERIES OF INTERNATIONAL MEETINGS THAT LIE AHEAD OF US BEGINNING WITH LAST WEEK'S MEETING OF THE IMF INTERIM COMMITTEE, AND THUS TO GENERATE EXPECTATIONS WHICH WE SHALL THEN BE EXPECTED TO LIVE UP TO, OR BE REGARDED AS HAVING FAILED IF WE DO NOT LIVE UP TO THEM. THIS COULD BE A REAL PROBLEM FOR US.

ON A DIFFERENT SUBJECT, GEORGE BUSH WILL HAVE TOLD YOU OF OUR TALK ON 9 FEBRUARY. IT WAS VERY GOOD TO HAVE HIM HERE, AND I HOPE THAT HE FOUND OUR DISCUSSION AS VALUABLE AND AS ENCOURAGING AS I DID. HIS TOUR WAS A GREAT SUCCESS.

WITH BEST WISHES,

YOURS EVER MARGARET.

NNNN

SENT AT 1128/14Z

DE WTE AND QSL UR MSG AT 141127Z FEB 83



10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

Preparations for the Williamsburg Summit

The Prime Minister has seen your minute of 11 February.

She has approved the draft reply to President Reagan's message of 28 January, with the addition at the end of the words "His tour was a great success". I have arranged for the despatch of the message.

As regards Monsieur Cheysson's report of President Mitterrand's intentions, the Prime Minister agrees with your proposals for handling this matter and will await a further report from you, following the next meeting of Personal Representatives.

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

A. J. COLES

14 February, 1983

Prime Minister
 Agree message to President Reagan?

A.S.C. 1/2.

Ref. A083/0519

MR COLES

Preparations for the Williamsburg Summit

With your minute of 31 January you sent me a copy of a message which the Prime Minister had received from President Reagan on the economic content of the Williamsburg Summit.

2. With your minute of 9 February you asked for advice about how we should react to indications from Monsieur Cheysson that President Mitterrand might be preparing a series of proposals for the Williamsburg Summit, based on discussions with a group of Socialist Heads of Government.

3. On President Reagan's message, I have consulted the Foreign and Commonwealth Office and the Treasury. The President's proposals are perfectly acceptable to us as a framework for the discussion, which can be carried forward and sharpened in focus by Personal Representatives at their next meeting from 16-18 March, and as the Summit date approaches.

4. On this all that is called for is a brief welcoming reply.

5. I suggest that we might add to the reply a paragraph drawing attention to the risk that exaggerated expectations will be built up about the significance of the Summit, which will make it more difficult to have the kind of relaxed and informal discussion which both the Prime Minister and the President want.

--- 6. I attach a draft reply to the President on these lines.

7. As to what Monsieur Cheysson said about President Mitterrand's intentions, I think that we should wait for firmer and more detailed information before we decide to produce a paper ourselves. I should be able to discover from President Mitterrand's Personal Representative at the next meeting of Personal Representatives whether his President has intentions of the kind attributed to him, and, if so, what his proposals are likely to say. There will be time enough after that to consider whether a "counter paper" should be circulated, and, if so, whether we should take responsibility for it. It might be better

*Cheysson
 may well
 have
 misrepresented
 French intentions.
 A.S.C. 1/2.*



Reagan may not want any papers and may wish to try to dissuade the French.
A.F.C. 1/2

to concert a response with - for instance - the Americans or the Germans (or both); or indeed it might be tactically better to leave it to somebody else to make the running, given that we may be arguing with the French about other matters at about the time of the Williamsburg Summit.

8. If the Prime Minister is content, I will report back to her after the next meeting of Personal Representatives, and submit further advice.

9. In the meantime we are putting in hand the preparation of briefs for the next meeting of Personal Representatives, so that we are equipped with answers on each of the nine questions in the President's examination paper. I should like to submit the answers to the Prime Minister before the meeting, so that I am up to date with her basic approach towards these topics.

10. I am sending copies of this minute and the draft to Mr Fall, Foreign and Commonwealth Office, and Mr Kerr, Treasury.

ROBERT ARMSTRONG

11 February 1983

Misc: 55
DIG 141030Z
immediate

SSN: 0441.



DRAFT MESSAGE FROM THE PRIME MINISTER TO
THE PRESIDENT OF THE UNITED STATES,
THE WHITE HOUSE, WASHINGTON DC

Dear Ron

Thank you for your message of 28 January about the economic content of the Williamsburg Summit.

I am entirely content with the approach which you propose on this. My Personal Representative will come to the next meeting of Personal Representatives equipped to represent my thoughts and views on the topics you have suggested, and on how we should handle the discussion of them.

I hope that we are going to be able to stick to the general ideas on which we are both agreed about the format of the Summit at Williamsburg. Despite all that has been said, I clearly see signs of a tendency in the world's media to build up the significance of our meeting, in the context of the series of international meetings that lie ahead of us beginning with last week's meeting of the IMF Interim Committee, and thus to generate expectations which we shall then be expected to live up to, or be regarded as having failed if we do not live up to them. This could be a real problem for us.

On a different subject, George Bush will have told you of our talk on 9 February. It was very good to have him here, and I hope that he found our discussion as valuable and as encouraging as I did.

His loan was

a great success.

WITH BEST WISHES

A.J.C. 14/2

YOURS TRULY MARGARET



Foreign and Commonwealth Office

London SW1A 2AH

A.S.C. 14/2

Dear Robert,

Economic Summit - Williamsburg

Thank you for sending me a copy of your minute of 8 February to Bernard Ingham. The FCO News Department will liaise with Bernard Ingham so that he can let you have a coordinated set of comments.

We notice that in the penultimate paragraph of his message Allen Wallis appears to assume that everyone agrees that there should not be a formal communiqué. This is perhaps a point which you will wish to take up with him.

I am copying this letter to the recipients of your minute.

Yours ever

(B J P Fall)
Private Secretary

Sir Robert Armstrong KCB CVO
Cabinet Office
70 Whitehall
LONDON SW1A 2AS

7/16 4 FEB 1904



SIR ROBERT ARMSTRONG

cc Mr Coles
Mr Fall
Mr Kerr
Mr Goulden

11.
2

WILLIAMSBURG - PRESS GUIDELINES

The proposed guidelines appear to be broadly similar to those for previous Summits though apparently more detailed and consequently potentially more rigid. Not all of them may be workable (see paras. 5 and 6).

I have the following comments:

Para 2

- We should nominate the Foreign Secretary, the Chancellor of the Exchequer and myself as official briefers; and Mr Goulden and myself as background briefers. But we need to retain the option of the Foreign Secretary and the Chancellor (as at Versailles) giving background briefings if they so wish, given that our system of Government operates much more unattributably than others.

Para 3

- Important to get agreement, but a clear distinction must be drawn in our minds between agreement in the Summit on presentation and what is then actually said by briefers - eg. the French.

Para 4

- Similar to the rules which operated in Montebello (and which prevented the Prime Minister, though willing, from going on Canadian TV); we can accept, subject of course to any unforeseen need for the Prime Minister to have recourse to the media - eg a major crisis.

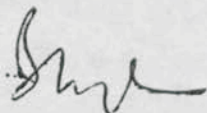
Para 5

- This is confusing and would preclude what happened in, for example, Montebello where European and other leaders virtually queued to give interviews before breakfast outside the local presbytery which had been converted by the 3 US networks into a studio. (The priest, it was said, had been sent away on holiday). If this paragraph means that participating Ministers and Ministerial official briefers should only give press conferences (which would be recorded and televised)

and eschew any additional interviews, it should say so clearly. Left as it is/^{it}will be a source of considerable irritation and difficulty because it could be interpreted as reducing the service which the media have come to expect. If that service is to be reduced, we should be clear we are in fact so doing. We could live with a reduced service, subject to the proviso about a need to react to crises, but I doubt whether this self-denying ordinance will be observed by Ministers of other countries - eg. the USA - who virtually live on TV.

Para 6

- We shall need to be free to give the background briefings on May 28; we simply cannot accept the restriction of starting on Sunday morning (May 29). Otherwise, we can accept, subject to my reservations on paras 2, 5 and 6, and the general proviso that Heads of State and Government must be free at all times to react to crises.



B. INGHAM

10 February 1983

CONFIDENTIAL



10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

PREPARATION FOR THE ECONOMIC SUMMIT IN WILLIAMSBURG

The Prime Minister has noted from a recent report of a conversation between the Chancellor of the Exchequer and Monsieur Cheysson that, according to Monsieur Cheysson, President Mitterrand is preparing a series of proposals for the Williamsburg summit, based on discussions with a (unspecified) group of socialist heads of government.

The Prime Minister considers that, if this report is well-founded, it would be as well for us to consider the preparation of a paper for the summit, so that the running is not left to President Mitterrand and his associates, who are likely to produce more prescriptive and interventionist proposals than other heads of government attending the summit will be disposed to favour.

Could you please consider this point and advise the Prime Minister.

I am copying this minute to Mr Fall (Foreign and Commonwealth Office) and Mr Kerr (Treasury).

F.R.B.

9 February 1983

CONFIDENTIAL

AH

Have to see

B/F files

Like AH
ccs Fco
Tsy



CABINET OFFICE

With the compliments of
Sir Robert Armstrong KCB, CVO
Secretary of the Cabinet

A.J. Coles, Esq

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

Ref: A083/0458

MR. INGHAM

Economic Summit - Williamsburg

The American Personal Representative has sent me the attached letter proposing a set of guidelines for contacts with the Press during the Williamsburg Summit.

2. I should be very grateful for your comments and suggestions as to how I should reply.

3. I am sending copies of the letter and minute to Mr. Coles, Mr. Fall and Mr. Kerr.

ROBERT ARMSTRONG

Robert Armstrong

8th February 1983

Mr. Ingham

I should be grateful for a
file of your recommendations
to the S.R.

A. J. C. 107
/ 2.

CONFIDENTIAL

Dear Robert:

1 I am outlining for your consideration the following standard, coordinated policy for contacts with the press during the Williamsburg Summit. These guidelines are in keeping with our discussion at La Celle-St. Cloud.

GENERAL GROUND RULES

2 -- Each participating delegation would designate two Ministers and a press spokesman as official briefers and two background briefers as the only briefers during the Summit. Each country would have a separate briefing room.

3 -- Before the conclusion of each session, which involves Heads of State or Government, the participants would agree on how they would represent their discussion to the press.

4 -- Heads of State and Government would agree not to give any press interviews (TV, radio or print) from the time of arrival at Williamsburg until after the concluding press gathering, when the President of the United States will read a joint statement (see below).

5 -- Participating Ministers would also agree not to give any press interviews from the time of arrival at Williamsburg until after the final joint press statement, except in connection with scheduled official briefings (as indicated below). (Ministers could pre-tape interviews before arrival at Williamsburg.)

PROPOSED BRIEFING SCHEDULE

- 6 May 28 - Non-substantive (e.g., logistics, etc.) briefings by press spokesman to conclude before 9:00 p.m.
- May 29 - Briefing by Secretary Shultz or Regan, following the morning session, on the basis of common guidance agreed to at the end of the session.

Individual country briefings following the afternoon session by Ministers or press spokesman, on the basis of common guidance agreed to at the end of the session.

CONFIDENTIAL

CONFIDENTIAL

-2-

May 30 - Joint press statement as agreed by all Heads to be read by the President of the United States after the conclusion of the final Summit session.

Individual country briefings after the joint press statement by Heads of State or Government, Ministers or others.

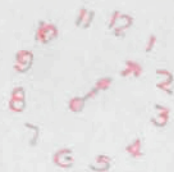
- 7 Background briefers are free to brief at any time, beginning Sunday morning.
- 8 We are also planning for Secretary Shultz to give a press briefing in mid-February, at which he will discuss the type of Summit we are preparing for Williamsburg. He will emphasize the general themes we agreed upon at La Celle-St. Cloud -- an informal Summit with smaller sessions and no formal communique. He will note, in particular, that the President has been in contact with the other leaders and they have unanimously agreed to these themes. We will send you a transcript of the briefing as soon as it is held.
- 9 I look forward to your comments on the press guidelines.

Sincerely yours,

Allen

CONFIDENTIAL

- 9 FEB 1983





Prime Minister

Head in file.

A+C. $\frac{3}{2}$.

RECORD OF A MEETING BETWEEN THE CHANCELLOR OF THE EXCHEQUER
AND THE FRENCH FOREIGN MINISTER AT NO 11 DOWNING STREET
AT 9.30AM ON 1 FEBRUARY 1983

Those present:

Chancellor of the Exchequer	M Cheysson
Sir John Fretwell	M de Margerie
Mrs Hedley-Miller	M Villemur
Mr Kerr	M Legrain
	M Bernard

(i): Economic Summit Issues

M. Cheysson said that it had been agreed, at a meeting of Socialist Heads of Government at the Elysee on 23 January, that President Mitterand would suggest to President Reagan that the Williamsburg summit should consider north/south economic relations, focussing in particular on how to ease LDC debt problems, how to re-establish a satisfactory degree of monetary order, and how to reduce instability in commodity markets. Issues to be addressed under the first heading might include new financing mechanisms, the identification of new investment opportunities in LDCs, and new credit arrangements: in short, a global "new deal". President Mitterand envisaged circulating a paper to summit participants a month before the Williamsburg meeting, and chairing a further meeting of Socialist Heads of Government just before the Summit.

a new development?
A+C. $\frac{3}{2}$.

The Chancellor, thanking M. Cheysson for this news, said that he was sceptical about clear-cut north/south polarisations: Current world economic problems affected many different groups of countries in differing ways. And one risk with Summits was to raise expectations which could not in practice be met: A global "new deal" which involved eg a new raft of commodity agreements would run into serious difficulties, eg with the Americans. Of course the problems for the world economy, including the LDCs, of the transition from a period of high /inflation



inflation should feature on the agenda at Williamsburg: One obvious aspect was the prospect that real interest rates would remain high, given high prospective US Federal deficits. But it might make sense for the Summit to focus most sharply on issues where practical progress was attainable: eg on the enlargement of IMF quotas, and a possible new SDR issue. With luck, the Summit might be able to note progress already achieved on the former, and call for further progress on the latter.

M.Cheysson said that he accepted that talk of a straight north/south polarisation was misleading, but he did not accept that it would be wrong to try to seek further commodity agreements. As for IMF quotas, presumably the Chancellor envisaged that a deal might be struck at an Interim Committee meeting in April? The Chancellor said that the Interim Committee would in fact be meeting on 10-11 February, and that he and M.Delors rather hoped to secure a deal then. They were working closely together. M.Cheysson said that he knew of this cooperation, and thought it very valuable.

(ii) EC Budget

The Chancellor then recalled that M.Cheysson had mentioned to him, at the last Anglo/French Summit, that he had some new ideas on EC Budget issues, which he wished to put to the Chancellor. Would it be convenient to discuss them now?

M.Cheysson said that he could only speak personally, and quite informally, as a European and a friend, and also of course a former EC Budget Commissioner. He very much hoped that the rigmarole over the 1982 Budget refunds was now virtually at an end. France had thought it quite wrong that some of the expenditure had been classified as non-obligatory, but the Council was likely to adopt the 1983 supplementary budget

(including



including the UK 1982 refunds) on 1 February, and the chapter should then close. (The Chancellor interjected that it was very important that the Council should not delay agreement on the supplementary measures and energy regulations which would provide the legal basis for the UK refunds: M.Cheysson replied that the Commission no doubt had this in hand.) The aim for the future must be to ensure that there were no further such unsavoury episodes. One way of making progress would be to approach the problems of financing community activities in a wider perspective than in the past; and perhaps to draw on the ECSC experience. The ECSC Budget was only some 350m ecus: Yet it triggered expenditure some ten times greater, involving financing by producers. There need be no community budget problem, provided that the issue of how to finance community activities was tackled imaginatively. Why should the communities' resources derive only from Customs duties and VAT? Why should the community be debarred from considering loan finance?

M.Cheysson added that it was probably good that the absurdity of the current budget arrangements - with enormous net gains for Italy and Greece, and large net contributions by the UK - was becoming increasingly apparent, for it created an obvious requirement for reform, and a new perspective. He was considering advising President Mitterand to raise the matter at the next European Council.

The Chancellor said that he welcomed M.Cheysson's recognition of the need for a fundamental reappraisal of EC Budget arrangements. This had long been the British view. And the figures spoke for themselves: The UK's budgetary imbalance in 1982 was some 2 billion ecus. The UK had over the years been told that the expansion of the regional fund would serve to remedy the position, but history had disproved this, and the fact was that, given our present share of regional fund money, the fund itself would have to increase to
/more than double



more than double the size of the whole community budget before our budget imbalance would be resolved by that route. The right solution would have to be one which would be lasting, simple, and obviously fair, and he was intrigued to know what precisely M.Cheysson had in mind. Would he, for example, be ready to consider reducing the VAT liabilities of member states bearing excessive budgetary burdens so as to place an upper limit on their net burdens? Such a limit could be based on relative prosperity and GDP. Alternatively, would he consider reducing the VAT liabilities of such member states by the difference between their contributions to, and receipts from, the CAP? Such a relief could be phased out for more prosperous member states.

M.Cheysson said that he was not in a position to comment on particular proposals. His general point was that there was no reason why new community policies should be financed along the traditional lines. A new institutional arrangement might be required. Of course it would take time to negotiate, and perhaps a further 18 months to put into legislative effect. But that was all the more reason for making a start now.

The Chancellor suggested that the best way of taking the matter forward might be through an early Anglo/French meeting of relevant experts. M.Cheysson agreed, but suggested that the Chancellor should put this proposal to M.Delors. He emphasised that he had been speaking personally, and that his suggestions should not be regarded as a formal French Government proposal - at least at this stage.

J O KERR
1 February 1983

Distribution:

Mr Coles:No 10
Mr Fall:FCO
Sir Robert Armstrong: Cabinet Office
Sir John Fretwell:Paris
Sir Michael Butler:UK Rep EC
Mr Hancock:Cabinet Office

Financial Secretary
Sir Douglas Wass
Mr Burns
Mr Littler
Mr Unwin
Mrs Hedley-Miller
Mr Lavelle
Mr Edwards



10 DOWNING STREET

~~Top~~ copy of President
designs money to be
returned to us by submission to

Top copy
of maps
and
plan
31/1/68

P. N. P.

A. J. C. $\frac{21}{1}$



CC FCO

HMT

HL
6

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

✓

Economic Summit

I attach to this minute a copy of a message which the Prime Minister has received from President Reagan about the Williamsburg Summit.

I should be grateful if you could let me know whether you would advise the Prime Minister to send a reply. If you wish to advise that she should do so, I should also be grateful for a draft.

I am copying this minute and attachment to Mr. Fall (Foreign and Commonwealth Office) and Mr. Kerr (H.M. Treasury).

A. J. COLES

31 January 1983

SECRET

31 January 1983

The Prime Minister has asked me to thank you for your letter of 31 January enclosing a message from President Reagan about the Williamsburg Summit.

JOHN COLES

His Excellency the Honourable John J. Louis, Jr.

Prime Minister

We will advise on a reply.



EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

A.S.C. 31/4

January 31, 1983

Could Alan W.
see the letter

Dear Prime Minister:

I was asked to deliver the enclosed message
to you from President Reagan, which was received
at the Embassy over the weekend.

please
not

Sincerely,

John J. Louis, Jr.
Ambassador

Pl. copy to
(a) Mr. Walters
(b) Sir A. Lavers.
A.S.C. 4/2.

Enclosure:
SECRET

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

PRIME MINISTER'S

SECRET

T 8 / 83

5

PERSONAL MESSAGE

January 28, 1983

SERIAL No. T 8 / 83

US Declassified

Dear Prime Minister:

As we approach our meeting at Williamsburg, I will from time to time consult with you on the preparations and the topics we will want to discuss. I attach great value to these personal communications. They are an essential element of our efforts to plan a Summit that reflects the thoughts, hopes and proposals of the leaders of the great democracies. In this spirit, I appreciated your careful and thoughtful responses to my last letter.

On the basis of a broad consensus among us, reflected in the several replies, I instructed my personal representative, Allen Wallis, to press ahead in preparing an informal, less structured Summit Meeting. Allen informs me that the meeting of personal representatives on December 11-13 made an excellent start in this direction, agreeing on smaller sessions, on doing away with a formal communique, and on the need for common guidelines for dealing with the press.

My previous letter to you concerned the format of the Summit. This one concerns the economic content. Political subjects I will address, as we have done in the past, only as the Summit draws nearer and these subjects become more evident.

The economic topics on our agenda at Williamsburg and their preparation are, of course, the essence of our Summit Meeting. I have felt in the past that these topics were over-compartmentalized, perhaps reflecting the concerns of some of our officials rather than the more inter-related concerns which most interest us. I would like to suggest a different approach to the preparation of the Williamsburg agenda.

Our personal representatives at the December meeting agreed that the Williamsburg economic agenda should highlight two broad topics:

- An integrated consideration of domestic and international aspects of sustained free world economic recovery, including -- (a) economic policy elements, such as fiscal and monetary policy, trade, technology, exchange market policy, world finance, and development assistance policy, and (b) institutional elements, such as the role, effectiveness and relationship of GATT, IMF, OECD, UNCTAD, BIS, the multilateral development banks, commercial banks, etc.

SECRET

SECRET

- A review of economic relations with the Soviet Union and Eastern Europe, including the policy consequences and recommendations of the several studies now underway on this subject in various alliance and economic institutions.

Our personal representatives will meet again in mid-March, close enough to the Summit Meeting that our views on these two broad topics will have matured. Let me suggest that before they meet, we each take some time to go over personally with them the basic approach we take toward these topics. This would include how we see our policies affecting the issues, how we see the policies of other countries (developed and developing) affecting the issues, and what recommendations we would make to improve the effectiveness and interrelationship of our respective efforts.

For example, on the first topics, we might ask ourselves:

1. What are we each doing domestically to achieve our common goal of sustained, non-inflationary growth? Are we progressing toward our goals? What more do we seek to do?
2. What are the implications of our policies for other countries, particularly developing countries?
3. What actions which other countries might take are compatible or incompatible with our individual efforts?
4. What are the current obstacles to a better inter-relationship among our domestic policies, international trade relationships and world financial requirements?
5. What is the proper role of the various international institutions in dealing with the inter-related problems of domestic policy, expanding trade and an open financial system?

Similarly, on the second topic we might wish to consider:

1. What is the strategic and economic importance of East-West trade for each of our countries and economies?
2. What are our respective national policies and institutions that affect this trade?
3. How do we perceive our common interests in this area and the goals served by these interests?

SECRET

SECRET

4. Are we progressing toward our goals? What more do we need to do? What conclusions of the East-West studies should be adopted for common action?

I offer these questions to stimulate your thinking and to begin to organize the way in which we will approach our discussion of these topics in May. In March, our personal representatives could have an informal discussion of these questions, based on the views each of us has entrusted to them to present on our behalf. This discussion will hopefully lead to refinements of the topics and perspectives. Before subsequent preparatory meetings, the personal representatives would then come back to us to receive further views and instructions. This process will ensure that from the beginning the preparations reflect our personal views and interest.

I look forward, therefore, to continuing consultations with you in the preparations for Williamsburg. I am determined that when we meet at Williamsburg, we will spend the hours together in a way we have shaped and which we will value most.

Sincerely,

/S/

Ronald Reagan

SECRET

Econ. Pol.

HU

26 January 1983

This is just to record that the Prime Minister has seen your Secretary of State's minute of 24 January about bilateral consultations.

Tim Flesher

Miss Jane Ridley,
Ministry of Defence.

HU

CONFIDENTIAL

Germany: Chanc Kohl 11/82
Italy: Mr Fantani 2/82
Netherlands: Mr Lubbers 11/79
Econ. Pol: Williamson
Econ. S. A. 11



Prime Minister

To note.

A.S.C. 25/1

MT

* Original minute
MO 14/3

PRIME MINISTER

BILATERAL CONSULTATIONS

The Foreign and Commonwealth Secretary copied to me his helpful minute of 12th January about objectives for our forthcoming bilateral consultations with Allies. I agree with his proposed approach, but I would like to add a gloss on two specific points.

2. First, as regards the Genscher/Colombo proposals, I assume that we remain of the view that any discussions of security questions in this context should not go into issues which are properly matters for NATO. We shall need to watch this however much Continental rhetoric we are asked to swallow.

3. Secondly, I agree that the handling of East-West economic relations and the control of technology transfer will be particularly difficult in the aftermath of the pipeline dispute. We will need to impress on our European allies that the Americans mean business in this area and we need to be seen to be pulling our weight in the various studies envisaged. The programme of studies by its very scale offers a considerable potential for further exacerbating relations between the Americans and the Europeans.

4. I am sending copies to OD colleagues and Sir Robert Armstrong.

MT

24th January 1983

Ministry of Defence



File
Econ
Pol.

10 DOWNING STREET

From the Private Secretary

17 January, 1983

BILATERAL CONSULTATIONS

The Prime Minister has seen the minute of 12 January by the Foreign and Commonwealth Secretary about the series of meetings which we shall be having with our partners and allies over the next few months. Mrs. Thatcher is content that the points outlined in Mr Pym's minute should be borne in mind in preparation of the various briefs.

R. Bone, Esq.,
Foreign and Commonwealth Office



PM/83/3

PRIME MINISTERPrime Minister

Are you content that we should
 have these points in mind as briefing is prepared
 for the series of meetings with our European and
 U.S. partners which lie ahead?
 Yes, not

A. J. C. 14/1

Bilateral Consultations

1. We have a series of important meetings with partners and allies over the next few months. You will be seeing Kohl at Chequers on 4 February and the Anglo-German Summit will be held here on 22 April. I have a brief meeting with Colombo in London on 13 January and the Anglo-Italian Summit is now fixed for 25 February. I am seeing Cheysson on 31 January, also in London, and Geoffrey Howe will be talking to him about the Community Budget the following day. I shall probably also be seeing the French Foreign Minister again in April to follow up your meetings with Mitterrand on 4 and 5 November. You are seeing Lubbers on 2 March. We also have Bush coming here on 9-10 February, and the Economic Summit at Williamsburg is fixed for the end of May.

2. I think it worth clearing our minds as to our priorities and objectives in these meetings. I believe these should lie in four areas:

- (a) International economic problems are bound to become more and more insistent themes as Williamsburg approaches. Not only will current problems such as debt and protectionism be raised, but also the medium-term question of how the world economy can move out of recession along a non-inflationary path. Interest in this last point will be sharpened by the elections this year in Germany, France and possibly Italy, and in 1984 in the US. Fear of protectionism has exacerbated Community/US relations. We shall need to work on the Germans and the French. We have common interests when it comes to Japan..



- (b) We also need to steer between the rocks on Community questions. Our immediate and principal objective must be to make progress over the budget, including tactics for dealing with the European Parliament over 1982 refunds as well as the broader issue of refunds for 1983 and later. We must also ensure that any review of the Community's budgetary system flowing from the forthcoming green paper by the Commission should highlight the correction of budgetary imbalances as a major objective. Other Community subjects include: fisheries, where we need to keep the Nine together; enlargement, where we need progress; and increasingly over coming months, CAP price fixing, where we shall be urging our partners to agree that a real measure of restraint is imperative this year.

In pursuing these objectives it will be important to convince our partners of our commitment, as shown by recent speeches by Ministers, to the development of the Community. The Germans and Italians will be looking for sympathy from us over the Genscher/Colombo proposals, which the German presidency would no doubt like to see adopted before their elections on 6 March. I think we should be prepared to swallow a good deal of Continental rhetoric if it helps to reinforce our European credentials and thus improves the chances of our securing our European objectives.

/(c)



- (c) Our defence credentials, after the Falklands and our expenditure record, give us a standing we can exploit. 1983 will be a difficult year for the Alliance. INF has become the latest and vital test of its unity. There can be no doubt of our determination to deploy, nor that of Chancellor Kohl or of the Italian Government. I wish I could say the same of the Dutch or the Belgians. Rising popular and party political opposition (especially in West Germany) could this year threaten the broad consensus which has prevailed in Western Europe on defence issues since the Second World War. We shall need to co-ordinate NATO's reactions to Soviet moves and do our utmost to make sure that the Americans keep in step with the Europeans. They have to be persuaded to talk about security issues in terms which meet public concerns. There is in 1983, even apart from arms control issues, likely to be an increase in East/West exchanges, with Gromyko already booked to talk to Genscher and Cheysson during the next month.
- (d) All three of these issues have important implications for the Transatlantic relationship. The pipeline dispute has been settled but the differences of opinion which led to it have not been resolved. There is still fundamental disagreement about how to handle East-West economic relations.



relations, reflecting differing assessments as well as divergent interests. It may be difficult this year, too, to manage US/Community relations. Britain will therefore have a continuing role in persuading our European partners to keep American political realities in mind, and the other way about. This is likely to prove particularly necessary during the various studies set in hand following the pipeline row, if they are not to lead to another round of disillusionment and bitterness. We have a unique standing in Washington and will need to exploit it on behalf of wider European and transatlantic interests.

3. I am instructing my officials to bear the foregoing considerations in mind when preparing briefing for these meetings, subject to any comments from you or from OD colleagues to whom this minute is also being copied.
4. I am also sending a copy to Sir A Armstrong.

FP

(FRANCIS PYM)

Foreign and Commonwealth Office
12 January 1983

SUBJECT

Even A/I

PS TO PM. NO. 10 DOWNING STREET.

PRIME MINISTER'S
PERSONAL MESSAGE

SERIAL No. T 230⁹/82

CONFIDENTIAL

40109 - 1

US Declassified

OO WASHINGTON DESKBY 031500Z
GRS 792
CONFIDENTIAL

DESKBY 031500Z
FM FCC 031300Z DEC 82
TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 2114 OF 3 DECEMBER
ECONOMIC SUMMITS

1. GRATEFUL IF YOU WOULD PASS THE FOLLOWING MESSAGE FROM THE
PRIME MINISTER TO PRESIDENT REAGAN AS SOON AS POSSIBLE.
BEGINS

THANK YOU VERY MUCH FOR YOUR LETTER OF 17 OCTOBER, WITH
YOUR PRELIMINARY THOUGHTS ABOUT ECONOMIC SUMMITS. SINCE
YOU WROTE, ALLEN WALLIS HAS BEEN IN LONDON, AND HAS TALKED
WITH MY PERSONAL REPRESENTATIVE, ROBERT ARMSTRONG, ABOUT
THESE MATTERS. YOU WILL THEREFORE KNOW THE GENERAL DRIFT
OF MY OWN THOUGHTS: BUT I WANT NONETHELESS TO RESPOND TO
YOUR LETTER.

MY THOUGHTS ARE VERY MUCH IN LINE WITH YOUR OWN. THE
GREAT VALUE OF OUR ECONOMIC SUMMIT MEETINGS IS AS AN
OPPORTUNITY FOR CANDID TALKS AMONG THE EIGHT OF US ABOUT
THE GENERAL WORLD ECONOMIC SITUATION. WE CAN DISCUSS HOW
WE CAN HELR EACH OTHER TO OVERCOME THE PROBLEMS WE FACE IN
OUR OWN COUNTRIES: AND WE CAN WORK TOGETHER TO CREATE A
CLIMATE WHICH WILL HELP TO BRING ABOUT IMPROVEMENTS IN
THE WORLD ECONOMY.

OUR PEOPLE WILL EXPECT FROM OUR MEETINGS AN OUTCOME WHICH
OFFERS HOPE THAT WE SHALL COME OUT OF THE WORLD ECONOMIC
SITUATION WHICH WE ARE NOW EXPERIENCING. BUT ECONOMIC
SUMMITS ARE NOT IN MY VIEW OCCASIONS FOR NEGOTIATING
DETAILED AGREEMENTS ON SPECIFIC SUBJECTS: RATHER THEY ARE,
AS YOU SUGGEST, TO DISCUSS OUR GENERAL APPROACH AT THE
HIGHEST POLITICAL LEVEL. ANY DECLARATIONS WE MAKE SHOULD

CONFIDENTIAL

h.a.
A.S.C. 6/12

CONFIDENTIAL

40109 - 1

EMPHASISE FAVOURABLE DEVELOPMENTS AND TRY TO CHECK UNFAVOURABLE ONES. THEY WOULD THUS GUIDE AND INFORM THE SPECIFIC WORK OF MINISTERS RESPONSIBLE FOR ECONOMIC POLICY AND FOREIGN AFFAIRS.

TO THE EXTENT THAT POLITICAL AS WELL AS ECONOMIC ISSUES FIGURE ON OUR AGENDA, THE SAME CONSIDERATIONS APPLY.

LIKE YOU, I SHOULD LIKE TO MAKE OUR MEETINGS AS INFORMAL AND AS LITTLE STRUCTURED AS POSSIBLE, SO THAT WE CAN CONCENTRATE ON DISCUSSING THE REAL ISSUES RATHER THAN NEGOTIATING IN DETAIL OR ARGUING ABOUT WORDS IN A COMMUNIQUE. IF WE ARE TO ACHIEVE THAT, WE NEED TO BE ABLE TO GET AWAY FROM THE PRESSURES OF THE MEDIA. SOME PREVIOUS ECONOMIC SUMMITS HAVE TENDED TO BECOME SPECTACULAR EVENTS, WHICH HAVE ATTRACTED A LOT OF PRESS AND PUBLIC ATTENTION AND HAVE GIVEN RISE TO EXPECTATIONS WHICH THE MEETINGS THEMSELVES HAVE NOT ALWAYS BEEN ABLE TO FULFIL. ANYTHING YOU CAN DO TO REDUCE THE NUMBER OF MEDIA REPRESENTATIVES AT WILLIAMSBURG AND THE DEMANDS WHICH THEIR PRESENCE MAKES UPON US WILL BE APPRECIATED.

AS TO PRELIMINARIES, PAST EXPERIENCE SHOWS THE DANGERS OF OVER-METICULOUS PREPARATION. OUR OWN DISCUSSIONS MUST NOT BE FETTERED OR VIRTUALLY DECIDED BY WHAT HAS BEEN DONE IN ADVANCE. I THINK THAT WE CAN BEST ACHIEVE THIS IF THE PREPARATIONS ON THE ECONOMIC SIDE ARE PUT CLEARLY IN THE HANDS OF OUR PERSONAL REPRESENTATIVES.

IT SEEMS TO ME THAT THERE ARE THREE THINGS WHICH THE PREPARATORY PROCESS BY OUR PERSONAL REPRESENTATIVES NEEDS TO DO FOR US:

(1) IT SHOULD BE ABLE TO IDENTIFY THE MAIN ISSUES WHICH WE ARE LIKELY TO WANT TO COVER DURING THE COURSE OF OUR DISCUSSIONS, SO THAT WE CAN OURSELVES THINK ABOUT THEM BEFORE WE COME. THIS SHOULD NOT TAKE LONG.

CONFIDENTIAL

40109 - 1

(II) IT SHOULD BE ABLE TO ESTABLISH POINTS ON WHICH THERE IS LIKELY TO BE GENERAL AGREEMENT AMONG US, AND WHICH WE DO NOT THEREFORE NEED TO DISCUSS IN DETAIL WHEN WE MEET, AND TO PINPOINT ISSUES ON WHICH THERE MAY BE DIFFERENCES OF VIEW WHICH DISCUSSION AT THE SUMMIT MAY HELP TO RECONCILE: THAT SHOULD HELP TO ENSURE THAT WE MAKE THE BEST USE OF THE LIMITED AMOUNT OF TIME WE HAVE TOGETHER AT THE SUMMIT MEETING ITSELF.

(III) WE CAN HARDLY MEET WITHOUT ISSUING SOME DECLARATION OR COMMUNIQUE THAT TELLS THE WORLD OF THE SUBJECTS WE HAVE DISCUSSED AND, AT LEAST IN GENERAL TERMS, WHAT CONCLUSIONS WE HAVE REACHED. I BELIEVE IT SHOULD BE SOON. PREPARATION SHOULD INCLUDE A FRAMEWORK FOR THE FINAL DECLARATION SO THAT THE ACTUAL DRAFTING OF OUR CONCLUSIONS CAN BE DONE QUICKLY. I DO NOT BELIEVE WE SHOULD GO INTO TOO MUCH DETAIL. IF WE CAN ALL AGREE ON THESE POINTS, AND IF OUR PERSONAL REPRESENTATIVES UNDERSTAND OUR MINDS ON THESE MATTERS, THEY OUGHT TO BE ABLE TO COMPLETE THEIR WORK IN A COUPLE OF MEETINGS.

ON THE POLITICAL SIDE OF THE AGENDA, I WAS VERY SATISFIED WITH THE APPROACH ADOPTED BY PRESIDENT MITTERRAND AT VERSAILLES IN JUNE, WHICH IN EFFECT WAS TO HAVE NO PREPARED DRAFTS, BUT TO ARRANGE FOR POLITICAL DIRECTORS TO BE AVAILABLE IN CASE IT WAS DECIDED - AS HAPPENED IN JUNE OVER THE ISRAELI INVASION OF LEBANON - TO ISSUE A STATEMENT OR COMMUNIQUE ON ONE OR MORE PARTICULAR POINTS.

THE WORLD RECESSION IS LONGER AND DEEPER THAN WE EXPECTED, AND THE WORRIES ARE CORRESPONDINGLY GREATER. I AM SURE THAT UNDER YOUR CHAIRMANSHIP WE SHALL SHOW THAT WE UNDERSTAND THE DANGERS AND FEARS AND THAT THE COUNTRIES WE LEAD HAVE THE CAPACITY AND THE DETERMINATION TO MEET THE CHALLENGE.

ENDS
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ADDITIONAL DISTR
ECONOMIC SUMMIT

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PS/PUS
SIR J BULLARD
MR EVANS
MR THOMAS

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CONFIDENTIAL

20



10 DOWNING STREET

From the Private Secretary

Sir Robert Armstrong

Economic Summits

Thank you for your minute of 26 November proposing a reply by the Prime Minister to the message of 18 October from the President of the United States.

The Prime Minister has approved the amended text annexed to this minute. I should be grateful if you could arrange for its despatch.

Mrs. Thatcher agrees that you may give copies of this message to your fellow Personal Representatives at your next meeting on 11/12 December.

I am copying this minute to Mr. Fall and Mr. Kerr.

A. J. COLES

2 December, 1982.

CONFIDENTIAL

A



10 DOWNING STREET

THE PRIME MINISTER

Thank you very much for your letter of 17 October, with your preliminary thoughts about Economic Summits. Since you wrote, Allen Wallis has been in London, and has talked with my Personal Representative, Robert Armstrong, about these matters. You will therefore know the general drift of my own thoughts; but I want nonetheless to respond to your letter.

My thoughts are very much in line with your own. The great value of our Economic Summit meetings is as an opportunity for candid talks among the eight of us about the general world economic situation. We can discuss how we can help each other to overcome the problems we face in our own countries; and we can work together to create a climate which will help to bring about improvements in the world economy.

Our people will expect from our meetings an outcome which offers hope that we shall come out of the world economic situation which we are now experiencing. But Economic Summits are not in my view occasions for negotiating detailed agreements on specific subjects; rather they are, as you suggest, to discuss our general approach at the highest political level. Any declarations we make should emphasise favourable developments and try to check unfavourable ones. They would thus guide and inform the specific work of Ministers responsible for economic policy and foreign affairs.

/ To

To the extent that political as well as economic issues figure on our agenda, the same considerations apply.

Like you, I should like to make our meetings as informal and as little structured as possible, so that we can concentrate on discussing the real issues rather than negotiating in detail or arguing about words in a communique. If we are to achieve that, we need to be able to get away from the pressures of the media. Some previous Economic Summits have tended to become spectacular events, which have attracted a lot of Press and public attention and have given rise to expectations which the meetings themselves have not always been able to fulfil. Anything you can do to reduce the number of media representatives at Williamsburg and the demands which their presence makes upon us will be appreciated.

As to preliminaries, past experience shows the dangers of over-meticulous preparation. Our own discussions must not be fettered or virtually decided by what has been done in advance. I think that we can best achieve this if the preparations on the economic side are put clearly in the hands of our Personal Representatives.

It seems to me that there are three things which the preparatory process by our Personal Representatives needs to do for us:

- (i) It should be able to identify the main issues which we are likely to want to cover during the course of our discussions, so that we can ourselves think about them before we come. This should not take long.
- (ii) It should be able to establish points on which there is likely to be general agreement among us, and which we do not therefore need to discuss in detail when we meet, and to pinpoint issues on which there may be

/ differences

differences of view which discussion at the Summit may help to reconcile; that should help to ensure that we make the best use of the limited amount of time we have together at the Summit meeting itself.

- (iii) We can hardly meet without issuing some declaration or communique that tells the world of the subjects we have discussed and, at least in general terms, what conclusions we have reached. I believe it should be short. Preparation should include a framework for the final declaration so that the actual drafting of our conclusions can be done quickly. I do not believe we should go into too much detail.

If we can all agree on these points, and if our Personal Representatives understand our minds on these matters, they ought to be able to complete their work in a couple of meetings.

On the political side of the agenda, I was very satisfied with the approach adopted by President Mitterrand at Versailles in June, which in effect was to have no prepared drafts, but to arrange for Political Directors to be available in case it was decided - as happened in June over the Israeli invasion of Lebanon - to issue a statement or communique on one or more particular points.

The world recession is longer and deeper than we expected, and the worries are correspondingly greater. I am sure that under your chairmanship we shall show that we understand the dangers and fears and that the countries we lead have the capacity and the determination to meet the challenge.

The President of the United States of America

CONFIDENTIAL

①

As amended

Prime Minister

Agree to send this message to President Reagan?

Agree that Robert Armstrong may give copies to his fellow personal representatives on 11/12 December?

A.F.C. 29/11

Ref. A082/0311

MR COLES

The President of the United States sent the Prime Minister a message on 18 October, outlining his own thoughts about Economic Summits and inviting her reactions to those preliminary thoughts.

2. I attach a draft of a message for the Prime Minister to send to the President. I hope that the message is self-explanatory. It has been agreed with the Treasury and the Foreign and Commonwealth Office.

3. I wondered whether to suggest that the Prime Minister's message should be copied to other Heads of State or Government of Summit countries. On the whole I think not; they do not seem to have copied their replies to her. But I should like to be able to make copies of her reply available to my fellow Personal Representatives at our next meeting on 11 and 12 December.

REA

ROBERT ARMSTRONG

26 November 1982

CONFIDENTIAL



DRAFT LETTER FROM THE PRIME MINISTER TO
PRESIDENT REAGAN

Thank you very much for your letter of 17 October, with your preliminary thoughts about Economic Summits. Since you wrote, Allen Wallis has been in London, and has talked with my Personal Representative, Robert Armstrong, about these matters. You will therefore know the general drift of my own thoughts; but I want nonetheless to respond to your letter.

My thoughts are very much in line with your own. The great value of our Economic Summit meetings is as an opportunity for ~~frank and direct conversation~~ ^{cardinal talks} among the eight of us about the general world economic situation. ~~[We can share with each other the problems we face in our own countries against the background of the world situation, and we can exchange ideas about how we may be able to help each other to overcome those problems, and how we can work together]~~ ^{to create a climate which will help to bring about improvements in the world economy, which will ~~benefit~~ ^{benefit} not only the industrialised countries but also the rest of the free world.}

We can discuss how we can help each other to overcome the problems we face in our own countries; and we can work together

Our people will expect from our meetings ^{which offers hope that we shall come} an outcome ~~that has point~~ ^{are now experiencing} in the world

^{Out of the world} economic situation which we ~~all~~ face. But



Economic Summits are not in my view occasions for negotiating detailed agreements on specific subjects; rather they are, as you suggest, ^{to discuss our general approach} ~~for wide-ranging discussions~~ at the highest political level. ~~I believe they ought to be occasions when the heads of the seven principal industrial countries show their joint concern for the well-being of the economic system of the free world, and the outcome we should aim to achieve, and encourage the world to accept, should be broad direction-setting political declarations.~~ ^{Any declaration we make emphasize} ~~These declarations~~ should give ~~impetus to~~ favourable developments and try to check unfavourable ones. They would thus guide and inform the specific work of Ministers responsible for economic policy and foreign affairs.

To the extent that political as well as economic issues figure on our agenda, ~~I would say that the same considerations apply: the themes should be those that our publics are concerned about, the discussion should be frank, and the outcome should take the form of broad understandings to be followed up by our Foreign Ministers.~~

Like you, I should like to make our meetings as informal and as little structured as possible, so that we can concentrate on



discussing the real issues rather than negotiating in detail or arguing about words in a communiqué. If we are to achieve that, we need to be able to get away from the pressures of ~~the representatives of~~ the media. Some previous Economic Summits have tended to become spectacular events, which have attracted a lot of Press and public attention and have given rise to expectations which the meetings themselves have not always been able to fulfil. ~~We have, as you say, to try to discourage the media from generating excessive expectations about the outcome of our meetings.~~ Anything you can do to reduce the number of media representatives at Williamsburg and the ^{demands} pressures which their presence ^{rests upon} ~~can thrust upon~~ us ^{of me without} all will be ~~useful~~ in this regard.

As to preliminaries, past experience shows the dangers of over-meticulous ~~bureaucratic~~ preparation. ~~We must insist on as little preparation as is practical so that our own discussions are as little~~ ^{Our own discussions must not be} ~~fettered as possible by what is done in advance.~~ ^{wholly decided by what has been} I think that we can best achieve this if the preparations on the economic side are put clearly in the hands of our Personal Representatives ~~and not farmed out too widely in the bureaucracies.~~



It seems to me that there are three things which the preparatory process by our Personal Representatives needs to do for us:

- (i) It should be able to identify the main issues which we are likely to want to cover during the course of our discussions, so that we can ourselves think about them before we come. *This should not be late by - is late*
- (ii) It should be able to establish points on which there is likely to be general agreement among us, and which we do not therefore need to discuss in detail when we meet, and to pinpoint issues on which there may be differences of view which discussion at the Summit may help to reconcile; that should help to ensure that we make the best use of the limited amount of time we have together at the Summit meeting itself.
- (iii) We can hardly meet without issuing some declaration or communiqué that tells the world of the subjects we have discussed and, at least in general terms, what conclusions we have reached. *I believe it should be short.*



~~within the confines of a two-day Summit to produce such a document~~


~~from scratch. The preparatory process should therefore construct a framework for the final declaration or communiqué, to serve as a basis for final drafting in the light of discussion at the Summit~~

~~meeting itself, without taking the preparation to the point where the words and the thoughts are set in~~

Preparatory work should include
So that the actual drafting
which follows for an
own conclusion can be done
concrete and in effect dominate
Charity I do not believe in
and limit our own discussions.
Should go into much detail.

If we can all agree on these points, and if our Personal Representatives understand our minds on these matters, they ought to be able to ~~limit~~ *control* their preparatory work ~~accordingly~~ *in a* ~~to what will contribute to the effectiveness~~ *couple of meetings* of our own proceedings at the Summit without ~~limiting our freedom of discussion.~~

On the political side of the agenda, I was very satisfied with the approach adopted by President Mitterrand at Versailles in June, which in effect was to have no prepared drafts, but to arrange for Political Directors to be available in case it was decided - as happened in June over the Israeli invasion of Lebanon - to issue a statement or communiqué on one or more particular points.

 The world recession is
larger & deeper than we expected -
the worries are correspondingly greater

~~I know you share my concern about the
dangers that confront us all. Those dangers,
and the challenges which we shall face at
Williamsburg, are as great as (if not
greater than) at any of the previous Summits
I have attended. I am sure that under your
chairmanship we shall show that we under-
stand the dangers ^{years} and that the countries we
lead have the capacity and the determination
to ^{meet} ~~rise to~~ the challenges.~~

Econ Pol.

Summits

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FM WASHINGTON 190025Z NOV 82

TO PRIORITY FCO

TELEGRAM NUMBER 3754 OF 18 NOVEMBER

INFO PRIORITY OTTAWA, PARIS, BONN, ROME, TOKYO AND UKREP BRUSSELS

PARIS TELEGRAM NO 1021 : 1983 ECONOMIC SUMMIT

1. IT LOOKS AS THOUGH THERE MAY BE STILL CHOPPIER WATERS AHEAD ON THE DATES FOR THE 1983 ECONOMIC SUMMIT. THE CANADIAN EMBASSY HERE HAVE TOLD US IN CONFIDENCE THAT TRUDEAU DISCUSSED THE QUESTION WITH MITTERRAND AND KOHL DURING HIS VISITS TO PARIS AND BONN LAST WEEK. MITTERRAND HAD TOLD HIM THAT HE HAD NOT DECIDED YET WHETHER TO ATTEND THE WILLIAMSBURG SUMMIT OR NOT. HE WAS ANGRY BECAUSE HE FELT THAT THE AMERICANS HAD TREATED HIM CAVALIERLY BY ANNOUNCING THAT THE SUMMIT HAD BEEN SCHEDULED FOR 28-30 MAY, WHEN HE HAD MADE IT CLEAR THAT ANYTHING BEFORE 1 JULY WOULD GIVE HIM DIFFICULTIES. CHEYSSON HAD TOLD TRUDEAU THAT HE WAS WORRIED THAT MITTERRAND MIGHT BE WORKING HIMSELF INTO A POSITION FROM WHICH IT WOULD BE IMPOSSIBLE FOR HIM TO ATTEND. HE HAD SUGGESTED TO TRUDEAU THAT ONE WAY OUT MIGHT BE TO REVERT TO THE BRITISH IDEA OF AN EARLIER SUMMIT MEETING ON THE GROUNDS THAT ECONOMIC DIFFICULTIES AND THE CHANGE IN SOVIET LEADERSHIP NOW JUSTIFIED ADVANCING THE DATE.
2. IN BONN, TRUDEAU LEARNED THAT MITTERRAND HAD TOLD BOTH KOHL AND SCHMIDT THAT HE HAD DECIDED DEFINITELY NOT TO ATTEND THE WILLIAMSBURG SUMMIT ON THE DATES PROPOSED. THE GERMANS WERE IN A TIZZY ABOUT THIS, AS THEY DID NOT WANT TO HAVE TO CHOOSE BETWEEN SUPPORTING THE FRENCH AND ATTENDING THE SUMMIT. KOHL HAD THEREFORE THOUGHT CHEYSSON'S IDEA MIGHT BE WORTH STUDYING.
3. ON TRUDEAU'S RETURN TO OTTAWA, THE CANADIAN AMBASSADOR HERE WAS INSTRUCTED TO GO IN AND EXPLORE WITH SHULTZ THE IDEA OF A SUMMIT MEETING EARLY IN THE NEW YEAR. HE WAS NOT ABLE TO SEE SHULTZ BUT DISCUSSED THE POINT WITH ALLEN WALLIS, UNDER SECRETARY FOR ECONOMIC AFFAIRS AT THE STATE DEPARTMENT, WHO HAS BEEN APPOINTED PRESIDENT REAGAN'S PERSONAL REPRESENTATIVE FOR ECONOMIC SUMMITS. WALLIS HAD CONFINED HIMSELF TO SAYING THAT IT WAS AN INTERESTING IDEA. HE DID NOT GIVE GOTLIEB ANY ENCOURAGEMENT TO THINK THAT THE AMERICANS WOULD WANT TO PURSUE IT. IT WAS LEFT THAT THE QUESTION MIGHT COME UP IN DISCUSSION BETWEEN CHEYSSON AND SHULTZ WHEN THEY NEXT MET (PRESUMABLY IN PARIS).
4. WE UNDERSTAND THAT THE STATE DEPARTMENT HAVE GIVEN THE IDEA A LITTLE FURTHER THOUGHT SINCE THEN AND ARE DISINCLINED TO PURSUE IT, NOT LEAST BECAUSE IN PRESENT CIRCUMSTANCES THE WHITE HOUSE WILL NOT BE IN A MOOD TO MAKE THE SLIGHTEST MOVEMENT TO ACCOMMODATE MITTERRAND. BUT QUITE APART FROM THAT, THEY WOULD BE

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AFRAID THAT THE ANNOUNCEMENT OF A SNAP SUMMIT WOULD GIVE RISE TO EXAGGERATED EXPECTATIONS ABOUT WHAT IT WOULD ACHIEVE. MOREOVER, IF IT WAS TO AVOID GETTING TANGLED UP WITH THE GERMAN ELECTIONS, IT WOULD HAVE TO BE IN FEBRUARY AT THE LATEST. THIS WOULD GIVE ALMOST NO TIME FOR PREPARATION. WITH ALL THESE FACTORS IN MIND, THE STATE DEPARTMENT HAD NOT PUT THE IDEA TO THE WHITE HOUSE.

5. THE CANADIAN EMBASSY HERE HAD NO AUTHORITY FROM OTTAWA TO DISCUSS THIS WITH US. NOR HAD THE STATE DEPARTMENT MENTIONED IT TO US UNTIL WE HAD CHECKED OUT AMERICAN REACTIONS WITH WALLIS'S OFFICE. IT SEEMS UNLIKELY AT PRESENT THAT THE IDEA OF ADVANCING THE DATES IS GOING TO MAKE MUCH PROGRESS. BUT NOR DO THE AMERICANS HAVE ANY OTHER IDEAS FOR HOW TO RESOLVE THE PROBLEM WHICH THEIR ANNOUNCEMENT OF 23 OCTOBER HAS CREATED. IT THEREFORE SEEMS THAT THE STORM SIGNAL HOISTED IN PARIS TELEGRAM NO 937 IS NOW AMPLY CONFIRMED.

ADVANCE TO SIR R. ARMSTRONG.

WRIGHT

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HD/ECI (E)

HD/RED

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HD/NEWS D

HD/PCD

PS

PS/MR HURD

PS/MR RIFKIND

PS/PUS

SIR J. BULLARD

MR EVANS

MR THOMAS

COPIES TO:
SIR R. ARMSTRONG, CABINET OFFICE.
SIR K. COUZENS, TREASURY.

COPIES SENT TO
No. 10 DOWNING STREET

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ECONOMIC SUMMIT

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

PS/NO 10 DOWNING STREET
PS/CHANCELLOR OF)
THE EXCHEQUER) TREASURY
SIR K E COUZENS)
MR TURNBULL)
SIR R ARMSTRONG
CABINET OFFICE

HD/ERD (2)
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MR J CAINES) DOT
MR E BESTON)
MR MCMAHON BANK OF ENGLAND
MR BUIST ODA
MR PRIDDLE DEPT OF ENERGY
MISS DICKSON DEPT OF ENERGY

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CONFIDENTIAL

FROM MOSCOW 121035Z NOVEMBER

TO IMMEDIATE F C O

TELEGRAM NUMBER 726 OF 15 NOVEMBER

INFO IMMEDIATE WASHINGTON

PRIORITY PARIS, BONN, OTTAWA , ROME , TOKYO, UKREP BRUSSELS,
UKDEL OECD.

FOLLOWING FROM PRIVATE SECRETARY.

SECRETARY OF STATE'S MEETING WITH MR SHULTZ, 14 NOVEMBER: WORLD
ECONOMY AND ECONOMIC SUMMITS.

1. FOLLOWING ON THE DISCUSSION OF YUGOSLAVIA (RECORDED
SEPARATELY), SHULTZ SAID THAT THE WHOLE PROBLEM OF THE
WORLD ECONOMY NEEDED TO BE ADDRESSED BETTER. HE DID NOT FEEL
COMFORTABLE WITH THINGS AS THEY WERE . IT WAS NOT SO MUCH A
PROBLEM OF DEVISING A WAY TO PREVENT THE WORLD BEING BANKRUPTED
BY DEBTS : WE OUGHT TO BE SMART ENOUGH TO BE ABLE TO AVOID THIS.
BUT WE WERE NOW PRESCRIBING A POLICY OF AUSTERITY AND EXPORTS TO
ONE COUNTRY AFTER ANOTHER . IF THIS CONTINUED , HOW WAS GROWTH
EVER TO BE ACHIEVED ? KEYNES' ' PARADOX OF THRIFT ' APPLIED
HERE . AUSTERITY WAS A CORRECT PRESCRIPTION FOR ONE COUNTRY
SO LONG AS OTHERS WERE IN GOOD SHAPE ? BUT WHAT ABOUT IF A
NUMBER OF COUNTRIES WERE BADLY PLACED ? SHULTZ DID NOT EVEN FEEL
SURE THAT HE WAS EXPRESSING HIS THOUGHTS CORRECTLY. BUT HE WAS
CONVINCED THAT EXPANSION WAS VERY IMPORTANT . AS TO THE ECONOMIC

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IMMEDIATE

CONVINCED THAT EXPANSION WAS VERY IMPORTANT . AS TO THE ECONOMIC SUMMITS , IT MIGHT BE RIGHT TO REJECT OVER-PREPARATION , BUT PERHAPS THE AGENDA FOR THE NEXT SUMMIT SHOULD COMPRISE TWO ITEMS : ECONOMIC EXPANSION, AND PEACE .

2. THE SECRETARY OF STATE AGREED. IT WAS A PITY , FOR POLITICAL REASONS , THAT IT HAD NOT BEEN POSSIBLE TO BRING FORWARD THE DATE OF THE 1983 SUMMIT . WHEN THEY MET NEXT MAY , HE HOPED THAT THE WORLD'S LEADERS WOULD AGREE ON A CLEAR DIRECTION AND HOW THE WORK WAS TO BE TACKLED. THIS SHOULD BE THEIR REMIT TO THEIR OFFICIALS.

3. SHULTZ SAID HE WAS CONTINUING TO THINK ABOUT THESE PROBLEMS AND MIGHT HAVE MORE TO SAY LATER .

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Summits
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10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG
CABINET OFFICE

ECONOMIC SUMMITS

Thank you for your minute of 20 October. The Prime Minister agrees that, in your discussion with Mr Wallis, you should take the line suggested in your paragraphs 3 and 4. In addition, Mrs. Thatcher has commented that the declaration issued at the end of the summits should be short and has suggested it may not be necessary for personal representatives to meet more than twice before each summit.

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

A. J. COLES

22 October, 1982

CONFIDENTIAL



N. byham informed.

A. J. C. 22/10

Ref. A09828

MR COLES

Economic Summit 1983

On receipt of your minute of 21 October, I spoke to President Reagan's Personal Representative at 3.00 pm this afternoon London time, and told him that the Prime Minister was prepared to attend the Economic Summit between 28 and 30 May.

2. Mr Wallis told me that the announcement would not now be made today. They needed to consider exactly how it should be worded, to reflect the fact that the Japanese Government were in difficulty about accepting an absolute commitment for Mr Suzuki's as yet unknown successor. It was not going to be possible to put the proposed dates to the President of the French Republic until late this evening Paris time. They still had to hear from the Germans. Subject to all these points, they hoped to put out an announcement over the weekend. I was promised advance notice.

3. I am sending copies of this minute to Mr Fall (Foreign and Commonwealth Office) and Mr Kerr (Treasury).

ROBERT ARMSTRONG

22 October 1982



ECON POLICY
file 16

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

ECONOMIC SUMMIT 1983

Thank you for your minute of today's date.

The Prime Minister is prepared to attend the Economic Summit between 28 and 30 May.

I am copying this minute to Mr. Fall (Foreign and Commonwealth Office) and Mr. Kerr (H.M. Treasury).

A. J. COLES

21 October 1982



Ref. A09817

MR COLES

Economic Summit 1983

- I have received a further message from President Reagan's Personal Representative, a copy of which I attach.
2. If I am to say that we cannot accept the dates now proposed - 28th-30th May - I shall need to do so today.
 3. These dates cover the weekend (Saturday to Monday) of the Spring Bank Holiday. I should have preferred not to have to ask the Prime Minister to break into what might otherwise be a brief respite from the pressure of business; but that is what is now proposed. As you know, the following weekend, which President Reagan had in mind earlier in the week, would have clashed with the European Council.
 4. May I let Mr Wallis know that this date will be convenient for the Prime Minister?
 5. I am sending copies of this minute to Mr Fall (FCO) and Mr Kerr (Treasury).

ROBERT ARMSTRONG

21st October 1982



EMBASSY OF THE
UNITED STATES OF AMERICA
London

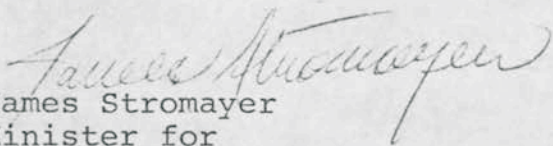
October 21, 1982

Sir Robert T. Armstrong, KCB, CVO
Secretary of the Cabinet
Cabinet Office
Whitehall
London SW1A 2AS

Dear Sir Robert:

We have been asked to deliver the attached message to you from Under Secretary for Economic Affairs, Allen Wallis, which was received at the Embassy this morning.

Sincerely,


James Stromayer
Minister for
Economic Affairs

Enclosure

SECRET

4.

SECRET

Dear Sir Robert:

I appreciate your prompt response to our proposal concerning the dates for the 1983 Summit of Industrialized Countries. As you may know, the dates indicated by the President, June 10-12, 1983, were not universally convenient.

We have explored a number of alternative dates, trying to the extent possible to accommodate all the preferences. Since these ranged from "no earlier than July 1" to "preferably no later than mid-April", you can appreciate our problem

After careful consideration of all the elements, the President has decided that May 28-30, 1983 meets as many of his colleagues' preferences as possible. I must emphasize that these dates are the only ones that meet all the requirements to be considered. Based on our previous communications, I am assuming that you can accept them. The White House will announce these dates Friday morning, October 22.

I look forward to seeing you soon so we can have a more leisurely discussion of the Summit and its preparation.

Sincerely,

Allen Wallis

SECRET

Now is the time to influence the
organisation of the next summit.
Are you content with paras. 3 & 4 below?

Ref. A09808

MR COLES

Yes

A. J. C. 21/10

Economic Summits

Thank you for your minute of 18th October.

2. If the Prime Minister agrees, when I see Mr Wallis on 25th October, I would propose to base myself on the letter which I sent to Sir Antony Acland on 27th September, of which I sent you a copy at the time; I attach another copy herewith. Sir Antony Acland has told me that he agrees with the recommendations which it contains.

3. Briefly, I would propose to make the following points:

- (i) The Prime Minister warmly agrees with the President that Summit meetings are an especially valuable opportunity for frank, candid and direct conversation among the Heads of State or Government, and that it is important to have the time and the atmosphere for an informal "give and take".
- (ii) The primary objective of Summit meetings should be to have a frank and direct discussion, and not to produce a series of specific agreements.
- (iii) The bureaucratisation of the preparatory process has increased in direct proportion with the media concentration on Summits and the heightened expectations which that generates. We should find ways of encouraging the media not to have or to generate excessive expectations. The temptation to make Economic Summits spectacular media events should be resisted; and, if possible, media representation (particularly by the American press!) should be reduced.



Short

(iv) On the other hand it is not conceivable that there should be such a meeting without some declaration at the end of it. It is desirable and important that there should be an agreed text; if there is not, the various Heads of State or Government will each give their own briefings, putting a different slant on the discussions, and the media will look for and highlight differences and not points of agreement. We need a basic text, agreed by all those concerned. Given that there is only a limited amount of time at the Summit, that makes a minimum of preliminary preparation inevitable and indeed desirable.

Kevin?

4. This suggests that the Personal Representatives should be retained as the instrument by which Economic Summits are prepared; that they need to be truly representative of their principals; they need to meet as far as possible on their own, not accompanied by large numbers of "experts"; they should meet as infrequently as possible before the Summit; they should not be tasked to produce agreed subject reports; and the only output of their discussions should be recommendations to Heads of State or Government on the shape, structure and contents of a declaration - which will no doubt take the form of a draft - so as to facilitate the final preparations of a declaration at the Summit itself without making a straitjacket for discussion by the Heads of State or Government.

5. As Mr Wallis will be here on 25th October, I suggest that it would be best for me to have my discussion with him, on the basis of the line suggested above, if the Prime Minister is content with it, and then to offer the Prime Minister a draft reply to the President's letter, which can take account of that discussion.

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

RA

ROBERT ARMSTRONG

20th October 1982



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Economic Summit

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PERSONAL

Ref: A09575

27th September 1982

Julian Bullard wrote to me on 24th September, asking what line I should like you to recommend the Foreign and Commonwealth Secretary to take, if there is discussion of the management of economic summits at his meeting next week.

As I understand it, the seven-nation economic Summits were originally conceived, following President Giscard d'Estaing's suggestion in 1975 in the wake of the first oil price crisis, as an opportunity for the Heads of State or Government of the seven leading industrialised countries to confer informally among themselves about the international economic and monetary situation and prospects; to compare notes about the position in their own countries; and to arrive at as much agreement as possible on the way forward, so that as far as possible the industrialised countries were leading the world economy in the right direction and not frustrating each other by pursuing beggar my neighbour policies.

Experience at the first Summit at Rambouillet in 1975 suggested that such meetings would benefit from some advance preparation. The leaders wanted to keep the closest possible association between themselves and the preparatory process, and to avoid the risk of its becoming too structured, cumbersome and bureaucratic that might arise if it was undertaken through normal diplomatic channels. Hence the institution of the Personal Representatives, or Sherpas.

In my experience, now covering three Summits, the Personal Representatives have been and can continue to be a valuable and very effective body for the purpose of making the necessary preparations - and no more than necessary preparations - for an Economic Summit, so long as those involved really do represent the views of the leaders whose Personal Representatives they are, so long as they are not inappropriately tasked, and so long as they can meet privately and without publicity.

/There needs

Sir Antony Acland, KCMG, KCVO

PERSONAL
SECRET - BURNING BUSH

There needs to be some preparation for Economic Summits. Heads of State or Government meet for only two days. Some declaration at the end is unavoidable. The time available at the Summit is simply not long enough to provide sufficient time for a full substantive discussion of all the issues, drafting ab initio, and discussion and clearance of the draft at Summit level. Discussion among Personal Representatives can serve to establish in advance the issues on which Heads are likely to be in broad agreement and need not therefore spend much time, and to identify the issues on which there is a measure of disagreement which the Heads may be possible to reduce or eliminate in discussion. Personal Representatives, provided that they are properly in touch with their principals' thinking, can also establish a consensus about the broad structure and approach of a declaration, and take preliminary drafting some way, without allowing it to become set in concrete.

I think that three main factors have accounted for the persistent sense among Heads of State or Government that economic summits have become overly structured.

First, summits have become great media events. Prodigious numbers of journalists turn up; great expectations are generated, and with them strong pressures to find ways of meeting those expectations. The spectacular quality of Venice and Versailles contributed to those tendencies.

Second, President Carter set great store by what his Personal Representative called specificity: he insisted that the Summit communique should include a raft of highly specific commitments. If such commitments were to be agreed at the Summit, they had in practice to be the subject of detailed discussion and definition in advance by experts. This gave rise to an international bureaucratic apparatus extending well beyond Personal Representatives, which has not entirely withered away (cf. the High Level Energy Monitoring Group set up at Venice and the Technology Group set up at Versailles). The Prime Minister has consistently urged the case for very short communiqués of a political nature, and progress has been made. The Ottawa communique was shorter than the Venice communique, and President Mitterand's insistence on a short political declaration, ably given effect by his Personal Representative with the Prime Minister's Personal Representative's strong support, led to a much more satisfactory declaration at Versailles.

Third, some countries - notably Japan and the United States - have insisted on sending large delegations to meetings of Personal Representatives: their Sherpas seem to have to be accompanied by representatives of every Department whose business is involved. This tends to diminish the informality of meetings and the frankness with which the Personal Representatives themselves are prepared to speak to each other.

At the Venice Summit the Personal Representatives were commissioned to produce a study of aid policies and practices for the Ottawa Summit. The result showed clearly that, if Heads want to minimise bureaucratisation, they should not commission Personal Representatives or any one else to produce reports which have to be textually agreed among the seven countries. On the

/other

hand it can be useful for one Personal Representative to produce for discussion with his colleagues a paper for which he alone is responsible and which does not have to be agreed in detail.

In the light of this, my recommendations are:-

- (i) Economic Summits should be regarded primarily as opportunities for general political discussion of world economic problems and issues at the highest political level, and not as occasions for concluding specific agreements. Communiqués should be kept short, political and high-level. Individual delegations should be sternly restricted in numbers.
- (ii) The media should be encouraged not to have or to generate excessive expectations of Economic Summits. If possible, media representation should be substantially reduced.
- (iii) The temptation to make Summits spectacular media events should be resisted. Venice and Versailles were stunning venues, but not businesslike. The log cabin at Montebello was much better: all the principals under one roof, delegations restricted to fifteen each, and the media well segregated (at Ottawa 40 miles away).
- (iv) The Personal Representatives should be retained as the instrument by which Economic Summits are prepared.
- (v) The Personal Representatives should be tasked:-
 - (a) to establish issues on which there is a broad measure of agreement and the Heads do not need to spend much time;
 - (b) to identify issues on which there is a measure of disagreement which the Heads should seek to reduce or eliminate;
 - (c) to make recommendations to the Heads on the shape, structure and contents of a declaration, so as to facilitate the final preparations of a declaration at the Summit without making a straitjacket for discussion.
- (vi) The Personal Representatives should not be commissioned to produce agreed subject reports (like the aid study commissioned at Venice).
- (vii) Personal Representatives should meet as infrequently as possible. Three or at most four meetings before each Summit should be enough for adequate preparation.

/ (viii)

(viii)

PERSONAL SECRET - BURNING BUSH
Each Personal Representative should be truly representative of the Head of State or Government he represents and be able to speak with authority accordingly (this has not so far appeared to be the case with President Reagan's Personal Representatives).

(ix)

Personal Representatives should meet as far as possible on their own; meetings at which they are accompanied by experts should be kept as few as possible; and at "plenary" meetings no Personal Representative should be accompanied by more than two experts (the worst offenders in this respect have been the Japanese, the Americans and the Italians).

(x)

There should be no publicity for meetings of Personal Representatives.

President Reagan is to host the next Summit in 1983. I believe that he is expected to invite his colleagues to a venue in California. It will be important to hold the Summit before the end of June 1983: until then the Federal Republic of Germany will have the Presidency of the European Council, whereas after that Greece will hold the Presidency, and if the Summit were to be held during the Greek Presidency Mr. Papandreou as well as Mr. Thorn would have to be invited.

So far as I know President Reagan has not announced a nomination of a Personal Representative to succeed Bob Hormats, but my information is that it is expected to be Mr. Wallace, an Assistant Under Secretary of State in the State Department. He will be new to economic summitry and indeed (I believe) to government. As President Reagan is the host, his Personal Representative will chair the Personal Representatives and have to lead their activities. My information is that Wallace is likely to be not very good at it. If the Foreign Secretary thinks that it would be useful to suggest to Mr. Shultz that I might go across and see Mr. Wallace, or invite Mr. Wallace to come here, to discuss the preparations for the 1983 Summit before the next meeting of Personal Representatives (not fixed, but probably in late November or early December), I should of course be entirely happy for him to do so.

I am sending copies of this letter to Ken Couzens and to John Coles.

Yours ever

Robert Armstrong

ROBERT ARMSTRONG



dc: fco HC
HMT

2

ECON. POLICY

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

Economic Summits

W/K

I enclose a copy of a message which the Prime Minister has received from President Reagan about the organisation of these Summits. I note that Mr. Allen Wallis, the President's Personal Representative for the next Economic Summit, will be in Europe next week to discuss American ideas on this matter with his opposite numbers. You will doubtless wish to obtain guidance from the Prime Minister for your talks with Mr. Wallis. I should be grateful if you could also provide advice on whether the Prime Minister should reply to the President's letter before or after Mr. Wallis' visit.

I am copying this minute and enclosure to Mr Fall (Foreign and Commonwealth Office) and Mr. Kerr (H.M. Treasury).

A. J. COLES

Sp

SECRET

18 October, 1982

SUBJECT

US Declassified

PRIME MINISTER'S

SECRET

PERSONAL MESSAGE

SERIAL No. T 195/82

Dear Margaret:

18.10.82

Over the past few weeks, since sending you my invitation to the Summit meeting at Williamsburg, I have been reflecting on the two summits I have attended -- their weak and strong points, what to repeat, and what to avoid. As we start down the road to Williamsburg, I would like to express some of my preliminary thoughts, and to ask you for yours.

For my part, I believe these meetings are an especially valuable opportunity for frank, candid, and direct conversation among the eight of us. The problems we face cannot be reduced to structured agendas and short "talking points." We need the time and the atmosphere for an informal "give-and-take" -- beyond the headlines and away from the klieg lights. George Shultz's reports on his extremely productive conversations in New York -- and the informal NATO weekend in Canada -- serve to strengthen my preference for an informal and largely unstructured weekend at Williamsburg.

The danger of excessive expectations is also inherent in meetings of the heads of the seven most powerful economies. We need to consider how we can convey publicly the true nature of these meetings without making them appear pointless.

The serious state of the global economy -- and most of ours individually -- compels us to search for answers. The Summit should help us in that search. That is my objective. The industrial democracies -- and our dedication to freedom, peace, and prosperity -- surely are more than equal to the challenges we face.

Allen Wallis, whom I have named as my personal representative for the Summit, will be in Europe the week of October 25, to discuss some of these ideas with your representatives. I also look forward with great interest to receiving from you directly your reactions to these preliminary thoughts.

Sincerely,

Ronald Reagan

SECRET

013
~~SECRET~~

T 195 / 82 (2)



EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

October 18, 1982

I agree with him
that we should not
have any further talks
with him.

Prime Minister
We shall let you have
advise.

not A.F.C. 12/10.

Dear Prime Minister:

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

I have covered
the P.R.'s comment
only to Sir R.
Armstrong.

I am also sending a copy of this message
to Sir Robert Armstrong.

Sincerely,

John J. Louis, Jr.
Ambassador

A.F.C. 12/10

Enclosure

SECRET

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



FILE

RM

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG
CABINET OFFICE

C

ECONOMIC SUMMIT

I promised on Friday night to let you know early this morning whether the Prime Minister could manage the new dates which your American colleague has suggested to you.

I have now confirmed that the Womens Conference on 21 May is immovable. But the Prime Minister could agree to attend a summit from 22 - 24 May.

A. J. JONES

18 October, 1982



10 DOWNING STREET

Carline

Economic Summit

To the Women's Conference on 21 May, 1983
movable?

Could the P. R. be in California
from 20 to 22 May?

Or 22 to 24 May? ok. ✓

(I need to tell Sir R. Armstrong
early on Monday).

A. J. C. 15/5

Original on:
Anglo/French Relations Pt 2.



10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

The Prime Minister was grateful for your note of your conversation with Monsieur Attali on 5 October and has noted its contents.

A. COLES

11 October, 1982

Original on:
Anglo/French Relations PTZ

Prime Minutes

A.F.C. 8/10

Ref. A09677

MR COLES

- I attach a note of a conversation which I had with Monsieur Attali in Paris on 5th October.

2. I am sending copies of this minute and the note to the Private Secretary to the Foreign and Commonwealth Secretary. Monsieur Attali spoke with great candour, and I hope that this record may be treated accordingly: specifically, I would ask that copies should not be circulated in the Foreign and Commonwealth Office beyond those with a strict need to know.

3. I am also sending a copy of paragraphs 3 to 11 to the Private Secretary to the Chancellor of the Exchequer, with a similar request.

ROBERT ARMSTRONG

7th October 1982

Original or:
Anglo/French relations P12.

CONFIDENTIAL AND PERSONAL

NOTE FOR RECORD

I went to see Monsieur Jacques Attali, Special Adviser to the President of the French Republic, at his invitation, in the Elysée on Tuesday, 5th October 1982. Our discussion took place over lunch. Monsieur Bianco, the new Secretary General at the Elysée, was also present. Before Monsieur Bianco arrived, Monsieur Attali explained that he had now added to his responsibilities for international economic matters new responsibilities on the political side of the President's work. The Secretary General was responsible for "running the house". But Monsieur Bianco contributed to our discussion in a way that made it clear that he was well informed over a wide range of the President's business.

Visit of the Federal Chancellor

2. It appeared that Monsieur Attali had not been there when Monsieur Mitterrand saw the new Federal Chancellor at the Elysée the previous evening; but Monsieur Bianco was there. He said that the discussion had been mainly about security issues (not including terrorism). Other issues had been mentioned but not discussed; these would no doubt be pursued at the next Franco-German bilateral meeting on 21st and 22nd October. Monsieur Bianco said that the Federal Chancellor had told the President that there would be new Federal elections in Germany in the first or second week of March 1983; they would coincide with two or three Land elections.

Economic Summit 1983

3. Monsieur Attali said that the French President had been "very angry" at President Reagan's attempt to obtain a commitment to an Economic Summit on 10th to 12th June 1983 at 48 hours' notice. It was no way to do business among Heads of State or Government. On the President's instructions Monsieur Attali had told the new United States Personal Representative, Mr. Allen Wallis, that the French President could not and would not attend an Economic Summit before July. If the date was fixed before that, they could hold it but he would not come. Monsieur Attali and Monsieur Bianco explained that the President's schedule for the first half of the year was already full. He would have to stay in France during the run-up to the Municipal elections in March; and, as he had been

criticised for travelling abroad too much, he had decided to limit his trips abroad to one a month.

4. I said that one disadvantage of leaving the Summit over until after the end of June was that the European Community would once again have to be represented by a Prime Minister of a country not otherwise represented at the Summit; in this case, Greece. Monsieur Attali looked rather thoughtful about this, and thought that he might be able to prevail upon the French President to accept a date towards the end of June.

5. Monsieur Attali asked why the Prime Minister was proposing that the Summit should be brought forward to earlier in the year. It was clear that he thought that domestic political considerations might have prompted this suggestion. I said that the Prime Minister was keeping her own counsel about the date of the next General Election, but I thought it unlikely that her suggestion for an earlier Summit reflected domestic political considerations. She was increasingly concerned about the international financial situation, and she thought that its management might well require an input from the Heads of Government of the industrialised countries before June. She recognised that it might be difficult to hold the Summit before the Federal elections in Germany, but hoped that a date towards the end of March or early April might be possible.

Monsieur Attali once again recalled the instructions he had received from his President.

6. I asked Monsieur Attali whether he was satisfied with progress on the work to follow up the President's report on technology at Versailles. Monsieur Attali said that he was optimistic about that, and hoped that it would lead to proposals for a number of co-operative projects and initiatives. He was grateful for the contribution that the United Kingdom representatives had made to this work.

Community Budget

7. I said that the British Government was hoping that it would be possible at the next meeting of the Council of Ministers to reach agreement on the implications of the 25 May 1982 agreement on compensation to the United Kingdom for 1982. I knew that the French had raised problems at the last meeting about the contribution to the German payments. I recalled that at the meeting on

CONFIDENTIAL AND PERSONAL

25th September the French delegation had argued that the question of the United Kingdom's gross contribution to the German payments should be linked with the "corrections" in respect of 1980 and 1981; but that was contrary to the terms of the 25th May agreement, which made it clear that corrections for 1980 and 1981 would be taken into account when negotiating the solution for 1983 and subsequent years. Monsieur Attali said that the French Government agreed that the United Kingdom compensation should be fixed at 850 million ecus net, and he agreed that "corrections" for 1980 and 1981 were to be dealt with in relation to the long-term solution and not in relation to the settlement for 1982. But there was no way in which France would pay a dollar or a penny towards the German contribution. German agriculture had done incredibly well out of the Common Agricultural Policy, and considerably better than French agriculture. If there was any question of France paying for part of the German contribution, the agreement for 1982 would be void. This was not a Franco-British problem, because France agreed that compensation for the United Kingdom for 1982 should be 850 million ecus net, and would pay her due contribution for that; but no more. It was a Franco-German problem. The President had mentioned this when he saw the Federal Chancellor the previous evening but there had been no discussion. I wondered whether it might be possible to resolve this problem by drawing upon the surpluses on the Community budget for previous years which I understood to be substantial. Monsieur Attali agreed that that might be possible, but emphasised again that it was a question of principle that France would not contribute to the relief of Germany.

8. Turning to the longer term problem, Monsieur Attali asked what our position was. I said that it remained what it had been. We were not asking for "juste retour", and we were prepared to continue to pay a modest net contribution. But it was unacceptable that a country which was relatively less prosperous should be required to be a net contributor on the scale of our unadjusted net contribution. The Community was committed to find solutions to unacceptable situations. We were still looking for a solution that lasted as long as the problem. Monsieur Attali said that in that case he feared that the Community was in for a very difficult time. As he had told me on a previous occasion, the President recognised the need for a short-term solution to deal with the immediate political

CONFIDENTIAL AND PERSONAL

problem in Great Britain, and would be ready to help; but there would have to be a private or public understanding that that was "the beginning of the end of the transitional period". The problem would have to be resolved in the context of the extension of the "own resources" system. The French balance of payments was such that France could not afford the balance of payments consequences of continuing arrangements like those of 30th May 1980. Monsieur Attali reminded me that he had said to me before that Monsieur Mitterrand, when in opposition, had criticised the settlement of 30th May 1980 as over-generous. It was for him a political imperative that France should not have to pay more, and should pay less, for the relief of the United Kingdom than was implied in the 30th May 1980 settlement. This remained a political imperative, and was one of the reasons why France would make no payments in respect of the German contribution in 1982.

9. Monsieur Attali hoped that it would be possible to limit as far as possible the extent to which this matter gave rise to difficulties and misunderstandings between France and Britain. He suggested that he and I should keep in close contact over these matters over the coming months. He agreed that it would be useful for Mr. Hancock to meet Monsieur Morel to go over the ground in more detail before the Anglo-German bilateral and before the Prime Minister's visit to Paris at the beginning of November.

10. I handed Monsieur Attali an aide-memoire on the 25th May 1982 agreement on compensation to the United Kingdom for 1982. I said that I thought that he should also know that the Government thought that the real nature of the Community budget problem and the reasons for Britain's position were not yet fully understood by the public in many European countries, and had, therefore, arranged to produce a pamphlet on the subject which was being made available to industrial and trade associations and other interested bodies. I said that Monsieur Attali would himself, of course, need no elucidation on the matter; but I thought that he should know of what was being done, and might like to see the pamphlet which we were issuing. Monsieur Attali said that he had heard about the pamphlet, and he accepted a copy of the French version of it.

CONFIDENTIAL AND PERSONAL

11. We did not discuss any other Community issues. Monsieur Attali, with a smile, made a passing and light-hearted reference to British turkeys; I said that I thought that it had been very tactful of him to serve neither turkey nor lamb at our lunch.

Composition of Team and Agenda for the Franco-British Bilateral Summit in November

12. It was clear that neither Monsieur Attali nor the President had yet given much thought to these matters. Monsieur Attali asked what Ministers the Prime Minister had in mind to bring with her. I said that I thought she would hope to be accompanied by the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Trade. It was for question whether it would be also useful for the Secretary of State for Defence to come; there were perhaps matters which Defence Ministers could usefully discuss together. Monsieur Attali said that he would like to think further about the suggestion that Defence Ministers should come, but for the rest he thought that the composition was perfectly suitable, and he would propose accordingly that the President should match that.

13. As to the agenda, we agreed that the President and the Prime Minister would want to discuss developments in the international financial and economic situation since Versailles, and problems of transatlantic relations. They would also no doubt need to have some discussion on the Community problems that we had just been discussing; though that might not be for any communiqué it would be important that they should understand one another's positions. For the rest, it would be useful to find something more positive in the area of bilateral relations. I said that it seemed doubtful whether the Airbus or the fixed Channel link would be ripe for discussion by Heads of State or Government by the beginning of November. We wondered whether there might be any scope for agreement on co-operation on the development of new technology. In the course of the discussion it emerged that the French Government was working up to decisions about a wide extension of cable in

CONFIDENTIAL AND PERSONAL

France. I said that we were in the same position in Great Britain. We thought that this might be an area on which there could be scope for some bilateral activity, perhaps even in the form of studies of a cross-channel cable link.

Robert Armstrong

7th October 1982

Prime Minister

Note for the record.

This was in the PM's box. There are no indications she has seen it but since Sir R. Armstrong is now proposing dates acceptable to the Treasury Chambers, Parliament Street, SW1P 3AG March, but in the Chancellor it can be regarded as overtaken.



~~Sir R. Armstrong is taking this account in his proposal he is preparing to put to his American opposite number. He had been thinking of the European Council weekend, 18-20 March, but in the light of the Chancellor's comments the weekend after Easter, i.e. 9-10 April, or earlier in the week after Easter may be better.~~

PRIME MINISTER

FERB

11.10.

FERB

5.10.

TIMING OF 1983 ECONOMIC SUMMIT

I have now seen President Reagan's reply to your message of 1 October about the timing of next year's Economic Summit.

2. You have agreed that we should plan on 15 March as the date for the Budget. An Economic Summit in the immediately preceding weeks, or just after Budget day, would obviously be difficult for me. (I imagine that any date before about mid-March is anyway precluded by the German election proposed for 6 March.) A mid-April date would be much better for me, and it may be relevant that the Interim Committee of the IMF meets on 27/28 April.
3. There is also a possible point about the interaction between an early Economic Summit and the Budget. A Summit before mid-April would certainly complicate the presentation of the Budget, and could conceivably damage its impact on confidence.
4. I also agree very strongly with the point made in your message to the President that a Summit seen as specially timed could fail, in a difficult world economic situation, to live up to the expectations it raises. The further the Summit were advanced, the greater this risk. To reduce it, it would be important to secure in advance a high level of agreement among Summit participants. We would need to be able to point to more, and more lasting, Summit "achievements" than were reached at Versailles.



5. In the circumstances I hope that in the further discussions of Personal Representatives we could think in terms of a Summit not before mid-April.

6. I am copying this minute to the Foreign and Commonwealth Secretary and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.' with a flourish.

G.H.

5 October 1982



de
PM THOMAS ALDWIN
ECONOMIC POLICY

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG
CABINET OFFICE

Economic Summit

President Reagan replied over the weekend to the Prime Minister's message about next year's Economic Summit. I attach a copy of his reply.

I am copying this minute and attachment to Roger Bone (Foreign and Commonwealth Office) and John Kerr (HM Treasury).

A. J. COLES

4 October 1982

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2330

Prime Minister

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D/C 2/10

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FM THE WHITE HOUSE
TO CABINET OFFICE LONDON
ZEM
CONFIDENTIAL VIA CABINET OFFICE CHANNELS WH06772

DEAR MARGARET:

THANK YOU FOR YOUR MESSAGE CONCERNING THE TIMING OF NEXT YEAR'S ECONOMIC SUMMIT. THERE IS NO QUESTION BUT THAT THE PROBLEMS BEFORE US ARE URGENT. IT WAS WITH THIS SAME SENSE OF URGENCY, UNDERSCORED BY YOUR MESSAGE, THAT IN OUR ANNOUNCEMENT OF THE INVITATION AND VENUE TODAY, WE LEFT THE TIMING VAGUE. MY PERSONAL REPRESENTATIVE WILL BE IN TOUCH IN COMING DAYS WITH YOUR REPRESENTATIVE AND THE OTHERS TO WORK OUT AN EXACT DATE. WE WILL BE CONSIDERING BOTH SIMPLE SCHEDULE CONCERNS AND THE MORE SUBSTANTIVE CONCERNS WHICH YOUR MESSAGE RAISED.

SINCERELY,

RON

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DE CAB QSL 012319Z AT 2330Z IDS
TKS VM ANY MORE ? K



10 DOWNING STREET


From the Private Secretary

1 October 1982

The Prime Minister has asked me to thank you for your letter of 28 September enclosing a message from President Reagan about the 1983 Summit of the Industrialised Countries.

A. J. DOLES

His Excellency The Honourable John J. Louis Jr.



A J Coles Esq



CABINET OFFICE

With the compliments of
Sir Robert Armstrong KCB, CVO
Secretary of the Cabinet

AR 1/10

f.a.

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

Exec Pol ~~1d.~~
1d.

SECRET

Ref. A09622

MR INGHAM

cc Mr Coles
Sir Antony Acland

--- The White House is expected to issue a Press release shortly in the terms of the draft attached.

2. If and when the Press release is issued, you can confirm that the Prime Minister has received the President's invitation and has welcomed and accepted it.

3. The dates of the meeting remain to be decided by the usual processes of ^{consultation among} members participating in the Summit.



ROBERT ARMSTRONG

1 October 1982

SECRET

SECRET

President Reagan has invited the heads of state and governments of Canada, France, Germany, Great Britain, Italy and Japan as well as the President of the European Commission to join him at Williamsburg, Virginia for the 1983 Summit of Industrialized Countries. The Summit will take place over a two-day period, in the spring of 1983.

The Summit representatives come together annually to discuss current economic concerns. The last time the United States hosted an economic summit was in 1976 in Puerto Rico.

SECRET

SUBJECT

US Declassified

Copy sent
to Pres
Chapman
on 2/10

cc Master
Ops
2330

T 186/82

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TOO WTE24
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FM THE WHITE HOUSE
TO CABINET OFFICE LONDON
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PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T 186/82

C O N F I D E N T I A L VIA CABINET OFFICE CHANNELS WH06772

DEAR MARGARET:

THANK YOU FOR YOUR MESSAGE CONCERNING THE TIMING OF NEXT YEAR'S ECONOMIC SUMMIT. THERE IS NO QUESTION BUT THAT THE PROBLEMS BEFORE US ARE URGENT. IT WAS WITH THIS SAME SENSE OF URGENCY, UNDERSCORED BY YOUR MESSAGE, THAT IN OUR ANNOUNCEMENT OF THE INVITATION AND VENUE TODAY, WE LEFT THE TIMING VAGUE. MY PERSONAL REPRESENTATIVE WILL BE IN TOUCH IN COMING DAYS WITH YOUR REPRESENTATIVE AND THE OTHERS TO WORK OUT AN EXACT DATE. WE WILL BE CONSIDERING BOTH SIMPLE SCHEDULE CONCERNS AND THE MORE SUBSTATIVE CONCERNS WHICH YOUR MESSAGE RAISED.

SINCERELY,

RON

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CONFIDENTIAL



Re B
Pm Tang

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

ECONOMIC SUMMIT

Following your minute of 29 September, we discussed the proposed message to President Reagan in the light of the discussion between the Foreign and Commonwealth Secretary and his colleagues in New York (New York telegram nos. 1500 and 1501).

You subsequently submitted a revised draft message to President Reagan. This was approved by the Prime Minister overnight and was despatched on the hot-line this morning (copies will reach you and other recipients of this minute separately).

As you know, the Prime Minister would prefer that her message to President Reagan should not be copied to her other colleagues among the Seven. But I believe she would be content for our representatives in the countries concerned to be briefed both about the invitation and about the nature of our reply and to be authorised to explain orally to Personal Representatives in their capitals the line we are taking. I should be grateful if the FCO can make arrangements accordingly.

I am copying this minute to Roger Bone (FCO) and John Kerr (HM Treasury).

A. J. COLES

1 October 1982

CONFIDENTIAL

RS

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T.185A/82

IMMEDIATE

CONFIDENTIAL

010835Z OCT 82

FM CABINET OFFICE LONDON
TO WHITE HOUSE, WASHINGTON D.C.

US Declassified

✓ Master
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h.a.

100%

PERSONAL MESSAGE TO PRESIDENT REAGAN FROM THE PRIME MINISTER

DEAR RON

THANK YOU VERY MUCH FOR YOUR MESSAGE OF 28TH SEPTEMBER AND FOR YOUR INVITATION TO ATTEND THE ECONOMIC SUMMIT IN THE UNITED STATES FROM 10TH TO 12TH JUNE NEXT YEAR.

2. AS IT HAPPENS, I AM AFRAID THAT THOSE DATES WOULD BE VERY DIFFICULT FOR ME. BUT THERE IS ANOTHER POINT WHICH I SHOULD LIKE TO PUT TO YOU. AS YOU KNOW, I HAVE JUST COME BACK FROM A VISIT TO JAPAN (AMONG OTHER PLACES). WHEN I RECEIVED YOUR MESSAGE I WAS ON THE POINT OF WRITING TO YOU MYSELF TO RAISE WITH YOU THE POSSIBILITY, WHICH I DISCUSSED WITH MR. SUZUKI, OF BRINGING THE DATE OF NEXT YEAR'S SUMMIT FORWARD FROM JUNE TO EARLIER IN THE YEAR. THE WORLD ECONOMIC AND FINANCIAL SITUATION HAS CONSIDERABLY DETERIORATED SINCE WE MET AT VERSAILLES, AND I WONDER WHETHER WE CAN WAIT AS LONG AS JUNE BEFORE CONSIDERING TOGETHER HOW THE INDUSTRIALISED COUNTRIES SHOULD RESPOND TO THE SITUATION AS IT IS NOW DEVELOPING. MR. SUZUKI WELCOMED THIS SUGGESTION, AND TOLD ME THAT, IF THE REST OF HIS COLLEAGUES AGREED TO THE PROPOSAL, HE WOULD SUPPORT IT.

3. AS GEORGE SHULTZ WILL HAVE TOLD YOU, THE SUBJECT OF THE NEXT ECONOMIC SUMMIT CAME UP WHEN HE AND FRANCIS PYM MET OVER DINNER IN NEW YORK ON 29TH SEPTEMBER WITH THEIR FRENCH AND GERMAN COLLEAGUES. I UNDERSTAND THAT THERE WAS SOME SUPPORT FOR THE VIEW THAT WE MIGHT USEFULLY CONSIDER THE POSSIBILITY OF MEETING SOMEWHAT EARLIER. THERE WOULD BE A RISK THAT THE MEDIA WOULD TRY TO BLOW THAT UP AS A CRISIS AND TO RAISE EXPECTATIONS ACCORDINGLY. I AM SURE THAT WE SHOULD BE ABLE TO HANDLE THIS BY SENSIBLE BRIEFING: BUT IT WOULD BE MUCH MORE DIFFICULT TO DO SO IF WE HAD ALREADY ANNOUNCED A DATE IN JUNE. IF YOU COULD AVOID ANNOUNCING A DATE FOR THE TIME BEING, SO THAT THE POSSIBLE ADVANTAGES OF AN EARLIER MEETING COULD BE CONSIDERED, THIS WOULD BE VERY HELPFUL.

4. PERHAPS THE BEST WAY OF CARRYING THIS FORWARD WOULD BE FOR THERE TO BE AN EARLY MEETING OF OUR PERSONAL REPRESENTATIVES TO DISCUSS THE POSSIBILITY OF AN EARLIER MEETING AND THE QUESTION WHEN, IF THERE WERE TO BE SUCH A MEETING, IT MIGHT BE HELD. I HAVE NO SETTLED VIEWS ON THAT: PERHAPS THE SECOND HALF OF MARCH MIGHT BE POSSIBLE. THERE WOULD BE A NUMBER OF CONSIDERATIONS TO BE TAKEN INTO ACCOUNT, AND AN EARLY MEETING OF PERSONAL REPRESENTATIVES SHOULD BE ABLE TO PRODUCE RECOMMENDATIONS TO US IN A REASONABLY SHORT TIME. MY PERSONAL REPRESENTATIVE WOULD BE READY TO ATTEND SUCH A MEETING IN PARIS OR WASHINGTON: OR IF YOU THOUGHT THAT THAT WOULD BE HELPFUL, I SHOULD BE VERY HAPPY TO INSTRUCT HIM TO HOST A MEETING HERE IN LONDON AS SOON AS THAT COULD BE ARRANGED.

5. IN THE MEANTIME, PERHAPS WE MIGHT SUSPEND ACTION ON THE INVITATION WHICH YOU HAVE JUST SO GENEROUSLY SENT US.

WITH WARMEST BEST WISHES.

YOURS EVER.

MARGARET.

SUBJECT



Prime Minute (2)

A-7C-7^{30.}

Ref. A09605

MR COLES

WOL 1/2

h-c-

Economic Summits

Since I sent you a minute last night I have learned that the dates proposed by President Reagan in general would be likely to be very inconvenient for the President of the French Republic, and very inconvenient also for the Japanese Prime Minister.

2. The Japanese Prime Minister is away in China, and has asked President Reagan to postpone an announcement of the date of the next Summit. The White House very reluctantly agreed to postpone the announcement until Sunday 24 October.

3. It appears that the Prime Ministers of Canada and Italy have accepted President Reagan's invitation.

RIA

ROBERT ARMSTRONG

30 September 1982

Handwritten signature

Ref: A09615



CONFIDENTIAL

Prime Minister

Content for this revised draft
to be sent to President Reagan
on the hot line?

MR. COLES

Yes *ms*

A.J.C. 20/9

Economic Summit

You will have seen New York telegrams nos. 1500 and 1501 reporting the Foreign and Commonwealth Secretary's views (in case you have not, I attach copies). We had a word about this after Cabinet.

2. The only other development to report is that the Japanese Ambassador called on me this afternoon. He confirmed that the dates proposed by President Reagan would be difficult for his Prime Minister and that Mr. Suzuki remained attached to Mrs. Thatcher's suggestion that the dates of the meeting should be brought forward. I indicated the lines on which I thought the Prime Minister would be replying to President Reagan.

3. I attach a revised draft message for the Prime Minister to send to President Reagan. I think that she should say that 10th to 12th June would be difficult for her, though there is no need for her to give any reason. I have incorporated the Foreign and Commonwealth Secretary's suggestion as paragraph 3 of the revised draft; and have then suggested that the Prime Minister should revert to the idea that the best way to carry this forward would be a meeting of Personal Representatives. The Japanese Personal Representative is in any case due to be in Europe in the second week of October.

4. You told me that the Prime Minister would prefer not to copy her message to her other colleagues at the Summit. I think that it would be as well that our posts in the countries concerned should be briefed both about the invitation and about the nature of our reply, with instructions to them to give orally to Personal Representatives in their capitals the line we were taking.

If the Prime Minister is content with this, no doubt you will arrange accordingly with the Foreign and Commonwealth Office.

P.N.
Content?
AR 20/9

REA

Robert Armstrong

30th September 1982

CONFIDENTIAL

S E D I P

SECRET

BURNING BUSH

DESKBY 300800Z

FM UKMIS NEW YORK 300550Z SEP 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 1500 OF 29 SEPTEMBER 1982

FOLLOWING PERSONAL FOR PUS FROM PRIVATE SECRETARY

YOUR TELNOS 799 AND 800: ECONOMIC SUMMIT

1. WE POSTPONED REPLY TO YOUR TELEGRAM UNDER REFERENCE IN CASE THE SUBJECT AROSE AT THE QUADRIPARTITE DINNER. AS YOU WILL SEE FROM THE SUMMARY IN MIFT, THIS PROVED TO BE A SENSIBLE PRECAUTION. THE SECRETARY OF STATE FEELS THAT IN THE LIGHT OF THIS EVENING'S DISCUSSION IT WOULD BE BETTER FOR THE PRIME MINISTER TO SEND A RATHER SHORTER MESSAGE TO REAGAN, WITHOUT MENTIONING HER PERSONAL DIFFICULTY OVER THE JUNE DATES. HE RECOGNISES THAT THE MATTER IS A DELICATE ONE AND ASSUMES THAT YOU WILL WISH TO DISCUSS IT WITH SIR R ARMSTRONG. SUBJECT TO THAT, MR PYM WOULD SUGGEST A MESSAGE ON THE FOLLOWING LINES:

2. BEGINS.

AS GEORGE SHULTZ WILL HAVE TOLD YOU, THE SUBJECT OF THE NEXT ECONOMIC SUMMIT CAME UP WHEN HE AND FRANCIS PYM MET OVER DINNER IN NEW YORK ON 29 SEPTEMBER WITH THEIR FRENCH AND GERMAN COLLEAGUES. I UNDERSTAND THERE WAS SOME SUPPORT FOR THE VIEW THAT, GIVEN THE WORLD ECONOMIC AND FINANCIAL SITUATION, WE MIGHT USEFULLY CONSIDER THE POSSIBILITY OF MEETING SOMEWHAT EARLIER - PERHAPS IN FEBRUARY 1983. I PERSONALLY WOULD SEE ADVANTAGE IN OUR DOING SO. I AM SURE THAT WE COULD HANDLE BY SENSIBLE BRIEFING ANY TENDENCY OF THE MEDIA TO BLOW THIS UP AS A CRISIS MEETING AND TO RAISE EXPECTATIONS ACCORDINGLY. BUT IT WOULD BE MUCH MORE DIFFICULT FOR US TO DO SO IF WE HAD ALREADY ANNOUNCED A DATE IN JUNE. IF YOU COULD AVOID ANNOUNCING A DATE FOR A WEEK OR SO, SO THAT THE POSSIBLE ADVANTAGES OF AN EARLIER MEETING COULD BE CONSIDERED, THIS WOULD BE VERY HELPFUL. ENDS.

THOMSON

LIMITED
 HD/ PLANNING STAFF
 HD/ ERD
 PS
 PS/ PUS
 HR EVANS
 HR THOMAS

COPIES TO:-

SIR R ARMSTRONG
 CABINET OFFICE

DE DIP
SECRET
BURNING BUSH
DESKBY 300800Z
FM UKMIS NEW YORK 300552Z SEP 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 1501 OF 29 SEPTEMBER 1982

FOLLOWING PERSONAL FOR PUS FROM PRIVATE SECRETARY

MIPT: ECONOMIC SUMMITS

1. SHULTZ RAISED THE QUESTION OF THE ANNUAL ECONOMIC SUMMITS AS THE FIRST SUBJECT FOR DISCUSSION AT THE QUADRIPARTITE DINNER AND ASKED HOW BEST TO MAKE USE OF THEM. CHEYSSON REPLIED THAT THE SUMMITS SHOULD IDEALLY TAKE PLACE IN RESPONSE TO A PARTICULAR NEED RATHER THAN AS A MATTER OF ROUTINE. WE SHOULD COME CLOSER TO THE ORIGINAL CONCEPTION OF A MEETING OF THE SEVEN PRINCIPALS TO EXCHANGE VIEWS ON IMPORTANT TOPICAL SUBJECTS. THE AIM SHOULD BE TO INDICATE DIRECTIONS FOR ACTION RATHER THAN TO TAKE DECISIONS. THE PREPARATIONS SHOULD DEPEND ON THE PARTICULAR ISSUES TO BE DISCUSSED, BUT NO MORE THAN A FEW DAYS BEFORE THE MEETING SHOULD BE NECESSARY AND THERE WOULD BE NO WIDE-RANGING DECLARATION: A BRIEF COMMON STATEMENT ON THE MAIN ISSUE OR ISSUES, TO BE PREPARED DURING THE MEETING, SHOULD BE ENOUGH. THE NUMBER OF PARTICIPANTS SHOULD BE KEPT TO A MINIMUM AND THE PRESS KEPT AS FAR AWAY AS POSSIBLE.

2. MR PYM EXPRESSED SOME SYMPATHY WITH CHEYSSON'S POINTS AND WENT ON TO ASK WHETHER THOUGHT MIGHT NOT BE GIVEN TO HAVING THE NEXT SUMMIT RATHER EARLIER THAN PROPOSED. WE WERE ALL FACED WITH SERIOUS ECONOMIC DIFFICULTIES AND PUBLIC OPINION WOULD LIKE TO SEE GOVERNMENTS DOING WHAT THEY COULD TO TACKLE THEM. GIVEN OUR RESPONSIBILITIES, IT MIGHT SEEM INSENSITIVE TO ANNOUNCE NOW THAT THE NEXT ECONOMIC SUMMIT WOULD NOT TAKE PLACE UNTIL JUNE 1983. IT SEEMED PSYCHOLOGICALLY WRONG TO STICK TO THE ROUTINE IN THE LIGHT OF THE SITUATION WE FACED.

3. SHULTZ ACKNOWLEDGED THE IMPORTANCE OF WHAT HE DESCRIBED AS THE CURRENT ECONOMIC MALAISE, AND ADDED THAT IT TENDED TO SPILL OVER INTO INTERNATIONAL POLITICAL MATTERS. HE SAW SOME ATTRACTION IN THE IDEA OF THE SUMMITS MEETING IN RESPONSE TO NEED, BUT EMPHASISED ALSO THAT IT WAS RIGHT THAT THE LEADERS OF THE MAJOR WESTERN COUNTRIES SHOULD MEET FROM TIME TO TIME EVEN IF THERE WAS NO PARTICULARLY URGENT PROBLEM TO DISCUSS: IT WOULD SEEM ODD IF THEY DID NOT MEET FAIRLY REGULARLY. HE HAD NO DIFFICULTY WITH THE IDEA THAT THE SUMMITS SHOULD INDICATE DIRECTIONS RATHER THAN TAKE DECISION, AND THAT THE ISSUES SHOULD BE CAREFULLY SELECTED WITH

SECRET

DISCUSSION BY HEADS OF STATE/GOVERNMENT IN MIND. HE THOUGHT THAT THE STATEMENTS IN FAVOUR OF THE OPEN TRADING SYSTEM WHICH HAD FEATURED IN PREVIOUS SUMMIT COMMUNIQUE HAD DONE SOME GOOD.

4. MR PYM THEN SUGGESTED THAT IT WOULD BE HELPFUL IF THE ANNOUNCEMENT OF THE DATE FOR THE NEXT SUMMIT COULD BE HELD OVER FROM 1 OCTOBER UNTIL THERE HAD BEEN TIME TO CONSIDER THE ARGUMENTS FOR AN EARLIER MEETING. THE GERMANS (REPRESENTED BY VON STADEN) READILY AGREED, AS THEY THOUGHT THAT THE ANNOUNCEMENT OF A DATE PRECISELY AT THE TIME OF THE CHANGE OF GOVERNMENT IN BONN WOULD BE EMBARRASSING. CHEYSSON ALSO AGREED, AFTER FLIRTING FOR A WHILE WITH THE IDEA THAT TO ANNOUNCE A JUNE DATE AND THEN CHANGE IT TO FEBRUARY WOULD CONTRIBUTE A USEFUL SENSE OF DRAME. (MR PYM ACCEPTED THAT THIS WOULD BE DRAMATIC, BUT QUESTIONED VERY STRONGLY WHETHER IT WOULD BE USEFUL). IT BECAME INCREASINGLY CLEAR THAT SHULTZ WAS EMBARRASSED BY THE SUGGESTION OF POSTPONING THE ANNOUNCEMENT OF DATES, WHICH HE SEEMED TO THINK HAD BEEN AGREED UPON AFTER CONSULTATION WITH THE OTHER PARTICIPANTS. HE FINALLY EXPLAINED THAT BOOKINGS HAD BEEN MADE AT WILLIAMSBURG, AND THAT A CHANGE WOULD GIVE RISE TO PRESS SPECULATION ABOUT CANCELLATION DUE TO DISAGREEMENTS BETWEEN THE UNITED STATES AND THE EUROPEANS. WE AND THE FRENCH AND GERMANS MADE IT CLEAR THAT WE WERE NOT TALKING OF CANCELLATION, BUT MERELY OF POSTPONING THE ANNOUNCEMENT OF THE DATE OF A MEETING WHICH WOULD CERTAINLY TAKE PLACE AT WHATEVER TIME WAS AGREED. WE HOPED THAT THE AMERICANS COULD AGREE TO DELAY THE ANNOUNCEMENT, BUT WE WOULD NOT PRESS THE POINT IF SHULTZ WAS CONVINCED THAT POLITICALLY DAMAGING STORIES COULD NOT BE AVOIDED. SHULTZ TOOK NOTE, AND ENDED BY SAYING THAT HE WOULD TRY TO POSTPONE THE ANNOUNCEMENT BUT DID NOT KNOW WHETHER HE WOULD SUCCEED.

THOMSON

LIMITED

HD/PLANNING STAFF

HD/ERD

PS

PS/PUS

MR EVANS

MR THOMAS

COPIES TO:

SIR R ARMSTRONG

CABINET OFFICE

2

SECRET



Ref. A09601

MR COLES ✓

Prime Minister

The message to President Reagan needs to go today. Agree that it should be sent on the hot line?

Yes with slight amendments - A. J. C. 30/9

Economic Summit

Your telegram no 567 of 21 September from Tokyo said that in her discussions with the Japanese Prime Minister on 20 September the Prime Minister expressed concern that the leaders of the seven industrialised countries were not planning to meet until next June, in view of the deterioration of the world economic and financial situation since the Versailles Summit, and suggested that they should meet well before then. Mr Suzuki described the suggestion as a very good one, and the Prime Minister and he agreed that it would be desirable for the possibility to be discussed at the next meeting of Personal Representatives. You asked for advice to be submitted on the Prime Minister's return from the Far East.

2. The present state of preparations for the 1983 Economic Summit is that at Versailles President Reagan invited his colleagues for the next Summit in the United States. The date was left open, but the assumption was that it would be in the summer. The European Personal Representatives have indicated that it would be preferable for the meeting to take place before the end of June, while the Federal Republic of Germany holds the Presidency of the European Community: this would avoid the problem we encountered last year, of having to invite the Prime Minister of a non-Summit Community country to the Summit because that country holds the Presidency. In the second half of next year the Presidency will be held by Greece.

3. President Reagan has now issued a formal invitation to his colleagues to attend an Economic Summit in Williamsburg, Virginia, from Friday 10 to Sunday 12 June 1983. He is asking for a reply in time for a Press announcement to be made on Friday 1 October. The dates proposed clash with Trooping the Colour, which is on 11 June.

4. Sir Antony Acland, to whom your telegram was copied, has discussed with the Foreign and Commonwealth Secretary the question of advancing the date of the Summit. The Foreign and Commonwealth Secretary thought that it would be easier to take a definite view on this after his discussions in New York



this week on the pipeline and related issues; but there are a number of considerations which he thought - and I agree - would have to be taken into account. I suppose that, now that President Reagan has issued a definite invitation, the Foreign and Commonwealth Secretary may well find himself discussing this matter with Mr Shultz in New York.

5. A decision to advance the date of the 1983 Summit to February, or to hold a special meeting early in the year in addition to a "normal" summer meeting, would clearly be seen as something out of the ordinary. It would be, and would no doubt be recognised as, a response to the deterioration in the world economic and financial situation; but it would be important so to present the decision as not to create an impression of panic or increase the nervousness of the international banking system and the markets. If a decision was taken and announced early enough, it should be possible to achieve that.

6. More difficult, a decision to call an early Summit would generate expectations about its outcome. An early Summit that produced no result or, still worse, an impression of division, on transatlantic economic issues or indeed more widely, could be more damaging than not having an early Summit at all. It would be preferable - though this would obviously be very difficult to achieve - not to decide to have an early Summit unless or until one could be reasonably sure of a positive outcome.

7. It is in any case necessary in this context to have an eye on the state of transatlantic economic relations. The Versailles Summit was bedevilled by the argument between the United States and the European partners about East/West economic relations and particularly about the pipeline; an early Summit that developed into another wrangle about that would not help matters.

8. Another ingredient of uncertainty is the political situation in the Federal Republic. If Herr Kohl wins his constructive vote of confidence later this week or next week, my understanding is that he proposes to call Federal elections in March. The Federal Chancellor would come to a Summit with more authority after than before those elections.

9. The next meeting of Personal Representatives is not on present form due to be held until late November or early December. If we wanted to pursue the idea of an early Summit, we should take the initiative in calling a much earlier meeting of Personal Representatives.



10. President Reagan's decision to issue a formal invitation for June 1983, with a 48 hour deadline and no preliminary consultation among Personal Representatives or anyone else, clearly makes it necessary to take a very early view on whether and how to follow up the Prime Minister's suggestion to Mr Suzuki. Even without that, the next step would, I think, have been for the Prime Minister to put the idea to President Reagan in a personal message, since the United States are next year's hosts. Given that there clearly has to be some reaction to President Reagan's message immediately, even if it is only to ask for more time, perhaps the best course might be for the Prime Minister to send a message on the lines of the draft attached to President Reagan, with copies to the other Summit Heads of State or Government.

11. The Foreign and Commonwealth Secretary (still in New York) is being consulted on this matter by Sir Antony Acland, who should know his views tomorrow. Sir Antony Acland agrees generally with this minute and specifically with the draft message, and is advising accordingly. ~~Sir Douglas~~ Wass also agrees that this is the right line to pursue.

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

RIA

ROBERT ARMSTRONG

29 September 1982

PS. Since signing this I have learnt that President Mitterrand is likely to respond to the effect that he cannot commit himself at this short notice, and to suggest that the matter be discussed at the next meeting of Personal Representatives.



DRAFT

PERSONAL MESSAGE TO PRESIDENT REAGAN

~~cc The President of the French Republic
The Federal Chancellor, the Federal Republic of Germany
The Prime Minister of Canada, Italy and Japan
The President of the European Commission~~

Dear Ron,

Thank you very much for your message of 28 September and for your invitation to attend the Economic Summit in the United States from 10 to 12 June next year.

2. As it happens, I am afraid that those dates would be very difficult for me. Saturday 11 June is the date of the annual Trooping The Colour parade at which The Queen takes the salute. ~~and I should very much prefer not to have to be out of the country at that time and to miss the~~ ^{and I should very much} ^{prefer not to have to be out of the country at that time and to miss the} ^{parade.}

present at the

3. But there is another point which I should like to put to you. As you know, I have just come back from a visit to Japan (among other places), and when I received your message I was on the point of writing to you myself to raise with you the possibility, which I discussed with Mr Suzuki, of bringing the date of next year's Summit forward from June to ~~much~~ ^{or April} earlier in the year, perhaps February. The world economic and financial situation has considerably deteriorated since we met at Versailles, and I wonder whether we can wait as long as June before meeting our colleagues again and considering among ourselves how the industrialised countries should respond to the situation as it is now developing. (Mr Suzuki welcomed this suggestion, and told me that, if the rest of his colleagues agreed to the proposal, he would support it.)

4. If there was general agreement that we should meet earlier than June, that would obviously have a bearing on the invitation you have just issued, and I wonder whether we might take a little more time to think about it, before any announcement is made. I can see the risks of holding an early meeting: in particular, that it would generate expectations of a positive outcome, and a failure to satisfy those expectations could be



more damaging than not holding a meeting till June. But it might be right to run that risk, and work hard for a positive outcome which might help to restore a greater measure of confidence and to stem or even reverse the deterioration of the situation.

5. Clearly this is something on which your own view, as the President of the largest of the industrialised countries and as our host next year, will be ^{crucial} ~~of special importance~~. But our other colleagues may also wish to express their own views on the suggestion, and ~~I am therefore sending copies of this message to each of them~~. Perhaps the best way of carrying this forward would be for there to be an early meeting of our Personal Representatives. ~~My~~ My Personal Representative would be ready to attend such a meeting in Paris or Washington; or if you thought that that would be helpful, I should be very happy to instruct him to host a meeting here in London as soon as that could be arranged. In the meantime, perhaps we might suspend action on the invitation which you have just so generously sent us.

with best wishes. Margaret.

M. M. 10. 1



DRAFT PERSONAL MESSAGE TO PRESIDENT REAGAN
FROM THE PRIME MINISTER

Dear Ron

Thank you very much for your message of 28th September and for your invitation to attend the Economic Summit in the United States from 10th to 12th June next year.

2. As it happens, I am afraid that those dates would be very difficult for me. But there is another point which I should like to put to you. As you know, I have just come back from a visit to Japan (among other places), and when I received your message I was on the point of writing to you myself to raise with you the possibility, which I discussed with Mr. Suzuki, of bringing the date of next year's Summit forward from June to earlier in the year. The world economic and financial situation has considerably deteriorated since we met at Versailles, and I wonder whether we can wait as long as June before ~~meeting our colleagues again and~~ considering ^{together} ~~among ourselves~~ how the industrialised countries should respond to the situation as it is now developing. Mr. Suzuki welcomed this suggestion, and told me that, if the rest of his colleagues agreed to the proposal, he would support it.

3. As George Shultz will have told you, the subject of the next Economic Summit came up when he and Francis Pym met over dinner in New York on 29th September with their French and German colleagues. I understand that there was some support for the view that we might usefully consider the possibility of meeting somewhat earlier. There would be a risk that the media would try to blow that up as a crisis and to raise expectations accordingly. I am sure that we should be able to handle this by sensible briefing; but it would be much more difficult to do so if we had already announced a date in June. If you could avoid announcing a date for the time being, so that the possible advantages of an earlier meeting could be considered, this would be very helpful.



4. Perhaps the best way of carrying this forward would be for there to be an early meeting of our Personal Representatives to discuss the possibility of an earlier meeting and the question when, if there were to be such a meeting, it might be held. I have no settled views on that; perhaps the second half of March might be possible. There would be a number of considerations to be taken into account, and an early meeting of Personal Representatives should be able to produce recommendations to us in a reasonably short time. My Personal Representative would be ready to attend such a meeting in Paris or Washington; or if you thought that that would be helpful, I should be very happy to instruct him to host a meeting here in London as soon as that could be arranged.

5. In the meantime, perhaps we might suspend action on the invitation which you have just so generously sent us.

*With warmest best wishes.
Yours ever. Margaret.*



EMBASSY OF THE
UNITED STATES OF AMERICA
LONDON

CABINET OFFICE
A 8625
29 SEP 1982
FILING INSTRUCTIONS
FILE No.

September 29, 1982

SECRET

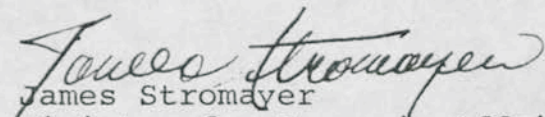
Sir Robert Armstrong, KCB, CVO
Secretary of the Cabinet
Cabinet Office
Whitehall
London, SW1A 2AS

Dear Sir Robert:

The Embassy has delivered the enclosed letter from President Reagan to the office of Prime Minister Thatcher this morning. In the interest of ensuring that the announcement of the Summit meeting is news rather than a confirmation of rumors, the White House proposes to issue the enclosed press release on Friday, October 1, at approximately 9:00 a.m. EDT. A parallel announcement in participant capitals would be welcome. We have been asked to notify Washington by telegram no later than opening of business Thursday, September 30, on the acceptability of the proposed dates. If any Summit participant cannot agree to the proposed dates, the alternative language of the press release will be used. Under any but the most extreme circumstances, the White House plans to make the announcement on October 1.

I would be most grateful if you would let me know the reaction of your Government as soon as possible, taking account of the time constraints indicated above.

Sincerely,


James Stromayer
Minister for Economic Affairs

Enclosures (2)
Letter to the Prime Minister
Press Release

SECRET

S E C R E T

Text of proposed press release to be issued at 9:00 a.m., October 1. President Reagan has invited the heads of state and governments of Canada, France, Germany, Great Britain, Italy and Japan as well as the President of the European Commission to join him at Williamsburg, Virginia for the 1983 Summit of Industrialized Countries. The Summit will take place over a two-day period, June 10-12, 1983 (alternate language, in mid-June).

The Summit representatives come together annually to discuss current economic concerns. The last time the United States hosted an economic summit was in 1976 in Puerto Rico.

S E C R E T

EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

September 29, 1982

Dear Prime Minister:

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

I am also sending a copy of this message to Sir Robert Armstrong.

Sincerely,

John J. Louis, Jr.
Ambassador

Enclosure

SECRET

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

SECRET

Dear Margaret:

Since you did me the honor at Versailles of accepting my offer to host the 1983 Summit, I have been looking forward to proposing a site and a date. It is now a great pleasure for me to extend a formal invitation to join me at Williamsburg, Virginia for the 1983 Summit of the Industrialized Countries.

I suggest that we meet there for the weekend of June 10-12, 1983. On this point, I would ask your agreement as soon as possible.

I look forward to this meeting as an opportunity to explore together the breadth, depth and direction of our common efforts for global peace and prosperity.

Sincerely,

Ronald Reagan

SECRET

cia

T 105/R 1a



EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

September 29, 1982

Dear Prime Minister:

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

I am also sending a copy of this message to Sir Robert Armstrong.

Sincerely,

Edward J. Louis, Jr.
John J. Louis, Jr.
Ambassador

Enclosure

SECRET

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

*HE The Hon. J J L Jr.
Sec. Sec W.I.*

US Declassified

T185/82

SUBJECT

CC MASTER
OPS

SECRET

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T185/82

Dear Margaret:

Since you did me the honor at Versailles of accepting my offer to host the 1983 Summit, I have been looking forward to proposing a site and a date. It is now a great pleasure for me to extend a formal invitation to join me at Williamsburg, Virginia for the 1983 Summit of the Industrialized Countries.

I suggest that we meet there for the weekend of June 10-12, 1983. On this point, I would ask your agreement as soon as possible.

I look forward to this meeting as an opportunity to explore together the breadth, depth and direction of our common efforts for global peace and prosperity.

Sincerely,

Ronald Reagan

SECRET

original filed on - Japan: Pm's visit

to Japan (Policy) : July 1982

LDW NR 611/21

PP F C O

GRS 220

CONFIDENTIAL

FM TOKYO 210315Z SEP 82

TO PRIORITY F C O

TELEGRAM NUMBER 567 OF 21/9/82

PERSONAL FOR SIR ROBERT ARMSTRONG AND SIR ANTONY ACLAND,

FROM P S TO PRIME MINISTER,

ECONOMIC SUMMIT.

IN HER DISCUSSIONS WITH THE JAPANESE PRIME MINISTER YESTERDAY THE PRIME MINISTER EXPRESSED CONCERN THAT THE LEADERS OF THE SEVEN WERE NOT PLANNING TO MEET UNTIL NEXT JUNE. SHE THOUGHT THAT WE SHOULD RAISE WITH THE UNITED STATES THE POSSIBILITY OF BRINGING THE MEETING FORWARD. THE MAIN ARGUMENT FOR DOING SO WAS THAT THE WORLD ECONOMIC AND FINANCIAL SITUATION HAD DETERIORATED CONSIDERABLE SINCE THE VERSAILLES SUMMIT AND A DELAY UNTIL NEXT JUNE SEEMED INAPPROPRIATE. (ALTHOUGH THE PRIME MINISTER DID NOT SUGGEST ANY NEW DATE SHE IS INCLINED TO ENVISAGE A SUMMIT TAKING PLACE EARLY NEXT YEAR, PERHAPS IN FEBRUARY)

2. MR SUZUKI AT FIRST SAID THAT IF THE PROPOSAL FOUND AGREEMENT AMONG THE REST OF THE SEVEN HE WOULD ALSO SUPPORT IT. LATER, HE DESCRIBED THE SUGGESTION AS A VERY GOOD ONE. THE TWO PRIME MINISTERS AGREED THAT IT WOULD BE DESIRABLE FOR THE POSSIBILITY TO BE DISCUSSED AT THE NEXT MEETING OF PERSONAL REPRESENTATIVES.

3. I THINK THE PRIME MINISTER WOULD BE GRATEFUL IF SOME THOUGHT COULD BE GIVEN TO THIS MATTER AND ADVICE SUBMITTED TO HER ON HER RETURN FROM THE FAR EAST.

COPTAZZI

