PREM 19/1008

MT

PART ~~13~~ 12

CONFIDENTIAL FILING

Williamsburg: Economic Summit
28 - 30 May 1983

ECONOMIC POLICY

Part 1 May 1979
Part ~~13~~ April 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~4.5.83~~							
~~4.5.83~~							
~~11.5.83~~							
~~18.5.83~~							
26.5.83							
← Pt 13 ends →							

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PART 18 ends:-

FCO to Ajc 26.5.83

PART 19 begins:-

PM to See Gen to UN 27.5.83

Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES.

Reference: CC (83) 18th Conclusions, Minute 2

Date: 12 May 1983

Signed OMWayland Date 25 March 2013

PREM Records Team

O.K.

Foreign and Commonwealth Office

London SW1A 2AH

26 May 1983

cc. Mr. Scholar
Mr. Walters
and return to me pl.
A.J.C. 26/5

Dear John,

Williamsburg: Message from the President of Brazil

I enclose a message from President Figueiredo to the Prime Minister about Williamsburg. This was delivered to us today by the Brazilian Ambassador in London, with the request that it be delivered to you as soon as possible. I assume that similar messages have been sent to the other Summit participants. We will send a draft reply to the message from the Prime Minister after Williamsburg.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

"To The Right Honourable
Margaret Thatcher,
Prime Minister of the
United Kingdom of Great Britain
and Northern Ireland

I would be remiss in my duty to the Brazilian people if I did not write to you, as I am also doing to the other participants, on the eve of your forthcoming meeting with the Heads of Government of other developed countries in Williamsburg, to put across some of the concerns and hopes which are widely shared these days by the Brazilian public opinion, in the face of painful economic difficulties largely caused by external circumstances.

My concerns are essentially related to the instability and precariousness which characterize the international economic system, following the many upheavals it has undergone in a little more than a decade. Its shortcomings constantly impose on the developing countries, which are the weaker part of the system, new and increasingly arduous challenges, sometimes aggravated by economic policies of the major economic powers.

Brazil for its part has been severely affected by the liquidity crisis which arose in the last months of 1982, precisely when the country was beginning to reap the fruits of an intense effort to adjust to the difficulties of the 70's - an unparalleled effort in view of the wide scope of the programmes

envisaged, particularly in the energy sector, where for the first time a country is engaged in a large-scale program of substituting biomass for oil as fuel.

Having contributed considerably to the process of adjustment of the developed economies in the 70's through its integration in the international economy and through the mobilization of foreign financial resources, Brazil now finds itself strongly constrained by the narrowing of the access for its products to markets in the developed countries, and by the shrinkage in the financial flows to which it had to resort.

More than denying my country the just reward for its labour, the current vicissitudes of the world economy now deny it the very opportunity to fulfill its people's aspirations to development.

My country is caught in the vise of a pincer movement by forces beyond its control: in two years, the interest on the servicing of its debt has doubled and its exports have suffered a one-third loss in purchasing power. When any country, let alone a developing country, simultaneously faces such problems - and sees that similar troubles afflict many other developing countries - it cannot remain silent as to the urgent need for north and south to engage in an objective and effective dialogue, to the benefit of both.

I am convinced, Mrs. Prime-Minister, that only a firm political decision will enable the world economy and its trade and financial mechanisms to regain the conditions necessary to generate sustained growth. Otherwise there can be no lasting

solution either to the problems of the north or to those of the south.

There are three fields, in my view, where action should be taken:

- short-term measures to stimulate the reactivation of economic activity in the north as well as in the south.
- readjustment of the domestic economic structures to the new patterns of production and trade. In the case of developed countries, the structural adjustment should be geared to modernizing their economies and overcoming once and for all the reasons which lead them to adopt protectionist barriers, so that those barriers do not persist to the point of restricting, or even nullifying, the expansion of trade which may result from the short-term measures of reactivation.
- an immediate start to the revision, on a coordinated basis, of the trade and financial systems, without which little can be expected from efforts limited to the recovery of the major economies and their internal readjustments, or from attempts to deal with specific problems and emergency situations within one system or another.

My country, as you are aware, is now engaged in a rigorous programme of restraint to adjust to a liquidity crisis engendered by external factors. My Government sees this programme as an indispensable effort and will carry it out with determination,

especially as Brazil considers it a preparation for resuming, as soon as possible, the dynamic growth which is essential for it to overcome the hardships of underdevelopment.

Brazil, Mrs. Prime-Minister, trusts that the developed nations of the west will acknowledge the need for coordinated actions to overcome the tearing political and social tensions stemming from the readjustments imposed by the present crisis, and that they will not fail to take advantage of all opportunities which my present themselves from now to imbue the dialogue with the developing countries with the political impetus capable of establishing the foundations of a new phase of prosperity in the world economy.

It is for this reason that I address you to express the interest with which I await the results of the Williamsburg meeting, which, I trust, will prove to be beneficial to us all.

Highest consideration.

Joao Baptista de Oliveira Figueiredo
President of the Federative Republic of Brazil"

PRIME MINISTER

WILLIAMSBURG: SPEAKING NOTE ON THE US THEMATIC PAPER

Alan Walters and I have worked together on the attached speaking note. Perhaps we could discuss on the aircraft how to sharpen it up?

N.L. LAWSON

26 May 1983

SPEAKING NOTE FOR THE DISCUSSION OF THE

THEMATIC PAPER

THE U.S. PAPER PROVIDES A USEFUL STARTING-POINT FOR OUR DISCUSSION.

(A) IT IS ABSOLUTELY RIGHT TO REMIND US OF THE ~~IMPROVEMENTS~~ Progress WE HAVE ~~SEEN~~ made SINCE THE LAST SUMMIT: FOR EXAMPLE

- ~~THE MAJOR SUCCESSES WHICH HAVE BEEN ACHIEVED IN REDUCING~~ INFLATION, has been reduced and much faster ~~IT HAS FALLEN FASTER~~ THAN MOST PEOPLE DARED HOPE A YEAR AGO; ~~AND~~ IT IS NOW, ~~ON AVERAGE~~ IN (For the Summit countries as a whole) AT ITS LOWEST ~~POINT~~ level FOR A DECADE.

/ - THAT

- THAT THE present RECOVERY ~~WHICH IS GETTING~~ already ~~UNDER WAY IN OUR COUNTRIES~~, and ~~SPREADING~~ ~~TO OTHER COUNTRIES~~, will ~~give rise to prospects~~ WILL HELP ENSURE (promote the further growth) ~~THE REVIVAL~~ OF ~~WORLD~~ TRADE ~~AND THE~~ (to benefit both industrialised and) ~~EASING OF DEBT BURDEN OF MANY~~ DEVELOPING COUNTRIES.

(B) IT IS RIGHT, TOO, TO REMIND US OF THE PROBLEMS WHICH WE CONTINUE TO FACE:

IN PARTICULAR

- That the present ~~THE INTOLERABLY HIGH~~ LEVEL OF UNEMPLOYMENT are intolerable, but ~~WHICH I BELIEVE IS~~ for which there is no quick ~~NOW THE DEEPEST PROBLEM FACING~~ cure ~~THE WEST~~. [(all quick cures are quack cures)]

/ - THAT THE

- THAT THE RECOVERY IS everywhere LIKELY TO BE PATCHY ~~FOR ALL OF US~~: NOT EVERY FIRM, NOT EVERY ~~REGION~~ worker WILL FEEL THE Surging of growth BENEFITS ~~OF THE CHANGE~~.

  THE VERY FACT OF TECHNOLOGICAL ~~CHANGE~~ Progress WILL MEAN THAT those who can grasp the ~~THERE WILL BE NO~~ new opportunities will benefit more ~~RECOVERY AT ALL FOR SOME FIRMS;~~ than others who do not ~~AND RAPID EXPANSION FOR OTHERS~~.

- THAT THE RECOVERY IS THREATENED ~~BY~~ Consequent ~~expectations~~ fears and THE ~~POSSIBILITY~~ OF A RESURGENCE OF INFLATION, ~~FUELLED~~ BY HIGH BUDGET DEFICITS AND HIGHER INTEREST RATES.

/THESE, OF COURSE,

THESE, OF COURSE, ARE NOT THE ONLY notable ECONOMIC ~~ACHIEVEMENTS~~ events ~~of such prowess~~ OF THE PAST TWELVE MONTHS:-

(A) WE HAVE SEEN LARGE IMPROVEMENTS IN PRODUCTIVITY ~~AND EFFICIENCY~~ - THE OTHER SIDE OF THE COIN OF THE LABOUR SHAKE-OUT.

IT IS ONLY FROM A ~~SLIMMED-DOWN AND~~ profitable and FULLY COMPETITIVE INDUSTRIAL ~~BASE~~ THAT WE ~~WILL~~ shall SEE AN ENDURING AND SUSTAINED RECOVERY, AND MORE <u>REAL</u> JOBS.

/(B)

(B) WE ~~HAVE COME THROUGH SOME DIFFICULT~~ Although there is no longer an international debt crisis, there is still a grave debt ~~MONTHS IN RELATION TO THE INDEBTEDNESS~~ problem ~~OF A NUMBER OF COUNTRIES.~~

MOST MAJOR DEBTORS governments ~~HAVE NOW PUT IN~~ ~~started~~ ~~the right sort of~~ the appropriate ~~PLACE~~ adopted ADJUSTMENT PROGRAMMES, ~~WITH THE~~ policies to restore their normally high ~~HELP OF THE IMF, BUT TIME ALONE WILL~~ creditworthiness. But ~~there can~~ ~~SHOW WHETHER ENOUGH HAS BEEN DONE TO~~ there is still much to be done ~~RULE OUT FURTHER DIFFICULTIES IN~~

~~INDIVIDUAL CASES.~~

THE MAIN LESSON WE MUST ALL LEARN -

OR, RATHER, THAT THE COMMERCIAL BANKS

SHOULD re-LEARN - ~~IS THAT THE PILING~~

~~OF DEBT ON DEBT WE HAVE SEEN MUST~~

~~NEVER BE ALLOWED TO HAPPEN AGAIN IN THIS~~

~~WAY.~~

it is in the lender's interest to ensure their loans are used productively and are self liquidating

/THE PAPER

THE PAPER ALSO USEFULLY POINTS TO SOME THEMES ON WHICH ~~I'M SURE~~ WE ~~WILL~~ NEED TO DEVELOP A ~~DEEPER~~ COMMON UNDERSTANDING ~~IF OUR DISCUSSION IS TO MAKE A POSITIVE CONTRIBUTION TO THE RECOVERY~~:-

(A) WE MUST EACH OF US FOLLOW POLICIES IN THE MANAGEMENT OF OUR RESPECTIVE ECONOMIES WHICH WILL PROVIDE THE RIGHT FRAMEWORK WITHIN WHICH OUR INDUSTRIES CAN THRIVE AND EXPAND.

(B) THAT MEANS and SOUND FINANCIAL POLICIES, ~~WITH~~ FIRM CONTROL OF MONETARY GROWTH AND FISCAL POLICIES ~~WHICH MATCH~~.

/PERSISTENT

PERSISTENT HIGH BUDGET DEFICITS ~~AT HIGH~~

~~AND UNSUSTAINABLE LEVELS~~, MUST BE

CUT DOWN TO SIZE, SO AS TO ALLOW

~~THE~~ PRIVATE BUSINESS ACCESS TO THE

~~INTEREST RATES TO COME DOWN FURTHER~~.

NATION'S ~~SAVINGS~~ INVESTMENT FUNDS

and to allow a fall in interest rates.

WE ALL HAVE A RESPONSIBILITY HERE:

BUT FOR THE U.S., WHICH HAS SO MUCH

INFLUENCE OVER THE FORTUNES OF ALL

OF THE REST OF US, THIS IS A SPECIAL

RESPONSIBILITY.

(c) WE SHOULD ALL LIKE TO SEE STEADIER AND

LESS VOLATILE EXCHANGE RATES.

/THE WAY TO

THE WAY TO ACHIEVE THIS IS NOT BY GRANDIOSE SCHEMES OF LARGE-SCALE AND CONCERTED INTERVENTION (WHICH WILL PROVIDE NO SHORT CUT TO EXCHANGE RATE STABILITY), BUT BY THE PURSUIT OF SOUND AND MUTUALLY CONSISTANT POLICIES IN THE KEY CURRENCY COUNTRIES - A MEDIUM TERM FINANCIAL STRATEGY ON AN INTERNATIONAL SCALE.

(D) THESE ARE THE POLICIES - SOUND MONEY, EXPENDITURE AND REVENUE UNDER CONTROL, AND STEADY EXCHANGE RATES - WHICH WILL SUSTAIN OUR RECOVERY AND WHICH ALONE WILL BRING ABOUT THE REDUCTION IN UNEMPLOYMENT WHICH WE ALL SO DESPERATELY WISH TO SEE.

/I HAVE

I HAVE ONLY ONE MORE POINT TO MAKE, AND IT IS A PLEA.

IF WE CAN ADVANCE OUR COMMON UNDERSTANDING ON THESE MATTERS AS I HAVE SUGGESTED, MAY WE ALL RESOLVE TO TURN THESE ASPIRATIONS INTO FACT, BY TAKING ACTION - CONCRETE ACTION - IN EACH OF OUR COUNTRIES?

Foreign and Commonwealth Office

London SW1A 2AH

26 May 1983

ADL 27/5

Dear John,

Williamsburg Summit: Arms Control

Thank you for your letter of 24 May to Roger Bone. I enclose a revised brief (PMVZ (83) 11) which takes account of the points you make. Given that the Prime Minister may not wish to open up a debate on future arms control implications for British and French nuclear forces, we have accordingly altered the Speaking Note. But as you will note from the background material, we suggest that the Prime Minister may find it useful to listen to other Heads of Government's views on this if these are forthcoming. As requested, the positions of the Japanese, Canadian and Italian Governments on INF have been set out more fully (paragraph 14 in the background section).

You will have seen that the Americans have now dropped the idea of an agreed INF statement, although if there is a consensus for a short statement emphasising seriousness about the negotiations, and about deployment if they fail, the Americans would welcome this.

I am sending copies of this letter to Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office). The brief is being reproduced separately by the Cabinet Office for circulation in the usual way.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

PMVZ(83) 11 COPY NO

19 MAY 1983

WILLIAMSBURG ECONOMIC SUMMIT
28-30 MAY 1983

ARMS CONTROL
(including INF, START, etc)

Brief by Foreign and Commonwealth Office

Arms Control

1. United Kingdom objective. To open up a Summit discussion about the main directions and priorities of Western arms control policy for the remainder of 1983. To ensure that President Reagan understands the political realities in Europe on this subject; that European leaders remain united and firm.

Points to Make

2. Need for steadiness of nerve over INF by the Alliance throughout rest of this year. UK deployments will begin as planned. Need for Alliance solidarity, particularly from smaller allies.

3. Western interim step proposal still thoroughly tenable. No need to contemplate further refinements or adjustments in Western negotiating position. Existing negotiating principles of cardinal importance, especially need for limitations on a global basis, not only because of the implications for Japan, but also to protect Alliance interests.

4. Western public responds well to clear explanation both of the need for sound defences and of the contribution arms control can make to Western security. But, particularly over next six

/months

months, we need to consider the effect on one another of public statements or actions which could have damaging Alliance repercussions outside the context for which they were intended. This puts premium on forethought and prior consultation.

5. Exclusion of British (and French) nuclear deterrents from INF continues to be vital element in NATO negotiating position. We must not weaken on this. It is essential at this juncture that the Russians do not succeed in cracking NATO unity on this issue. (See para 15 below) [In the long term if over time there is a substantial reduction in the threat from Soviet strategic forces we would review the position of our deterrent in the Strategic Arms Control Talks.]

6. START talks most important. Scowcroft report opens up possibility of adjustment in US position to increase levels proposed under existing US draft treaty for missile launchers. Andropov's 3 May speech presumably means that in START, as well as in INF, the Russians will need to re-cast their proposals in terms of warhead rather than missile limits. These two adjustments would seem to narrow the gap between the two sides. Any sign of specific new Soviet proposals on these lines in Geneva?

7. Need for sensible but limited objectives in START to maximise chances for early agreement. Cannot solve all elements in the problem at once. Is there any chance of a limited breakthrough before US presidential election - eg an outline agreement on main issues, containing perhaps agreed overall numerical limits, agreements on systems to be included etc, all of which could be fleshed out in subsequent negotiation?

8. Absence of practical progress in these or other existing arms control fora risks undermining public confidence in multilateral arms control as a whole. That is why we should not

/ignore

ignore efforts in non-nuclear arms control. Need to get serious substantive work underway on chemical weapons at Committee on Disarmament in Geneva. A conference on disarmament in Europe (CDE), now within grasp at Madrid, could be useful contribution. Need to remain alive to possibilities for new thinking at Vienna Force Reduction talks (MBFR).

9. Hope Americans will agree to keep open options for arms control in space. We should develop a position in the Committee on Disarmament (CD) to undercut Soviet propaganda, eg by establishing a CD working group to consider what is feasible and realistic.

10. Some element of hard-headed East/West political dialogue may be necessary prerequisite for giving arms control necessary momentum. High level meetings between Western and Soviet leadership may have a part to play in this. Chancellor Kohl's objectives at Moscow visit in early July? US intentions?

OW

Foreign and Commonwealth Office

London SW1A 2AH

26 May 1983

Bernard Ingham

To note.

MTR 27/5

Dear John,

Williamsburg Economic Summit:
President Reagan's Youth
Exchange Initiative

The Prime Minister will wish to be aware that the United States Information Agency are apparently bringing to Williamsburg seven students from the participating Summit countries in order to illustrate the value placed on international youth exchanges. These students are all in the United States under youth exchange schemes. The British student will be Paul Wilkinson of Loughborough University, currently doing a 'practical' year of ergonomics with a firm in Hopkinson, Massachusetts.

The Americans have told us that the students are expected to be on the press platform for the opening ceremony and, for the benefit of the press, to be introduced to their Head of Government at a later stage.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

Foreign and Commonwealth Office

London SW1A 2AH

26 May 1983

Please type letter and put to P.M. for signature tonight. MR 26/5

Dear John,

Williamsburg: Letter from UN Secretary-General

On 20 May the Secretary-General of the United Nations, Sr Perez de Cuellar, asked our Mission in New York to convey a letter on Williamsburg to the Prime Minister. I enclose a copy of UKMIS New York telegram No. 404 which contains the text.

I enclose a draft reply, cleared with the Treasury, which if the Prime Minister agrees we will telegraph to our Mission in New York to hand over as soon as possible (with the original following by bag). As in other cases, it is easier to reply before Williamsburg than afterwards.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

DRAFT MESSAGE FROM THE PRIME MINISTER TO UN SECRETARY-GENERAL

Thank you for your letter of 20 May about the issues which are likely to be raised at the Economic Summit in Williamsburg. There will be no formal agenda for the meeting; but we expect to devote an important part of our discussions to the severe problems faced by developing countries at the present time.

I agree with you that the outcome of the recent OECD Ministerial Council was encouraging. The Council was able to take into account the progress made earlier this year at the IMF Interim Committee in agreeing upon a substantial increase in the effective resources available to the IMF. I also share your view that the main aim for the industrialised nations over the coming months will be to achieve a return to sustainable non-inflationary growth. This will require us to maintain our policies of controlling inflation, resisting protectionist trends, and seeking to reduce interest rates and exchange rate volatility. A lasting recovery among the industrialised countries would in turn enable the developing countries to increase their export earnings and help them to deal with their debt repayment burdens and to invest in the future. We entirely accept that the developing countries will continue to face great difficulties in the period until the recovery is fully

LVAABW

established. I have no doubt that ways and means of helping them will be discussed at Williamsburg.

You refer to UNCTAD VI in your letter. I agree that this will be an important conference. My government has made very careful preparations for the meeting covering the policy areas which you mention, and I hope that UNCTAD VI will be successful.

At Williamsburg we shall have very much in mind the factors which you outline in your letter and I am most grateful to you for letting me have your thoughts about them.

CONFIDENTIAL

GR 95

CONFIDENTIAL
DESKBY 261000Z
FM TOKYO 260140Z MAY 83
TO IMMEDIATE F C O
TELEGRAM NO 280 OF 26 MAY
RPT IMMEDIATE WASHINGTON

YOUR TELNO 201: WILLIAMSBURG - BILATERAL WITH MR NAKASONE

1. MR NAKASONE WOULD BE FREE FOR A BILATERAL FROM 1700-1730 ON SATURDAY. THE JAPANESE HOPE THAT THIS TIME WILL BE CONFIRMED. THEY WOULD EXPECT MR NAKASONE AS THE JUNIOR PRIME MINISTER TO CALL ON MRS THATCHER AND THEIR PRESENT PLANNING IS THAT THE FOREIGN MINISTER WOULD ACCOMPANY HIM.

2. BRIEFING HAS BEEN PREPARED FOR MR NAKASONE TO COVER THE OVERALL ANGLO-JAPANESE BILATERAL RELATIONSHIP , BOTH POLITICAL AND ECONOMIC, AND SUMMIT QUESTIONS. THERE IS NO PARTICULAR SUBJECT THAT MR NAKASONE WILL WANT TO RAISE WITH THE PRIME MINISTER.

CORTAZZI

LIMITED

ERD	PS/LORD BELSTEAD
ESID	PS/MR RIFKIND
WED	PS/MR HURD
FED	PS/MR RAISON
NAD	PS/PUS
ECDS	SIR J BULLARD
PLANNING STAFF	MR EVANS
TRED	MR HANNAY
ESSD	MR THOMAS
EESD	MR DONALD
NEWS D	MR HAYES
PS	MR ADAMS

ADDITIONAL DISTRIBUTION
ECONOMIC SUMMIT

CONFIDENTIAL

PRIME MINISTER

Saturday Evening Dinner : Discussion of Arms Control

President Reagan has confirmed that he would be grateful if you would introduce this discussion.

In the last few days there have been conflicting messages about whether or not the Americans want the Summit to issue a public statement on INF. We have now had a clear statement of their views. They have dropped the idea of negotiating a statement in advance of the Summit. But if, following the discussion at the Saturday dinner, there is agreement that there should be a short political statement emphasising the Alliance's seriousness about the negotiations and seriousness about deployment if these fail, the Americans will welcome this. They hope that we shall support the idea but they will not press it if other heads of government are unenthusiastic (there have been some indications that Mitterrand and perhaps even Kohl have doubts).

I attach some speaking notes which may be useful to you in introducing the discussion. I also attach a background brief.

A. J. COLES

26 May 1983

SPEAKING NOTE

DINNER : SATURDAY 28 MAY

DISCUSSION OF ARMS CONTROL

(P.M. TO INTRODUCE)

INTRODUCTION

SUGGEST WE HAVE GENERAL DISCUSSION OF CURRENT ARMS CONTROL ISSUES, THEN CONSIDER WHETHER WE SHOULD MAKE A SHORT, JOINT PUBLIC STATEMENT ON INF TOMORROW.

INF

ALLIANCE WILL BE TESTED BETWEEN NOW AND END OF YEAR. CAN EXPECT FURTHER SOVIET NEGOTIATING PLOYS AND ATTEMPTS TO MANIPULATE OUR PUBLIC OPINION.

WE SHALL NEED TO REMAIN STRONG AND SOLID - ESPECIALLY TRUE OF SOME OF SMALLER ALLIES NOT REPRESENTED HERE.

UK DEPLOYMENTS WILL BEGIN AS PLANNED (DEPENDING ON ELECTION RESULT).

/ WESTERN

WESTERN PROPOSAL FOR AN INTERIM AGREEMENT REMAINS COMPLETELY JUSTIFIABLE.

NO NEED TO CONSIDER FURTHER ADJUSTMENT OR REFINEMENTS.

MUST MAINTAIN PRESSURE ON RUSSIANS TO RESPOND REASONABLY.

WE STICK TO PRINCIPLES OF BALANCE, NO BOGUS COUNTING, VERIFIABILITY - AND ANY LIMITATIONS TO BE GLOBAL, BOTH BECAUSE OF IMPLICATIONS FOR JAPAN BUT ALSO TO PROTECT ALLIANCE INTERESTS (NO GOOD JUST MOVING SS20S TO ASIA).

CONTINUE TO INSIST THAT BRITISH (CANNOT SPEAK FOR FRENCH) NUCLEAR DETERRENT IS EXCLUDED FROM INF TALKS.

/ RUSSIANS

RUSSIANS MUST NOT BE ALLOWED TO CRACK NATO UNITY ON THIS.

BEARING IN MIND PUBLIC OPINION, DESIRABLE THAT WE SHOULD CONSULT EACH OTHER CAREFULLY AND IN ADVANCE ABOUT IMPORTANT PUBLIC STATEMENTS ON INF. TRIBUTE TO US FOR HANDLING OF THIS SO FAR.

START

THE START TALKS ARE IMPORTANT TOO (REOPEN ON 8 JUNE). US IMPRESSIONS OF PROSPECTS?

TWO ADJUSTMENTS SEEM TO NARROW THE GAP BETWEEN THE TWO SIDES:

/ (A)

(A) SCOWCROFT REPORT OPENS UP POSSIBILITY OF US INCREASING THE LEVELS FOR MISSILE LAUNCHERS PROPOSED IN THE EXISTING US DRAFT TREATY (THIS WOULD BRING THEM CLOSER TO LEVELS PROPOSED BY SOVIET UNION).

(B) MEANWHILE, ANDROPOV'S 3 MAY SPEECH PRESUMABLY MEANS THAT IN START AS WELL AS INF THE RUSSIANS WILL NEED TO RECAST THEIR PROPOSALS IN TERMS OF WARHEAD RATHER THAN MISSILE LIMITS.

ALL THE PROBLEMS IN START TALKS CANNOT BE SOLVED AT ONCE.

ANY CHANCE OF LIMITED BREAKTHROUGH BEFORE US PRESIDENTIAL ELECTIONS? E.G. AN OUTLINE AGREEMENT SPECIFYING OVERALL NUMERICAL LIMITS AND THE SYSTEMS TO BE INCLUDED, THE DETAILS TO BE NEGOTIATED THEREAFTER.

/ NON-NUCLEAR

NON-NUCLEAR ARMS CONTROL

NEED PRACTICAL PROGRESS HERE TOO E.G.

(I) SERIOUS WORK ON CHEMICAL WEAPONS AT COMMITTEE ON DISARMAMENT IN GENEVA

(II) AGREEMENT AT MADRID ON CONFERENCE ON DISARMAMENT IN ~~GENEVA~~ EUROPE

(III) SOME MEANS OF BREAKING THROUGH SOVIET OBSTINACY AT MBFR TALKS (VIENNA)

(IV) HOPE US WILL KEEP OPEN THE OPTION OF AGREEMENT ON ARMS CONTROL IN SPACE.

/ GENERAL

GENERAL

HAVE FOUND IN LAST FEW WEEKS THAT BRITISH PUBLIC OPINION RESPONDS WELL TO FIRM STATEMENTS ON THE BASIC CASE FOR STRONG DEFENCES AND THE MULTILATERALIST APPROACH.

THE MAJORITY BELIEVE IN NATO AND THE NUCLEAR DETERRENT.

THE TASK FOR THE REST OF THE YEAR IS TO KEEP PUBLIC OPINION STEADY AS SOVIET PROPAGANDA BECOMES MORE INTENSIVE.

HIGH LEVEL MEETINGS BETWEEN WESTERN AND SOVIET LEADERSHIP MAY HAVE PART TO PLAY IN THIS.

CHANCELLOR KOHL'S VISIT TO MOSCOW ON 4 JULY?

US INTENTIONS?

BACKGROUND

Procedure

11. Discussion of arms control by Heads of State and Government will take place over dinner on Saturday 28 May. The Prime Minister has offered to open this discussion and President Reagan has welcomed this. Foreign Ministers are due to continue discussion on arms control the following morning. The Americans initially favoured a statement, by Heads of State and Government on arms control, particularly INF. They have evidently dropped this idea, after it became clear that the French (and to some extent the Germans) were reluctant. Their current proposal is that Foreign Ministers could, in briefings after the Summit, say that Heads of State and government had discussed INF issues and that there had been wide agreement on all aspects.

INF

12. As the Alliance moves towards the first Pershing 2 and cruise missile deployments by the end of this year, there is obviously some danger that continued lack of visible progress in the various existing arms control fora will undermine confidence in the multilateral arms control process itself. There are two dangers here: first, a renewal of impetus for the CND cause (though in the UK this looks containable); second, a temptation particularly among the less stalwart allies, to put the US under pressure to make further negotiating concessions for agreement at almost any cost. This could have adverse repercussions in Washington for intra-Alliance relations more generally.

13. The message for the Europeans at this juncture must therefore be the need for steadiness of nerve. Equally, we have a

/right

right to expect from the US Administration a better awareness of how words and actions in Washington can inadvertently damage Alliance objectives by their political effect in Europe when there has been inadequate forethought or consultation.

Positions on INF

14. a. Canada. The Canadian Government has taken a firm line in combatting criticism of their proposed agreement to provision of facilities in Canada for testing of US cruise missiles. In supporting NATO's negotiating position the Canadians have stressed the need for the Americans to be seen to be making a serious effort to achieve results in Geneva (and Mr Trudeau has publicly criticised President Reagan for his rhetorical approach to East/West relations). There are some straws in the wind (nothing that could be quoted) that Mr Trudeau may be a potential waiverer on the exclusion of British and French systems from INF.

b. Japan. The Japanese firmly support NATO's negotiating position. Their particular interest is that NATO should not give way to Soviet pressure for agreement enforcing purely regional (ie. European) limitations. The Japanese want global limitations on SS20 (see para.16 b below), which is the existing NATO position.

c. Italy. The Italians remain firm in their intention to deploy cruise missiles in Sicily. INF continues to be a relatively unimportant issue in domestic politics, and is not a major election issue. No predictable outcome to the election is likely to alter substantially present policy.

/British

British Systems

15. INF negotiations resumed in Geneva on 17 May. There is no likelihood of a breakthrough during this round. Mr Andropov's speech on 3 May indicated a Soviet willingness to give due importance to warheads as a counting unit in negotiations. But the underlying Soviet position has not changed. This is to offer reduction of Soviet missiles in Europe to a number which equals those of the British and French nuclear forces combined. The Alliance position of course is that British and French forces can have no place in the INF negotiations. But some of the smaller Allies may renege on this position (eg. Denmark and Norway and this may be a point for Mr Trudeau). Even the Americans and the Germans are beginning to say that the position with regard to British and French forces in INF will be strengthened to the extent that we can show we do not have a closed mind about the longer term relationship of the British deterrent to strategic arms control. It is not of course a question of being prepared even hypothetically to countenance that there should ever by any reduction in the British strategic deterrent, which is already of minimum viable size. But if ever the Soviet and American nuclear arsenals were reduced by very large numbers, it is arguable that we might at some subsequent stage in strategic arms control see less need to oppose either the counting of British systems in the overall equation or, perhaps preferably, the notion of a freeze on the level of British nuclear forces so long as the Soviet Union accepted appropriate corresponding restraints. The slight adjustment in HMG's public formulation on the subject (text attached), which Mr Pym had proposed and which the Prime Minister had earlier accepted should be deployed in the anticipated defence/disarmament debate

/in

in the House earlier this month, would have eased the posi[illegible] both with Allies and domestically. (But Mr Heseltine had expressed reservations). There is no doubt that the Americans would welcome such a statement. Putting off the issue to the Greek Kalends by an uncommitted reference to reviewing the position in relation to longer term strategic arms control may also of course make it much harder for the Russians to stick by their existing INF position which is the main obstacle to agreement. The Prime Minister may feel that this is not the right occasion on which to encourage speculation about future contingencies (particularly since there is obviously a risk of a leak which could be damaging). Her colleagues may however come forward with their own ideas on this issue and, in this case, the Prime Minister may feel it advisable to listen to what they say without comment while emphasising the overriding importance of NATO's determination to keep British systems out of the INF talks.

Other INF Issues

16. In addition to the problem of French and British systems, there are a number of other major issues in the INF negotiations which remain in dispute. These are:

a. The nature of the existing balance of forces. The Russians continue to insist that there is an existing balance of medium range nuclear systems in Europe which would be disturbed by any new NATO deployments. But they have juggled the facts in order to concoct this claim. It does not stand up to serious scrutiny, and we are doing our best to bring this home in detail to informed opinion and the media in the UK.

/b.

b. The Russians continue to try to limit the scope of the INF negotiations to a geographical zone defined as Europe and surrounding waters. The NATO position has always been for a global approach seeking limitations and reductions on the relevant systems wherever deployed. This question has assumed added significance now that Japan has become alert to the possibility that any Soviet missiles reduced in Europe and not actually destroyed might be available for redeployment to Soviet Asia, thus constituting an increased threat to Japan. We have told the Japanese that the global approach remains as much in the Western security interest as in theirs, because we would derive no comfort from the simple removal of Soviet mobile systems to the other side of a line drawn artifically on the map whence they could just as easily return. There is a strong political interest in not allowing the Japanese to think that NATO would buy an INF arms control agreement with the Russians at their expense. But there have been a few hints that the Germans may be wobbly on this point.

c. The question of the inclusion of aircraft among INF systems to be reduced. The Russians would like to include aircraft. NATO has so far said that aircraft should not be covered in a first INF agreement but could come at a later stage. It is possible that in due course the Alliance position on this question may have to evolve. But, if so, it adds strength to the argument for global limitations, since aircraft are the most mobile of all nuclear capable systems. And the Soviet Union would have to accept proper counting rules (which it has not done so far) to include its own aircraft of ranges which correspond to those on the US side.

/c.

d. Verification. A great deal more work will be necessary on the issue in due course if any agreement is to be made watertight. Linked to it is the need for so-called ''collateral constraints'' to prevent the Russians from under-cutting the INF agreement on longer range missiles by resorting to increased deployments or deployments closer to NATO territory of shorter range INF missiles such as SS12/22 and SS23.

START

17. The START discussions redume at Geneva on 8 June. No imminent progress is likely. The Russians may need to amplify their negotiating position - that there be a ceiling of 1800 launchers and heavy bombers - to take account of Andropov's reference on 3 May to including warheads as a counting unit in INF. Some adjustment in the US negotiating position will probably also be necessary following President Reagan's acceptance of the Scowcroft Commission report on US strategic forces. Scowcroft has recommended that, in addition to the deployment of 100 MX ICBMs, the US should think seriously about developing a new single warhead light mobile land-based ICBM, with the longer term aim of encouraging both sides to get away from MIRVed systems. This will require some increase in the existing launcher limit in the US negotiating position on START. Other major elements in the US approach to START, such as how to deal with aggregate throw-weight, the phasing of US negotiating requirements and the anomalous position of sea launched cruise missiles, remain very contentious as between the various agencies concerend in Washington. It is not clear what will emerge from the current debate in Washington. The

/President

himself has been closely involved and we know a range of options are under consideration (eg. limitations on warheads only without limitations on launcher numbers, or limitations solely on aggregate warhead numbers and aggregate throw-weight).

18. It may therefore be appropriate to urge the Americans not to bite off more than can be chewed at one go, and to concentrate on a negotiating approach which has some prospect of success in the near term. Overloading the menu of requirements will only fuel the argument of those in Europe who claim that President Reagan's approach to arms control is purely cosmetic. One possibility worth exploring might be whether the Administration see any chance of going for an outline framework agreement (by analogy with the Vladivostok agreement of 1974 which preceded the SALT 2), of which the more detailed elements could be filled by negotiators in slower time. This might incense definitions of overall numerical limits, with systems to be included and units of account. The most likely catalyst for such an approach would be the prospect of a US/Soviet Summit, but this is obviously a very uncertain quantity.

Other Arms Control

19. a. A Conference on Disarmament in Europe (CDE). There is a prospect of an agreement within the next few weeks in the CSCE Review Conference at Madrid. Part of the outcome would be agreement to hold a CDE, probably starting in Stockholm within the next 12 months, to negotiate confidence and security building measures applicable to the whole of Europe up to the Urals. The Americans have been holding out for progress on the human rights front as part of the necessary overall compromise in Madrid. The value

/of

of a CDE from the Western point of view would be that for the first time the Russians would have accepted inclusion of all Soviet territory up to the Urals in a regime of notification of military movements and, above all, of verification.

b. Mutual and Balanced Force Reduction in Vienna (MBFR). These negotiations now in their 10th year also show no sign of imminent breakthrough. But the US Administration has been reviewing its position at the highest level. They intend to hold a meeting early in June with the Germans and ourselves at Soviet official level to explore the ground for possible new approaches.

c. Chemical weapons. We are anxious to get things going at the Committee on Disarmament in Geneva to negotiate a comprehensive ban on the stockpiling and production of chemical weapons. The UK has made recent new proposals on verification. This is an area which may repay a serious effort, and we should urge the Americans to be as positive as possible in their approach.

d. Outer Space. The US Administration has not made up its mind definitively about arms control in outer space but is developing anti-satellite weapons to match the existing Soviet capability and, looking further ahead, is initiating a new research effort into space based anti-ballistic missile systems. The Russians profess to want a total ban on space weapons but are meanwhile developing their own capabilities. Some Europeans (France and Italy) want to press ahead with a ban on anti-satellite systems immediately.

/FCO

FCO and Ministry of Defence are considering whether further arms control in space is desirable and feasible. Proposals to be put to the Americans may emerge from these exchanges. Meanwhile our interest is to persuade them to keep options open and to hold them to their agreement to set up a working group on space with a limited mandate in the Geneva Committee on Disarmament this summer.

Foreign and Commonwealth Office

26 May 1983

BRITISH SYSTEMS

Proposed modification to UK public line:-

'' ... If the circumstances were to change significantly, for example if Soviet military capabilities and the threat they pose to the UK were to be reduced substantially in particular as a result of agreed major reductions in American and Soviet strategic systems to equal ceilings, we would of course be prepared to review our position in relation to arms control.''

[New wording underlined]

PRIME MINISTER

AR 27/5

h.a.

WILLIAMSBURG : BILATERALS

Robin told me that you did not want to spend an hour with President Mitterrand because this would take up too much of the time which you wish to devote to the British press.

I have therefore agreed with the Elysee that your talk with Mitterrand will last from 1720 until 1800 on Sunday. This will give nearly 90 minutes before your departure at 1930 which we can devote entirely to the media (including some individual interviews which Bernard could arrange).

We are still keeping Mr. Fanfani at bay but Mr. Nakasone very much wants to call on you briefly at 1700 hours on Saturday. This would be before your talk with Kohl at 1730 and President Reagan at 1820. May I now confirm that Mr. Nakasone can call on you? – Can it not be done on Saturday afternoon or evening?

MT

A.J.C.

MT

26 May 1983

cc. United Nations - Possible UNGA Summit 1983

Foreign and Commonwealth Office

London SW1A 2AH

26 May 1983

1) Type letter to Mrs. Gandhi.
2) Mr. Gray - pl. take up of correspondence to Williamsburg.
A.J.C. 27/5

Dear John,

Indian Lobbying prior to Williamsburg

Thank you for your letter of 20 May, enclosing a copy of Mrs Gandhi's letter of 9 May to the Prime Minister. According to the High Commission in New Delhi a similar letter has gone to all the Williamsburg Summit leaders.

The Foreign and Commonwealth Secretary recommends that the Acting High Commissioner should be instructed to convey a short personal message from the Prime Minister to Mrs Gandhi in reply to her letter. I enclose a draft. It is easier to reply before the Summit than after but there is no overriding reason why a reply must be sent now.

The Indians have also been lobbying, both here and in New Delhi, on their proposal for a meeting of Heads of State/Government at this year's UNGA. I enclose a copy of a Speaking Note left with Lord Belstead by the Indian High Commissioner on 23 May. Lord Belstead told the High Commissioner that Williamsburg was primarily concerned with economic matters but undertook to inform the Prime Minister of his approach. I also enclose a copy of Delhi telegram number 378 reporting a meeting between the Ambassadors and High Commissioners of the Williamsburg Seven in Delhi, and the PUS in the Indian Foreign Ministry. You will be interested to know that the Soviet Permanent Representative in New York has told us privately that Moscow has considerable doubts about Mrs Gandhi's proposal.

Nevertheless, the Indians have expressed the wish that the proposal should be discussed at Williamsburg. They seem to be concerned about the damage to Mrs Gandhi's prestige if no adequate Summit takes place in New York. Community Foreign Ministers discussed Mrs Gandhi's idea on 24 May and agreed that

/members

members of the Ten should not return a flat negative to Mrs Gandhi but should seek to discourage her initiative. We have heard from Washington that Shultz takes the same view.

The Foreign and Commonwealth Secretary thinks that in the interests of our relations with the Indians we should not take the lead in pouring cold water on Mrs Gandhi's idea and suggests that the Prime Minister should not take any initiative on the matter at Williamsburg. We have heard that Chancellor Kohl may raise it. If he, or another Head of Government does so, Mr Pym suggests that the Prime Minister should be ready to agree that the proposal presents many difficulties and that the Williamsburg Seven should continue to avoid any commitment to it.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

DRAFT MESSAGE TO MRS GANDHI

SUBJECT:

which reached me a few days ago,

Thank you for your letter of 9 May, about the concerns of the Non-Aligned Movement ~~about~~ with regard to the prevailing world economic situation. ~~Unfortunately, your letter did not reach me until a few days ago. That is why I am only replying on the eve of Williamsburg.~~ and the Williamsburg Economic Summit.

I agree that all countries are affected by the world recession; that we live in a world of growing economic interdependence; and that the developing countries are important for the trade of the developed countries (and, of course, vice versa). I am not convinced, however, that structural reforms are needed in the world economic system. It seems to me that the international financial and economic institutions have adapted well to the challenges which they have faced during the past ten years and that they have displayed a considerable capacity for flexibility and imagination in doing this.

/The general

Enclosures—flag(s).....

The general theme for the Economic Summit Meeting at Williamsburg is the state of the world economy and the prospects for recovery. My colleagues and I will be reviewing the signs of recovery which are now beginning to emerge in several of the developed countries; considering how this recovery might be nurtured without rekindling inflation; and looking at ways in which the developed and developing countries might cooperate in promoting non-inflationary growth worldwide. The fact that the Sixth Meeting of the United Nations Conference on Trade and Development is due to begin in Belgrade on 6 June will be very much in our minds.

I am very glad to have your thoughts on the eve of my departure for Williamsburg.

HS 27/5.

3.3

CONFIDENTIAL

Prime Minister

MCS 26/5

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

26 May 1983

Michael Scholar Esq
10 Downing Street
LONDON
SW1

Dear Michael,

INTERNATIONAL FINANCIAL SCENE

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

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

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

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

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

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

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

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

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

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

Yours ever,

J O Kerr

J O KERR
Principal Private Secretary

INTERNATIONAL FINANCIAL SCENE

1 General Market Situation

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

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

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

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

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

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

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

2 Latin America

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

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

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

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

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

3 Eastern Europe

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

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

4 Southern Europe

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

5 Far East

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

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

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

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

ARGENTINA

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

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

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

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

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

BRAZIL

Total indebtedness at end-1982 was estimated by the IMF at $81.3 bn.

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

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

CHILE

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

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

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

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

(ii) $1.3 bn new credit (representing an 11 1/4% increase in exposure for individual banks on levels outstanding at 31 January 1983) over seven years including four years' grace at 2 1/4% over LIBOR or 2 1/8% over Prime;

(iii) the restoration of $0.2 bn short-term trade-related lines to reach level outstanding as at 31 January 1983; level to be maintained through 31 December 1984.

(iv) the renewal for another 90 days of the suspension of capital repayments which expired at the end of April.

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

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

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

MEXICO

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

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

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

VENEZUELA

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

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

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

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

INDEBTEDNESS AND BRITISH EXPOSURE (end December 1982)

$ billion

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

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

≠ At end March 1983; excludes short-term debt

≠ At end February 1983

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

HONG KONG

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

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

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

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

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

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

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

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

Bank of England
May 1983

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

Ref. A083/1525

MR COLES

Mr. Scholar.

Economic Summit: Williamsburg

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

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

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

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

CONFIDENTIAL

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

ROBERT ARMSTRONG

26 May 1983

CONFIDENTIAL

DRAFT DECLARATION

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

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

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

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

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

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

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

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

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

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

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

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

put in more assertiveness in sentence up to here

meetings should be spaced out so wide as to impede progress

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

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

we like this

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

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

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

Get words to Mrs Gandhi

(1) the need for orderly and effective adjustment in the borrowing country;

sharpen!

(2) the provision of balance of payments financing by the International Monetary Fund, subject to appropriate conditions;

See 5

(3) the readiness of Governments and central banks to act quickly in response to ~~debt~~ liquidity emergencies, in advance of negotiations with creditors and the IMF;

cut it out if poss.

(4) the readiness of commercial banks to roll over or restructure existing debts and to increase their net lending to developing countries, subject to the limits of commercial prudence;

if commercial banks are rolling over their debts they have regard to banking + commercial prudence

if borrowers behaving properly in deciding how far to roll over + extend

(5) the achievement of sound and sustainable recovery in the industrialised countries, as a foundation for lower interest rates and increased trade between developed and developing countries.

promote to (2)

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

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

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

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

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

CQB

CAB/WTE 001/26

IMMEDIATE 260840Z MAY 83

FM CABINET OFFICE

TO WHITE HOUSE

BT
UNCLASSIFIED

PERSONAL MESSAGE
SERIAL No. T71/83

cc Master
OPS

FOLLOWING FOR PRESIDENT REAGAN FROM PRIME MINISTER.

BEGINS:-

DEAR RON,

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

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

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

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

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

YOURS EVER
MARGARET.

ENDS

NNNN

260917Z MJW 26.5.83

RECD OK ? K

— O — 260840Z
despatched at 26/0917Z

Prime Minister
Agree to send this in reply to President Reagan's message attached?
A.J.C. 25/5.

①

MESSAGE FROM THE PRIME MINISTER TO THE PRESIDENT OF THE UNITED STATES OF AMERICA

"Dear Ron,

Thank you so much for your understanding message of 24 May.

I am looking forward enormously to seeing you in Williamsburg. I have considered very carefully whether I could manage to stay on Monday as well and would much like to be able to help you. But I am afraid that I have to return here ~~on~~ over Sunday night for the Election Campaign which will be entering a crucial period on Monday.

~~But~~ I shall of course do everything I can to make the Summit ~~a~~ the successful and harmonious occasion which you want. I entirely agree with your view that we must insist on a joint statement which has a tone of realistic optimism and that we must resist any call for a new Bretton Woods conference. You can count on the support of Geoffrey Howe, Francis Pym and Robert Armstrong after my departure.

Thank you for the arrangements that are being made for me to talk to the Press before my departure on Sunday. I am grateful for the dispensation. It would not be understood here if I did not do this.

Finally, I quite appreciate that my talk with you on Saturday afternoon will have to be a short one. I wonder if you would agree to our talking alone, without advisers, on this occasion. I feel that we shall be able to cover much more ground this way - and more frankly than might be possible in a large gathering. I shall of course fit in with what you want, but perhaps your people could let our Ambassador know whether our talk might be tete-a-tete.

Yours ever
Margaret"

AR 26/5.

CONFIDENTIAL

cc Mr. Jackling
Sir A. Parsons

MR. COLES (Seen by Prime Minister).

I have copied to you my 2 letters to Sir. Fall about (a) the Prime Minister's talks with President Reagan and (b) anti-Americanism.

WILLIAMSBURG

It looks as though the Prime Minister will have a 45 minute bilateral with President Reagan. I have seen the FCO political briefs and the suggestions which Oliver Wright has made. There will be very little time for discussion of purely foreign policy question. If I were in the Prime Minister's shoes, I would concentrate on at most three issues. I would speak on the following lines.

Anglo/US Relations

There is nothing wrong with our relationship at Government to Government level. Of course we are bound to disagree from time to time, particularly over trading questions. There is no harm in that. What worries me is public opinion in Britain. There is a new wave of anti-Americanism. This is different to the anti-Americanism of the immediate post war years: that arose mainly out of jealousy - you were emerging as a super power and we were losing our Empire. I am not bothered about the "peace lobby". They are unconvertible and the polls are showing a healthy rejection of unilateralism. The anti-Americanism that concerns me is emerging amongst more serious and moderate sections of public opinion. I think that the fiery rhetoric directed at the Soviet Union from the US has a lot to do with it. Andropov is handling this situation intelligently. He returns as good as he gets in the transatlantic exchanges. But he addresses Western Europe with a different, more conciliatory and softer voice. This is having its effect. People who should know better are beginning to ask awkward questions. Is the present American attitude towards the Russians paying dividends in terms of Western security or is it setting us all at greater risk? Should we not make absolutely certain, beyond all shadow of doubt, that we are in control of American missiles stationed in this country - dual key? Are we wise to align our defence policies so closely behind those of the United States? These questions, and others like them, are symptomatic of a general anxiety, a feeling that everything is moving dangerously out of control. Andropov is quick to exploit these openings.

I suggest that we ought to look at this problem together and see if we can come up with some answers. Perhaps it would be helpful if you and I each appointed someone whom we trust to open a continuing dialogue and report to us periodically.

CONFIDENTIAL

/I know that

I know that two foreign policy issues which are particularly on your mind are Central America and the Middle East.

On Central America I have great sympathy with your problems. I can assure you that we will not make life difficult for you. We will not strike unhelpful attitudes in public. We will continue to play our part in the Eastern Caribbean and may be able to do a bit more. Our problem is Belize. We have no intention of pulling out our troops there in such a way as to leave a vacuum which might be filled by the Cubans. But we have no business to have formed units on the Central American mainland in an independent state for the indefinite future. We cannot help feeling that an American guarantee of Belizean territorial integrity, if firmly enough stated to the Guatemalans, should be enough to restrain the Guatemalans from crossing the frontier after our withdrawal. Equally, without the cushion of the British military presence, Price might be more accommodating with the Guatemalans over minimal territorial concessions for the sake of a settlement. We ought to discuss this at a high level in the near future.

Still in the Western hemisphere, I cannot hold out any hope of negotiation with Argentina over the Falklands. Pressure from eg the United Nations and from our friends and allies to negotiate will make no difference. We are not going to talk to Argentina about a transfer of sovereignty, which is almost certainly the only thing they would talk about. Before there can be any question of negotiations, there must be a formal cessation of hostilities and a full restoration of normal relations between ourselves and Argentina. We do not kid ourselves that this is likely to happen in the near future. Meanwhile we stand pat.

As regards the Middle East, I see a dangerous situation developing. For 30 years, Syria, with or without the Soviet Union, has had the power to block developments favourable to the West in the Middle East. They have done so again. So long as the Syrians and the Israelis are hard up against each other in Lebanon, there will be a risk of war either by accident or by the design of one side or the other. If the Syrians remain adamant, the Israelis will be disposed either to kick them out of Lebanon militarily, or to withdraw to Southern Lebanon, thus perpetuating the partition of that country. Neither option is acceptable. I do not agree with those who argue that a Syria/Israel war could be contained and would clear the air. The Russians are

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too closely involved and a serious clash could have dangerous consequences. I appreciate the difficulties, but it seems to me that a maximal effort must be made to bring the Syrians on board. We cannot count on much help from the so-called "moderate" Arabs. We do not over-estimate our own influence, but we are prepared, both nationally and within the EC, to do everything we can to help you to resolve this impasse.

A.D. PARSONS
25 May 1983

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MY TELNO 460

PREPARATIONS FOR WILLIAMSBURG: GERMAN EXPECTATIONS

1. IN A PRESS INTERVIEW PUBLISHED YESTERDAY (24 MAY) CHANCELLOR

KOHL GAVE A CLEAR STATEMENT OF HIS EXPECTATIONS OF WILLIAMSBURG. HE HIGHLIGHTED THE NEED FOR GENERAL AGREEMENT. IN AN OBVIOUS ATTEMPT TO CONTRAST HIMSELF WITH SCHMIDT, HE SAID: QUOTE NO SOLO NUMBERS ON THE TRAPEZE FOR ME UNQUOTE.

2. KOHL SAID HE WAS WHOLLY CONVINCED THAT THERE WOULD BE NO CONTROVERSY OVER EAST/WEST TRADE. BUT THERE WAS QUOTE LITTLE SENSE UNQUOTE IN HELPING SOVIET MILITARY CAPABILITY BY SELLING GOODS IN SENSITIVE AREAS. A WHOLE RANGE OF EXPERT DISCUSSIONS WERE NECESSARY ON THIS. QUOTE I SEE MUCH GOODWILL ON ALL SIDES. UNQUOTE.

3. ON ECONOMIC POLICY, KOHL SAID THERE WAS NO QUESTION OF THE FEDERAL REPUBLIC PLAYING A LOCOMOTIVE ROLE. LASTING ECONOMIC GROWTH WAS ONLY TO BE ACHIEVED THROUGH STIMULATION OF INVESTMENT. A NEW WORLD MONETARY SYSTEM CAME UP AGAINST THE REALITY OF DIFFERING RATES OF INFLATION AND DIFFERENT ECONOMIC POLICIES.

4. GERMAN OFFICIALS CONFIRM THAT THEY ARE NOW WHOLLY CONFIDENT THAT EAST/WEST ECONOMIC RELATIONS WILL NOT BE A SUBJECT FOR ARGUMENT. THEY REMAIN SLIGHTLY NERVOUS ABOUT FRENCH INTENTIONS. THEY SAY THAT THE FRG MAY BE READY TO AVOID A ROW BY GOING A LITTLE WAY, IF PRESSED, TO MEET FRENCH DEMANDS ON CURRENCY MANAGEMENT BY CONCEDING SLIGHTLY CLOSER INTERNATIONAL SURVEILLANCE OF EXCHANGE RATES AND A LITTLE MORE OFFICIAL INTERVENTION WHEN NECESSARY. APPARENTLY THE BUNDESBANK WOULD BE PREPARED TO GO ALONG WITH THIS.

5. OFFICIALS ALSO SAY THAT CHANCELLOR KOHL, AT PRESENT INVOLVED IN A CDU PARTY CONGRESS, HAS NOT YET DECIDED WHAT THEMES TO EMPHASISE IN THE POLITICAL DISCUSSION AT WILLIAMSBURG. I MAY BE ABLE TO REPORT MORE ON THIS WITHIN A DAY OR TWO. MEANWHILE, WE ARE INFORMED THAT THE BRIEFS SUBMITTED TO KOHL COVER ONLY THE BROAD POLITICAL THEMES IDENTIFIED AT THE PREPARATORY MEETING ON 11 MAY (PARIS TELNO 382 TO FCO). KOHL HAS SHOWN SOME INTEREST (WASHINGTON TELNO 1461) IN RAISING THE INDIAN PROPOSAL FOR A SUMMIT DURING THE UN GENERAL ASSEMBLY.

6. IN HIS BILATERAL WITH REAGAN, KOHL WILL NO DOUBT WISH TO OBTAIN AUTHORISATION TO PASS SOME MESSAGE ABOUT INF TO ANDROPOV DURING HIS VISIT TO MOSCOW BEGINNING ON 4 JULY. GERMAN OFFICIALS SAY THAT KOHL IS WELL AWARE THAT HE CANNOT ENTER INTO ACTUAL NEGOTIATIONS WITH THE RUSSIANS. BUT HE MAY WANT TO PASS ON SOME ASSURANCE FROM REAGAN OF US READINESS TO NEGOTIATE SERIOUSLY

~~OFFICIALS SAY THAT KOHL IS WELL AWARE THAT HE CANNOT ENTER INTO ACTUAL NEGOTIATIONS WITH THE RUSSIANS. BUT HE MAY WANT TO PASS ON SOME ASSURANCE FROM REAGAN OF US READINESS TO NEGOTIATE SERIOUSLY~~ IF THE RUSSIANS WILL DO THE SAME. IT IS THIS RATHER GENERAL IDEA WHICH MAY LIE BEHIND THE REPORT IN THE INTERNATIONAL HERALD TRIBUNE OF 24 MAY TO THE EFFECT THAT KOHL HOPED AT WILLIAMSBURG TO OBTAIN NEW ASSURANCES OF US FLEXIBILITY IN THE GENEVA TALKS.

TAYLOR

NNNN

SENT AT 251403Z LCD

cc Mr. Jackling

MR. COLES

WILLIAMSBURG

It looks as though the Prime Minister will have a 45 minute bilateral with President Reagan. I have seen the FCO political briefs and the suggestions which Oliver Wright has made. There will be very little time for discussion of purely foreign policy question. If I were in the Prime Minister's shoes, I would concentrate on at most three issues. I would speak on the following lines.

Anglo/US Relations

There is nothing wrong with our relationship at Government to Government level. Of course we are bound to disagree from time to time, particularly over trading questions. There is no harm in that. What worries me is public opinion in Britain. There is a new wave of anti-Americanism. This is different to the anti-Americanism of the immediate post war years: that arose mainly out of jealousy - you were emerging as a super power and we were losing our Empire. I am not bothered about the "peace lobby". They are unconvertible and the polls are showing a healthy rejection of unilateralism. The anti-Americanism that concerns me is emerging amongst more serious and moderate sections of public opinion. I think that the fiery rhetoric directed at the Soviet Union from the US has a lot to do with it. Andropov is handling this situation intelligently. He returns as good as he gets in the transatlantic exchanges. But he addresses Western Europe with a different, more conciliatory and softer voice. This is having its effect. People who should know better are beginning to ask awkward questions. Is the present American attitude towards the Russians paying dividends in terms of Western security or is it setting us all at greater risk? Should we not make absolutely certain, beyond all shadow of doubt, that we are in control of American missiles stationed in this country - dual key? Are we wise to align our defence policies so closely behind those of the United States? These questions, and others like them, are symptomatic of a general anxiety, a feeling that everything is moving dangerously out of control. Andropov is quick to exploit these openings.

I suggest that we ought to look at this problem together and see if we can come up with some answers. Perhaps it would be helpful if you and I each appointed someone whom we trust to open a continuing dialogue and report to us periodically.

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I know that two foreign policy issues which are particularly on your mind are Central America and the Middle East.

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A.C. PARSONS
25 May 1983

WILLIAMSBURG SUMMIT

CHANCELLOR'S PRESS BRIEFING, WEDNESDAY, 25 MAY, 11AM, HM TREASURY

CHANCELLOR'S OPENING STATEMENT

MY LAST BRIEFING ON 26 APRIL

SIR GEOFFREY: ... SINCE WE'VE HAD THE WASHINGTON MEETINGS OF THE DEVELOPMENT COMMITTEE AND THE G7 MEETING ENDORSED THE CONCLUSIONS OF THE JURGENSEN REPORT; O.E.C.D., NOW WE'VE GOT THE SUMMIT COMING UP ON SATURDAY. AS YOU ALL KNOW THE PRIME MINISTER WILL HAVE TO LEAVE ON THE SUNDAY EVENING BUT WILL HAVE BEEN THERE FOR THE MAIN MEETINGS INCLUDING DISCUSSIONS ON THE CENTRAL ISSUES OF THE WORLD ECONOMY. FRANCIS PYM AND I WILL STAY ON UNTIL THE END OF THE MEETINGS ON MONDAY AFTERNOON. I DON'T THINK ANY OF YOU NEED ME TO SAY THAT YOU SHOULDN'T EXPECT THE FORTHCOMING SUMMIT TO RESULT IN A SERIES OF SPECIFIC NEW DECISIONS BECAUZE THAT'S NOT WHAT SUMMITS ARE ABOUT, IT'S NOT THE RIGHT FORUM FOR TAKING IMPORTANT WORKING DECISIONS OF THAT KIND. MANY OF THEM DEPEND IN ANY EVENT ON THE DECISIONS OF INDIVIDUAL GOVERNMENTS OR ACTIONS BY ESTABLISHED INTERNATIONAL BODIES OF WIDER REPRESENTATION. SO THAT XDOESN'T MEAN THAT I'M ONE OF THOSE WHO ARE CYNICAL ABOUT THE VALUE OF SUMMITS: HAVING BEEN NOW AT FOUR STARTING WITH TOKYO IN 1979 I DO BELIEVE THEY HAVE A REAL VALUE IN PROVIDING AN OPPORTUNITY FOR THOSE CONCERNED TO REACH A BETTER UNDERSTANDING WITH EACH OTHER AND OF EACH OTHER AND TO APPRECIATE MORE FULLY THE IMPACT UPON EACH OTHER'S ECONOMIES OF THEIR POLICIES. AS YOU KNOW THIS OCCASION'S GOING TO HAVE AS MUCH TIME AS POSSIBLE ALLOWED FOR INFORMAL DISCUSSION AMONG THE SUMMIT LEADERS AND PRESIDENT REAGAN'S MADE A DETERMINED ATTEMPT TO ACHIEVE THAT. THERE ARE BOUND TO BE DIFFERENCES OF PERCEPTION AND E MPHASIS AMONGST THEM BUT I BELIEVE THERE WILL EMERGE VALUABLE SHARED UNDERSTANDING FOR SOME OF THE IMPORTANT PROBLEMS THAT CONFRONT THE WORLD ECONOMY AND A STREHTHENING OF THE WILL TO CO-OPERATE IN TACKLING THEM. THE OBJECT OF THE EXERCISE IS TO INCREASE THAT KIND OF COMMON PERCEPTION AND I BELIEVE WILLIAMSBURG WILL CONTRIBUTE TOWARDS THAT. AS FOR THE MAIN THEMES, DURING THE LAST SIX MONTHS WE HAVE SEEN AN IMPORTANT CHANGE OF CLIMATE IN THE WORLD ECONOMY. THE ATMOSPHERE AND THE EVIDENCE OF RECOVERY HAVE BECOME STRONGER AND A LITTLE WIDER AND THE PROSPECTS FOR THE CONTINUATION OF THAT RECOVERY WILL BE AT THE HEART OF THE SUMMIT DISCUSSIONS, BUT THE MAIN THREADS OF DISCUSSION WON'T BE A SEARCH FOR MEANS OF PROMOTING RECOVERY, I BELIEVE IT WILL BE A CONSUMMATION OF THE STRATEGY TO MAINTAIN THE RIGHT KIND OF RECOVERY AND A STUDY OF SOME OF THE STILL WORRYING POSSIBILITIES IN THE WAY OF SUCCESS. OBVIOUSLY AFTER THIS DEEP AND PROLONGED RECESSION AND WITH PROSPECTS OF GRADUAL RECOVERY, THAT WON'T ENABLE US RAPIDLY TO REDUCE HIGH LE VELS OF UNEMPLOYMENT. IT'S MNOT SURPRISING THERE HAVE BEEN DEMANDS FOR MEASURES TO STIMULATE MORE RAPID GROWTH OF ACTIVITY BUT I BELIEVE THAT TO GIVE WAY TO DEMANDS OF THAT KIND WOULD BE A PROFOUND MISTAKE THAT WOULD PUT AT RISK THE LONGER TERM BENEFITS OF THE ADJUSTMENTS THAT SO MANY COUNTRIES HAVE BEEN PAINFULLY MAKING. THE BELIEF THAT RECOVERY ON A DURABLE BASIS IS OBTAINABLE ONLY IF THE CONTINUING FIGHT AGAINST INFLATION IS SUCCESSFUL, WHICH WAS ALREADY EXPRESSED AT VERSAILLES LAST YEAR, HAS BEEN REINFORCED SINCE THEN. THE FACT THAT THE BEST RECOVERY PROSPECTS ARE BEING SHOWN IN THE COUNTRIES WHICH HAVE ACHIEVED THE LOWEST RATES OF

INFLATION, IS BOUND TO CARRY GREAT WEIGHT AND MEASURES TAKEN DUI THE LAST YEAR IN FRANCE REPRESENT AN IMPORTANT COMMITMENT TO TI COUNTER-INFLATIONARY STRATEGY. BELIEVE THE SUMMIT IS LIKELY TO ENDORSE THAT STRATEGY AND NOTE THAT THERE IS NOW AN OPPORTUNITY FOR SUSTAINABLE NON-INFLATIONARY GROWTH OVER COMING YEARS. OF COURSE THERE ARE STILL FORMIDABLE PROBLEMS WHIC FACE. I THINK THERE ARE PROBABLY FOUR THAT DESERVE SOME SPECIAL

ATTENTION. FIRST OF ALL THE HIGH INTEREST RATE/BUDGET DEFICIT PROBLEM. HIGH REAL INTEREST RATES, PARTICULARLY IN THE UNITED STATES WHICH IS BOUND TO SET A PATTERN FOR OTHER COUNTRIES, ARE G

TROUBLESOME FOR SEVERAL REASONS. THEY MUST INHIBIT THE SCALE OF RECOVERY OF NEW INVESTMENT WHICH IS A VITAL NEED IF WE'RE TO HAV SUSTAINED FUTURE ECONOMIC GROWTH. THEY REPRESENT A VERY SIGNIFICANT PART OF THE COSTS OF DEBT WHICH ARE WEIGHING SO HEAVILY ON SOME OF THE DEVELOPING COUNTRIES, PARTICULARLY SOME OF THE MORE ADVANCED ONES AND THEY ARE CONTRIBUTING TO A HIGH DOLLAR EXCHANGE RATE WHICH IN TURN IS HARMING THE UNITED STATES EXTERNAL TRADE AND ENCOURAGING PROTECTIONIST PRESSURES IN THAT COUNTRY. NOW OBVIOUSLY THERE'S ROOM FOR ARGUMENT ABOUT THE MECHANISM THROUGH WHICH THESE HIGH REAL INTEREST RATES HAVE COME ABOUT BUT IT'S PRETTY WIDELY FELT, AND I CERTAINLY AGREE, THE MOST IMPORTANT SINGLE ACTION WHICH WOULD IMPROVE THE SITUATION WOULD BE FOR THE UNITED STATES AUTHORITIES THAT'S TO SAY THE ADMINISTRATION AND CONGRESS, TO DEMONSTRATE THEIR ATTENTION - DETERMINATION AND ABILITY TO BRING DOWN OVER THE NEXT FEW YEARS THE PRESENT VERY LARGE UNITED STATES FISCAL DEFIC THEN THERE'S THE INTERNATIONAL DEBT PROBLEM.AGAINST THE SUBDUED BACKGROUND, OBVIOUSLY THAT'S BOUND TO BE A WORRY THAT'S GOING TO BE DISCUSSED, THE PROBLEM OF EXCESSIVE DEBTS OF PARTICULAR COUNTRIES, IMPORTANT ACTION HAS ALREADY BEEN TAKEN, WE HAVE MOUNTED APPROPRIATE RESPONSES SPEEDILY FOR SEVERA COUNTRIES, BASED ON ADJUSTMENT PROGRAMMES THAT HAVE BEEN WORKED OUT WITH AND APPROVED BY THE IMF, WHICH PLAYS AN IMPORTANT CATALYTIC ROLE IN THESE CASES.INXREASES IN THE RESOURCES POTENTI AVAILABLE TO THE IMF HAVE BEEN AGREED AND IT'S IMPORTANT THAT THOSE SHOULD BE NOW RATIFIED PROMPTLY AND WE'VE DEVELOPED PRINCIPLES FOR HANDLING DIFFICULT CASES.

THIRDLY OTHER DEVELOPING COUNTRY PROBLEMS, THE DOMINANCE OF THESE PROBLEMS OF SOVEREIGN DEBT SHOULDN'T DISTRACT ATTENTION FROM THEIR OTHER PROBLEMS, THE POORER COUNTRIES IN PARTICULAR, WHICH HAVE IN DIFFERENT WAYS SUFFERED SEVERELY FROM THE RECESSION AND I'M SURE THAT SUMMIT LEADERS WILL HAVE VERY MUCH IN MIND THE FORTHCOMING UNCTAD MEETING, WILL WANT TO RESPOND TO THE MODERATE AND REALISTIC STATEMENTS OF THE DEVELOPING COUNTRIES IN THE RECENT PAST, PARTICULARLY FROM THE NEW DELHI AND BUENOS AIRES MEETINGS. RECOVERY OF ECONOMIC GROWTH BY INDUSTRIAL COUNTRIES WILL BE A NECESSARY AND VALUABLE CONDITION FOR RSCOVERY IN THE DEVELOPING COUNTRIES. THE SUMMIT LEADERS WILL OBVIOUSLY WANT AS WELL TO CONSIDER THE IMPORTANCE OF KEEPING OPEN TRADING MARKET BOTH WAYS AND OF MAINTAINING ADEQUATE AID FLOWS. THEN PROTECTIONIST

PRESSURES HAVE BEEN GROWING IN THAT DIRECTION IN SUMMIT COUNTRIES, AS ELSEWHERE, YET THERE'S NO DOUBT THAT MORE OPEN MARKETS SHOULD BE AN AID TO WORLD ECONOMIC RECOVERY AND THAT MORE PROTECTIONISM WOULD THREATEN TO RESTRICT THAT. SO I EXPECT THE LEADERS OF THE SUMMIT TO DISCUSS HOW TO ENCOURAGE MOVEMENT IN THE RIGHT DIRECTION, MORE OPENNESS AS THE RECOVERY GATHERS PACE, RATHER THAN THE OTHER.

THEN, FUTURE CO-OPERATION. I THINK THAT'S LIKELY TO BE A STRONG THEME AND I CERTAINLY WELCOME THAT PERSONALLY MYSELF. IN OUR RECENT MEETING FINANCE MINISTERS OF THE SUMMIT COUNTRIES HAVE BEEN DEVELOPING THEIR THINKING AND PRACTISING CO-OPERATION WITH EACH OTHER IN TWO IMPORTANT DIFFERENT WAYS. THEY BOTH ACTUALLY STEM FROM DECISIONS TAKEN AT AND FOLLOWING THE VERSAILLES SUMMIT. FIRST - EXCHANGE RATES . YOU'VE SEEN... THE JURGENSEN REPORT AND THE STATEMENT WE MADE IN WASHINGTON ABOUT THAT, THAT WAS CONCERNED WITH THE RELATIVELY NARROW QUESTION OF INTERVENTION IN FOREIGN EXCHANGE MARKETS TO INFLUENCE EXCHANGE RATES, BUT THERE WAS SOME CONVERGENCE OF VIEWS ON THE ROLE OF SUCH OPERATIONS AND A RECOGNITION THAT THEY CAN HAVE A BENEFICIAL EFFECT IN SOME LIMITED CIRCUMSTANCES AND THAT'S A USEFUL ADVANCE. IN FACT OUR DISCUSSIONS AS FINANCE MINISTERS DID GO WIDER THAN THAT, INTO A MORE GENERAL RECOGNITION WITH WHICH WE ALL AGREED THAT THE EXCHANGE RATE IS AN IMPORTANT ASPECT OF A COUNTRY'S ECONOMY, IMPORTANT FOR ITSELF AND IMPORTANT FOR OTHERS AND THAT THE AUTHORITIES OF ANY ONE COUNTRY SHOULD HAVE REGARD TO THEIR EXCHANGE RATE IN CONSIDERING DOMESTIC POLICIES AND THEIR EFFECTS AND THAT'S AN IMPORTANT FOUNDATION FOR FUTURE DEVELOPMENT. IN FACT THE SUMMIT LEADERS MAY WANT TO REFLECT ON POSSIBLE DEVELOPMENTS FROM THERE ON.

YOU'VE SEEN THAT THE THOUGHT OF A NEW BRETTON WOODS CONFERENCE HAS BEEN SUGGESTED. I WOULD MYSELF THINK THAT THAT KIND OF IDEA IS CERTAINLY PREMATURE AT THIS STAGE, I THINK WE LIVE IN A DIFFERENT WORLD WHERE INSTITUTIONS NOW EXIST WHICH DIDN'T EXIST THEN, WHICH MAY THEMSELVES PROVIDE THE FORUM IN WHICH BRETTON WOODS TYPE QUESTIONS CAN BE CONSIDERED BUT I CERTAINLY WOULDN'T WANT TO RULE OUT THE IDEA OF ADVANCE IN THAT DIRECTION ON THE BASIS OF WELL PREPARED WORK. THERE'S ANOTHER LINE OF CO-OPERATION WHICH I, I THINK FIRST SUGGESTED IN MY WASHING TON IMF SPEECH IN SEPTEMBER '81, AND WHICH WAS LAUNCHED, AS IT WERE OFFICIALLY AT VERSAILLES, NAMELY THE IDEA THAT CERTAIN COUNTRIES, PARTICULARLY THE FIVE WHOSE CURRENCIES MAKE UP THE SDR+, SHOULD TRY TO ACHIEVE PARTICULARLY CLOSE CO-OPERATION WITH THE HELP OF THE IMF MANAGING DIRECTOR, IN ANALYSING THEIR OWN POLICIES AND THEIR IMPACT ON EACH OTHER AND THE REST OF THE WORLD. THERE HAVE, AS YOU KNOW, SINCE BEEN A NUMBER OF MEETINGS OF FINANCE MINISTERS TO DO JUST THAT, THE MOST RECENT WAS IN WASHINGTON AT THE END OF APRIL, THEY HAVE INVOLVED A VERY THOROUGH AND CRITICAL ANALYSIS AND MUCH FRANK AND VALUABLE DISCUSSION AND THOSE WHO'VE BEEN TAKING PART IN THEM FEEL THAT THEY ARE MAKING PROGRESS AND WE ARE DETERMINED TO CONTINUE AND INTENSIFY THOSE ARRANGEMENTS. WE SHALL BE REPORTING ON THAT WORK TO THE SUMMIT AND I THINK THEY'LL WELCOME THAT AS A PROMISING DEVELOPMENT FOR THE FUTURE. BY WAY OF SUMMING UP, ALL THESE THINGS ARE OBVIOUSLY CLOSELY RELATED TO EACH OTHER AND IF WE MAKE HEADWAY ON ALL OF THEM THAT REPRESENTS THE BEST PROSPECT OF ACHIEVING A SUSTAINABLE NON-INFLATIONARY RECOVERY.

DO 'T EXPECT ANY PANACEAS FROM WILLIAMSBURG, ANY MORE THAN FROM ANYWHERE ELSE. THERE AREN'T ANY. BUT PLEASE DON'T UNDER-RATE THE IMPORTANCE OF HEADS OF THE SUMMIT COUNTRIES AND THEIR FINANCE MINISTERS AND FOREIGN MINISTERS, COMING TOGETHER IN THIS WAY, COMMITTING THEMSELVES TO THE OBJECTIVE OF SUSTAINABLE NON-INFLATIONARY RECOVERY AND TO THE KIND OF DISCUSSIONS THAT ARE NECESSARY, THE KIND OF DISCUSSIONS THAT THE WORLD WOULD EXPECT FROM THE LEADERS OF THE LEADING ECONOMIES IF WE'RE TO GET OUR VIEWS COMING CLOSER TOGETHER ON THE IMPORTANT ISSUES AND I THINK THAT'S THE OBJECT OF WILLIAMSBURG AND I HOPE WE SHALL MAKE A SIGNIFICANT HEADWAY TOWARDS IT.

END

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TO IMMEDIATE FCO
TELEGRAM NUMBER 1479 OF 25 MAY

YOUR TELNO 885: WILLIAMSBURG SUMMIT: INF

1. PLEASE SEE MY TELNO 1466 (PARA 9), WHICH CROSSED WITH YOURS. BURT SAW THE PRESIDENT ABOUT THIS YESTERDAY. THE AMERICANS HAVE DROPPED THE IDEA OF ANY PRE-NEGOTIATED STATEMENT ON INF. IF THERE IS A CONSENUS, FOLLOWING THE DISCUSSION AT DINNER ON SATURDAY, THAT A SHORT POLITICAL STATEMENT SHOULD BE ISSUED EMPHASISING SERIOUSNESS ABOUT THE NEGOTIATIONS, AND SERIOUSNESS TOO ABOUT DEPLOYMENT IF THESE SHOULD FAIL, THE AMERICANS WOULD WELCOME THIS. THEY HOPE THAT WE WOULD SUPPORT THIS, BUT ARE NOT GOING TO PRESS THE IDEA IF, FOLLOWING DISCUSSION, THERE SHOULD BE A LACK OF ENTHUSIASM FOR IT ON THE PART OF OTHER HEADS OF GOVERNMENT.

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MR COLES

FUTURE FINANCING OF THE EUROPEAN COMMUNITY AND UK BUDGET REFUND: POINTS FOR BILATERAL MEETINGS AT WILLIAMSBURG

The future financing of the Community and the interim budget refunds for the United Kingdom were discussed in the Council of Ministers (Foreign Affairs) yesterday.

2. The key points were:-

(i) A long term solution. All member states are now prepared to launch a serious discussion on the long term reform of the financing of the Community. It is evident that specific decisions on the elements themselves will not be taken at Stuttgart, not least because of the United Kingdom and German position on an increase in the Community's revenue. It is, however, strongly in our interest that the European Council at Stuttgart should launch a clear programme of work with a view to decisions on the reform of the Community's financing, both because we intend that the United Kingdom shall be the main beneficiary of these changes and because it will facilitate a decision in June on the 1983 budget refund. We should not underrate the importance to us of getting things moving on the long term solution and its political importance for Chancellor Kohl.

(ii) The interim solution. The German Presidency did try yesterday to make other member states take a view on the figures and specific proposals in our Gymnich document. Most difficult are the Italians ("direct link with an increase in the Community's revenues") and the French ("need to clarify the long term and no urgency"). Other member states are reluctantly beginning to think in terms of percentage payments and over-payments, but have a long way to go.

/3.

3. The documents which the Presidency has undertaken to prepare for the next Foreign Affairs Council on 13 June (the elements of the work programme on the long term to be put to the Stuttgart European Council and the figures for the interim settlement) will now be very important.

4. In the light of yesterday's discussion and of certain points which the Germans have told us that Chancellor Kohl will raise with the Prime Minister at Williamsburg, you may wish to advise the Prime Minister on these points:-

(i) Bilateral discussion with Chancellor Kohl at Williamsburg. Herr Kohl was very pleased with the last Anglo/German summit. He is most anxious that in the same spirit the results of the Stuttgart European Council should be presented not just as a budgetary question but also as a resolve to ensure a soundly financed Community with vital political objectives in common. He believes that the Prime Minister and he will largely determine how this point is seen in Europe after Stuttgart.

The Prime Minister may wish to say that:

- the Stuttgart European Council cannot decide on long term future financing. It will have taken a major step, however, if it clearly establishes the elements of the situation and starts the process which leads to the solution. This can be the first European Council to face the long term problem.

- we therefore support the Presidency in giving an impetus at Stuttgart to establishing the work programme and procedures for decisions, if possible by the end of 1983, on the

/long term

long term future financing of the Community. For us and, we believe, for Germany better control of existing expenditure and the correction of the budgetary imbalances are essential elements. We recognise that other member states will wish to include examination of the Commission's proposal on increasing the Community's revenues, particularly in the prospect of enlargement of the Community. We also share the German view that the discussions on long term financing must be seen as a means of establishing a fair system which will support common political objectives and policies.

- the interim solution on the budget refund for 1983 must be settled at Stuttgart, as the Community has promised. We are prepared to move the long term discussion forward as fast as possible in the autumn but we shall not accept a new and hitherto unheard of French/Italian link between the interim settlement and an increase in the Community's own resources.

(ii) Bilateral discussion with President Mitterrand. Some of the French ideas on the long term are better than we had feared (greater willingness to envisage control of agricultural and other Community expenditure; need for a scheme to correct budget imbalances; hesitation on increasing the Community's revenues, at least before enlargement). On the 1983 budget refund, however, they are taking an intransigent line and have so far refused to discuss it until the long term elements are clear.

The Prime Minister may wish to make these points:

- we are pleased that the European Council at Stuttgart is going to establish the elements which must lead to important decisions on the long term

/future

future financing of the Community. This is necessary for equity between member states and also as the basis for common policies and the development of Europe. We recognise the importance which Monsieur Mitterrand attaches to such policies as industrial innovation and are ready to examine further ideas which France may put forward. We have also welcomed the recognition by France that a major priority now is to examine existing Community policies in order to determine whether the money is well spent and that in any long term arrangement on financing some mechanism to correct budgetary imbalances is essential. On this last point there should be common ground between Germany, France and the United Kingdom.

- the United Kingdom is working for a success at Stuttgart in determining the elements which must go into a long term solution. The solution itself, however, cannot realistically be achieved before 1984. It is, therefore, essential that we should not prejudice the improved prospects of a long term Community arrangement by failure to agree at Stuttgart on the ad hoc and interim solution which has been promised to the United Kingdom for 1983. The longer term perspective will be clear at Stuttgart. We can and must settle at Stuttgart the 1983 budget refund figure for the United Kingdom which is to be implemented through Community measures in the United Kingdom and for which figures have now to be entered in the 1984 budget.

/(iii)

(iii) Contacts with Signor Fanfani. The Prime Minister may also wish to stress that we are working for a success at Stuttgart in determining the elements which must go into a long term solution on Community financing and related policies. The long term perspective will be a major feature of the Stuttgart discussions. We have to reject completely, however, the link which the Italian Government appears to be making between the interim solution and an increase in the Community's own resources. The 1983 budget refund has been promised without these conditions. It has to be settled at Stuttgart. The figures have to be entered immediately after Stuttgart in the 1984 draft budget.

5. We are content with the summary brief which is coming forward but you may find it helpful to have the points which I have set out above.

D F Williamson

D F WILLIAMSON

25 May 1983

cc: Sir Robert Armstrong

CONFIDENTIAL

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

01-211 5444

J.R.S. Guinness
DEPUTY SECRETARY

25th May 1983

Sir Robert Armstrong GCB CVO
Cabinet Office
70 Whitehall
London SW1A 2AS

A & C 26/5

Dear Robert,

ECONOMIC SUMMIT: WILLIAMSBURG

In Ken Couzen's absence on leave I am writing to thank you for sending us a copy of your letter of 24th May to Geoffrey Littler covering your draft of the declaration.

will request if required

I would hope that in any reference to the world oil market (paragraph 11) you could record agreement that, after the recent fall in oil prices, a period of oil price stability would be helpful to world economic prospects. My Secretary of State laid considerable stress on this point at the recent IEA Ministerial meeting. A sentence on these lines would flow naturally from the thought expressed at the beginning of the paragraph. The Energy brief provides further background. If, as is possible, the Americans and the Japanese were resistant to such a reference, it would seem better to omit any reference to the question of international oil prices.

We are a little doubtful about the highlighting of action to encourage and assist the growth of indigenous energy production in the developing countries. This might raise unrealistic expectations. In particular the last part of the final sentence of paragraph 11 might be redrafted to read - "and to encourage the growth of indigenous energy production in developing countries which currently lack such production".

I am sending copies of this letter to the other recipients of your letter.

Yours sincerely,

John Guinness

J.R.S. Guinness

GRS 720 CONFIDENTIAL

CONFIDENTIAL

FM WASHINGTON 252030Z MAY 83

TO PRIORITY F C O

TELEGRAM NUMBER 1470 OF 25 MAY

THE US ECONOMY BEFORE THE WILLIAMSBURG SUMMIT

1. THE US ECONOMY IS NOW GROWING SHARPLY WITH SOME PRIVATE FORECASTERS SUGGESTING THAT GNP GROWTH IN THE SECOND QUARTER WILL BE BETWEEN 5-6 PERCENT AT AN ANNUAL RATE. FOR 1983 AS A WHOLE MOST PRIVATE ANALYSTS (AND THE ADMINISTRATION) FORECAST GNP GROWTH WITHIN THE RANGE 2.8 PERCENT - 3.0 PERCENT.

2. THE FIGURE FOR THE ANNUAL RATE OF GROWTH OF GNP IN THE FIRST QUARTER HAS BEEN REVISED DOWNWARDS FROM 3.1 PERCENT TO 2.5 PERCENT. MOST OF THE GROWTH EARLY IN THE YEAR WAS CONFINED TO A REDUCTION IN THE RATE AT WHICH STOCKS WERE DRAWN DOWN AND A RECOVERY IN HOUSING. CONSUMER SPENDING HAS NOW ALSO REVIVED. RETAIL SALES INCREASED BY 1.7 PERCENT IN MARCH AND 1.6 PERCENT IN APRIL. THE LATEST ESTIMATES OF INDUSTRIAL PRODUCTION SHOW A SUBSTANTIAL AND WIDESPREAD RECOVERY, ALTHOUGH EXPORTS AND INVESTMENT REMAIN WEAK. THE INDEX OF INDUSTRIAL PRODUCTION ROSE BY 2.1 PERCENT IN APRIL, FOLLOWING A 1.2 PERCENT INCREASE IN MARCH, WITH GAINS AMONG BOTH DURABLE AND NON-DURABLE GOODS. THE RATE OF UNEMPLOYMENT IN APRIL FELL SLIGHTLY TO 10.2 PERCENT.

3. THE INCREASE OF THE CONSUMER PRICE INDEX OVER THE 12 MONTHS TO APRIL WAS 3.9 PERCENT, REFLECTING THE EFFECTS OF TIGHT MONETARY POLICY IN THE PERIOD UP TO MID-1982 AND LOWER OIL PRICES. THE PROSPECTS FOR INFLATION OVER THE NEXT 12 MONTHS ARE ALSO FAVOURABLE. WHILE THE LOW POINT IN THE MONTHLY ANNUAL INFLATION INCREASE FIGURES MAY NOW HAVE BEEN PASSED, IT IS UNLIKELY THAT THERE WILL BE A STRONG RESURGENCE OF INFLATION. CONTINUING WAGE MODERATION SHOULD ENSURE THAT IT REMAINS BETWEEN 4-5 PERCENT.

4. THE CHIEF THREAT TO THE RECOVERY REMAINS HIGH INTEREST RATES. IN RECENT DAYS FINANCIAL MARKETS HAVE RESPONDED ADVERSELY TO JUMPS IN THE WEEKLY FIGURES FOR THE MONETARY AGGREGATE M1, AND THE YIELD ON A 3-MONTH TREASURY BILL HAS RISEN TO 8.4 PERCENT. THERE HAS ALSO BEEN A MOVEMENT IN LONGER RATES WITH LONG-TERM TREASURY BONDS CURRENTLY YIELDING ALMOST 11 PERCENT, IMPLYING A REAL RATE OF RETURN AFTER ALLOWING FOR THE CURRENT INFLATION RATE OF ALMOST 7 PERCENT.

5. THE ADMINISTRATION ARE OBVIOUSLY CONCERNED ABOUT THE RISE IN SHORT TERM MARKET INTEREST RATES IMMEDIATELY BEFORE THE SUMMIT. INTEREST RATES ROSE AS THE MARKET ANTICIPATED SOME TIGHTENING OF MONETARY POLICY, FOLLOWING THE LARGE INCREASE IN M1 IN THE FIRST TWO WEEKS OF MAY TO A LEVEL WELL ABOVE THE UPPER END OF ITS 4-8 PERCENT GROWTH RANGE FOR 1983. THERE IS THEREFORE NO SIMPLE COURSE

OF ACTION OPEN TO THE FEDERAL RESERVE WHICH COULD REVERSE THE INCREASE OF INTEREST RATES. FURTHER RAPID EXPANSION OF THE MONEY SUPPLY COULD WELL LEAD TO HIGHER INTEREST RATES, WHILE TIGHTENING CONTROL WOULD HAVE THE SAME EFFECT. TREASURY SECRETARY REGAN, WHO HAS RECENTLY AGAIN ADOPTED A CRITICAL TONE ABOUT THE FED, HAS SUGGESTED THAT ITS AIM SHOULD NOW BE 6 PERCENT GROWTH IN THE MONEY SUPPLY FOR THE REMAINDER OF THE YEAR. WHILE THE FED HAS REPEATEDLY SAID THAT IT NOW TARGETS M2 AND M3 (WHICH ARE WITHIN THEIR TARGET RANGES), RECENT DEVELOPMENTS HAVE SHOWN THAT STRONG MOVEMENTS IN M1 ARE STILL CAPABLE OF DISRUPTING FINANCIAL MARKETS AND AFFECTING INTEREST RATES.

6. THE RISE IN INTEREST RATES HAS AFFECTED THE DOLLAR EXCHANGE RATE, WHICH ON 25 MAY STRENGTHENED AGAINST MOST EUROPEAN CURRENCIES EXCEPT THE POUND. THE DOLLAR ROSE TO A SIX-MONTH HIGH AGAINST THE GERMAN MARK, AND SET ANOTHER RECORD AGAINST THE FRENCH FRANC. THE HIGH VALUE OF THE US DOLLAR, AS AFFECTED BY HIGH US INTEREST RATES, WAS THE SUBJECT OF COMPLAINT BY FRENCH FOREIGN MINISTER CHEYSSON LAST SUNDAY IN AN AMERICAN TELEVISION BROADCAST.

7. THE US FY84 BUDGET PROCESS REMAINS IN A CONFUSED STATE. THE HOUSE OF REPRESENTATIVES AND THE SENATE WILL NEXT WEEK BEGIN THE CONFERENCE PROCEDURE TO RECONCILE THEIR SEPARATE VERSIONS OF THE FIRST CONCURRENT BUDGET RESOLUTION. THE SENATE VERSION PROVIDES FOR AN FY84 FEDERAL DEFICIT OF DOLLARS 179 BILLION AND THE HOUSE VERSION FOR DOLLARS 175 BILLION (THE ADMINISTRATION BUDGET PROVIDES FOR A DEFICIT OF DOLLARS 192 BILLION). THE BALANCE OF THE TWO VERSIONS IS DIFFERENT, WITH THE HOUSE PREFERRING MORE CIVIL AND LESS MILITARY EXPENDITURE AND MORE TAX INCREASES, THAN THE SENATE. THE PRESIDENT HAS SAID THAT HE WILL VETO LEGISLATION ENACTING EVEN THE DOLLARS 9.9 BILLION IN TAX INCREASES PROPOSED IN THE SENATE VERSION, MAKING THE FINAL OUTCOME FOR THE DEFICIT UNCERTAIN.

8. F C O PLEASE PASS TO PS/CHANCELLOR, LITTLER AND BOTTRILL (TREASURY) AND WATSON (BANK).

WRIGHT

[PASSED AS REQUESTED]

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FM WASHINGTON 251701Z MAY 83
TO PRIORITY F C O
TELEGRAM NUMBER 1466 OF 25 MAY.
INFO BONN, PARIS, TOKYO, ROME, OTTAWA, UKREP BRUSSELS.

MIPT: WILLIAMSBURG: THE U.S. APPROACH

SUMMARY

1. THE AMERICANS HAVE NO EXAGGERATED EXPECTATIONS AS TO WHAT IS LIKLEY TO BE ACHIEVED AT WILLIAMSBURG. THE PRESIDENT WANTS IT TO BE SEEN AS THE SUMMIT OF ECONOMIC RECOVERY. THE AMERICANS ARE NOT LOOKING FOR A ROW OVER EAST/WEST TRADE. THEY WILL BE PREPARED TO MAKE SOME SMALL GESTURE TO ACCOMMODATE MITTERRAND. IT WILL BE A POLITICAL PLUS FOR THE PRESIDENT IF, IN ADDITION TO BEING A GENIAL HOST (WHICH IS A FOREGONE CONCLUSION), HE IS SEEN AS HAVING PRESIDED OVER A WELL-MANAGED SUMMIT.

DETAIL

2. THE AMERICANS ARE DETERMINED TO AVOID ANOTHER VERSAILLES. APART FROM THE DISAGREEMENT AMONG THE VERSAILLES SUMMIT PARTNERS THAT, SUBSEQUENTLY, CAME TO A HEAD IN THE PRESIDENT'S DECISION ON PIPE-LINE SANCTIONS, THERE IS A WIDESPREAD PERCEPTION HERE THAT THE PRESIDENT PERSONALLY CAME OUT BADLY FROM VERSAILLES: NOT PARTICIP-ATING FULLY IN THE DISCUSSION AND PREOCCUPIED WITH OTHER ISSUES (NOTABLY LEBANON AND THE PROBLEMS WITH HAIG WHICH CAME TO A HEAD OVER THAT WEEKEND).

3. THE AMERICANS HAVE NOT SET THEMSELVES AMBITIOUS GOALS FOR WILLIAMSBURG. THEY WILL BE CONCERNED TO AVOID A ROW, OR PRESS REPORTS OF ONE AND, BELIEVING THAT THE POOR PRESS COVERAGE OF VERSAILLES WAS IN PART A RESULT OF APPALLING ARRANGEMENTS BY THE FRENCH, HAVE DEVOTED CONSIDERABLE RESOURCES TO KEEPING THE 4,000 JOURNALISTS ACCREDITED TO THE SUMMIT WELL FED WITH EVERYTHING BUT NEWS. THE U.S. MEDIA, ALWAYS PREOCCUPIED WITH MR REAGAN'S COMPETENCE, WILL BE AS MUCH INTERESTED IN THE PRESIDENT'S PERFORMANCE AS IN THE SUBSTANCE. IF HE EMERGES AS A COMPETENT CHAIRMAN, WELL ABLE TO STEER DISCUSSION AMONG WORLD LEADERS GENERALLY REGARDED AS HIS INTELLECTUAL SUPERIORS, THE WHITE HOUSE WILL HAVE ACHIEVED MUCH OF THEIR PURPOSE.

4. THE AMERICANS SEE THIS AS THE SUMMIT OF ECONOMIC RECOVERY. AS SECRETARY REGAN SAID IN AN INTERVIEW ON SUNDAY: QUOTE THIS IMPORTANT TURN AROUND HAS NOW SET THE STAGE FOR ECONOMIC RECOVERY. IN THE UNITED STATES THE INDICATORS ARE POINTING TOWARDS A PERIOD OF SOLID GROWTH. BUT IT IS IMPORTANT THAT THIS RECOVERY BE WORLD-WIDE, THAT IT BE NON-INFLATIONARY AND THAT IT BE SUSTAINED UNQUOTE. THE AMERICANS WILL BE LOOKING FOR ENDORSEMENT OF THEIR ECONOMIC APPROACH WITH ITS EMPHASIS ON POLICIES TO REDUCE INFLATION. THEY SEE

/ OURSELVES,

OURSELVES, THE GERMANS AND THE JAPANESE AS NATURAL ALLIES IN THIS AND HOPE THAT THE FAILURE OF THE ALTERNATIVE (AS EXEMPLIFIED BY MITTERRAND'S FRANCE) WILL BE ENOUGH TO SET THE SEAL ON THEIR APPROACH.

5. THE AMERICANS ARE WARY OF THE FRENCH APPROACH TO THE SUMMIT, RATHER THAN DOWNRIGHT HOSTILE TO IT. THEY DO NOT YET KNOW WHICH WAY MITTERRAND WILL JUMP. FOR OBVIOUS DOMESTIC REASONS THEY ARE NOT PREPARED TO SEE THE QUESTION OF U.S. DEFICITS MADE THE MAIN ISSUE OF THE SUMMIT IF THEY CAN HELP IT. THEY COULD ACCEPT SOME GENERAL CALL TO REDUCE DEFICITS IN THE MEDIUM TERM (CORRESPONDING TO THE PRESIDENT'S OWN PROGRAMME). BUT THEY REGARD FRENCH ECONOMIC PROBLEMS AS A FUNCTION OF THEIR OWN MISMANAGEMENT, NOT OF U.S. POLICIES. IF MITTERRAND WANTS A LET OUT IN THE FORM OF SOME FURTHER STUDY OF THE WAY THE INTERNATIONAL MONETARY SYSTEM IS OPERATING, AND ON THE INTERNATIONAL DEBT PROBLEM ETC, THEY WILL PROBABLY BE PREPARED TO CONCEDE THIS. BUT THEY WILL NOT GO AS FAR AS A STUDY SPECIFICALLY ABOUT A NEW QUOTE BRETTON WOODS UNQUOTE, PROGRESS TOWARDS FIXED PARITIES ETC. THE AMERICANS HAVE NOTED THAT KOHL GAVE MITTERRAND FAIRLY SHORT SHRIFT IN PARIS LAST WEEK, AND HOPE THAT, IF IT COMES TO THAT, THE PRIME MINISTER, KOHL AND NAKASONE WILL BE SIMILARLY FIRM ON THIS OCCASION.

6. ON EAST-WEST TRADE, THE PREVAILING AMERICAN MOOD WAS SUMMED UP BY THE PRESIDENT IN HIS PRESS CONFERENCE LAST WEEK WHEN HE PROCLAIMED THAT THE ALLIANCE WAS NOW AT PEACE ON THIS ISSUE. THE ADMINISTRATION DO NOT WANT A ROW AND BELIEVE THAT THEY GOT ENOUGH OUT OF LAST MONTH'S OECD MEETING TO CLAIM THAT THEIR BASIC REQUIREMENT, IE THAT THE ALLIES SHOULD EXERCISE FINANCIAL PRUDENCE IN THEIR ECONOMIC RELATIONS WITH THE EAST AND AVOID GRANTING PREFERENTIAL TREATMENT TO EASTERN EUROPEAN COUNTRIES, HAS BEEN MET. THEY WILL WANT TO NOTE THE WORK THAT HAS TAKEN PLACE, THE IMPORTANCE OF THESE STUDIES AND TO ENSURE THAT THEY CONTINUE. THIS WILL NOT MEAN THAT EVERYBODY HAS BEEN SATISFIED, BUT SHOULD ENSURE THAT THIS DOG DOES NOT BARK AT WILLIAMSBURG.

7. THE AMERICANS EXPECT, THEY SAY, SOME QUOTE GRAND-STANDING UNQUOTE FROM MITTERRAND AND TRUDEAU ABOUT THE PROBLEMS OF DEVELOPING COUNTRIES. THEY WILL HOPE TO MANAGE THIS IN MUCH THE SAME MANNER AS AT CANCUN. THE MAIN FOCUS OF U.S. CONCERN REMAINS ON THE DEBT PROBLEMS OF INTERMEDIATE COUNTRIES (BRAZIL, YUGOSLAVIA, MEXICO ETC).

/ 8. THE

8. THE PRESIDENT WILL EMPHASIZE THE IMPORTANCE HE ATTACHES TO NON-PROLIFERATION, AND THAT SUPPLY MUST GO WITH ADEQUATE SAFEGUARDS, MORE AS EXHORTATION TO THE FRENCH AND ITALIANS THAN WITH SPECIFICALLY NEW STEPS IN MIND. THE AMERICANS ALSO ENVISAGE SOME DISCUSSION OF THE FUTURE SHAPE OF THESE SUMMIT MEETINGS AT THE FINAL LUNCH.

9. ON FOREIGN POLICY, THE AMERICANS ARE STILL HOPING THAT THE SUMMIT CAN COME UP WITH A BRIEF STATEMENT ON INF (THOUGH NOT ONE WHICH IS PRE-NEGOTIATED). THEY WOULD LIKE A RE-AFFIRMATION OF THE COMMITMENT TO SERIOUS NEGOTIATION, BUT ALSO TO DEPLOYMENT IF THESE FAIL. THE PRESIDENT IS LIKELY TO EXPLAIN THE IMPORTANCE OF WHAT IS AT STAKE IN CENTRAL AMERICA, WITHOUT LOOKING FOR ENDORSEMENT OF U.S. POLICY. BUT THE AMERICANS WILL HOPE FOR ENDORSEMENT OF U.S. EFFORTS TO BRING ABOUT THE WITHDRAWAL OF SYRIAN AND ISRAELI FORCES FROM LEBANON.

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GRS 1200
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FM WASHINGTON 251700Z MAY 83
TO PRIORITY FCO
TELEGRAM NUMBER 1465 OF 25 MAY
INFO PRIORITY PARIS BONN TOKYO ROME OTTAWA UKREP BRUSSELS

MY TEL NO 1271: WILLIAMSBURG SUMMIT: PRESIDENT REAGAN

1. THE STANDING OF THE PRESIDENT IS RISING WITH THE ECONOMY. PRESIDENT REAGAN IS DOING BETTER IN THE OPINION POLLS THAN AT ANY TIME OVER THE PAST EIGHTEEN MONTHS. INFLATION IS RUNNING AT 3.9 PER CENT. LONGER TERM INTEREST RATES HAVE COME DOWN A LONG WAY FROM THE LEVEL THEY WERE AT WHEN THE PRESIDENT TOOK OFFICE, EVEN IF AT 10.5 PER CENT THEY LEAVE REAL INTEREST RATES VERY HIGH. THE US ECONOMY IS NOW REALLY BEGINNING TO MOVE. THE LATEST FORECASTS PROJECT GROWTH THIS YEAR OF ABOUT THREE PER CENT. UNEMPLOYMENT REMAINS HIGH (AT ABOUT 10 PER CENT) BUT IS NOW HOLDING LEVEL. MOST OF THE NEWSPAPERS (AND MOST OF HIS FELLOW POLITICIANS) ARE BETTING THAT MR REAGAN WILL SEEK A SECOND TERM: AND MOST WOULD SAY THAT IF HE RUNS HE WILL WIN. BUT A WEEK IS A LONG TIME IN POLITICS AND THERE ARE PROBABLY FOUR MONTHS TO GO BEFORE HE NEEDS TO DECIDE WHETHER TO RUN, AND SEVENTEEN MONTHS BEFORE THE ELECTION.

2. AS THE PRESIDENT PREPARES FOR THE WILLIAMSBURG SUMMIT, THEREFORE, BOTH THE ECONOMIC AND POLITICAL INDICATORS ARE POINTING IN THE RIGHT DIRECTION FOR HIM. THE AREA OF ECONOMIC POLICY WHERE HE IS VULNERABLE IS THE CONTINUED HIGH DEFICITS PROJECTED IN HIS OWN BUDGET, OR ANY LIKELY ALTERNATIVE: AND FEARS THAT THESE MAY START INTEREST RATES EDGING UP AGAIN. THE SIZE OF THE DEFICIT IS COMPLICATING THE BUDGET BATTLE IN CONGRESS, IN WHICH THE PRESIDENT IS PITTED, NOT ONLY AGAINST THE DEMOCRATS, BUT AGAINST A NUMBER OF MEMBERS FROM HIS OWN PARTY. CONGRESS IS LIKELY TO REFUSE HALF OF THE TEN PER CENT REAL INCREASE IN DEFENCE SPENDING THE PRESIDENT ORIGINALLY WAS DEMANDING, BUT STILL TO VOTE A VERY LARGE REAL INCREASE. THE PRESIDENT SO FAR HAS BEEN ADAMANT IN HIS REFUSAL TO CONTEMPLATE TAX INCREASES COMING OUT OF THE RECESSION.

3. THE PRESIDENT HIMSELF SHARES THE VIEW OF CONSERVATIVE REPUBLICANS THAT TAX CUTS ARE MORE IMPORTANT TO RECOVERY THAN REDUCING THE DEFICIT AND THAT TO LOSE THE BENEFIT OF THE TAX CUT EITHER BY CANCELLING THE THIRD YEAR BENEFIT, DUE TO COME INTO EFFECT ON 1 JULY, OR BY RAISING TAXES, IS AN UNACCEPTABLE PRICE TO PAY FOR GETTING CLOSER TO A BALANCED BUDGET. EVEN THOSE CONCERNED ABOUT THE EFFECT OF THE DEFICIT ARE NOT SO MUCH WORRIED ABOUT ITS IMPACT IN THE NEXT FINANCIAL YEAR AS IN THE SUBSEQUENT TREND IN THE QUOTE OUT YEARS UNQUOTE, WHEN THEY SEE THE COMPETITION BETWEEN GOVERNMENT AND INDUSTRY FOR AVAILABLE FUNDS PUSHING UP INTEREST RATES AND CHOKING OFF THE RECOVERY. /4.

4. THE PRESIDENT EVENTUALLY, WITH A GREAT SHOW OF RELUCTANCE, MAY ACCEPT SOME OF THE MEDICINE WHICH CONGRESS IS PROPOSING, BUT IS MAKING CLEAR HIS READINESS, IF NECESSARY, TO PROCEED WITHOUT AN AGREED OVERALL BUDGET (ON THE BASIS OF CONGRESSIONAL FUNDING OF THE SEPARATE APPROPRIATIONS FOR DEFENCE, SOCIAL SECURITY ETC). FOR THE TIME BEING, CONGRESS MAKES A GOOD POLITICAL WHIPPING BOY. THE AMERICAN PUBLIC IS VERY READY TO ASSUME THAT CONGRESS IS WORKING AGAINST THEIR INTERESTS AND MANY ARE INCLINED TO SUPPORT THE PRESIDENT IN HIS ATTACKS ON ATTEMPTS TO RETURN TO THE QUOTE BIG SPENDING UNQUOTE PROGRAMMES OF HIS DEMOCRATIC PREDECESSORS.

5. FOREIGN POLICY, ON WHICH MOST OVERSEAS JUDGEMENTS OF MR REAGAN ARE BASED, COMES LOW IN THE LIST OF PRIORITIES FOR MOST AMERICANS. THE SENIOR DEMOCRAT ON THE SENATE COMMITTEE WHICH DEALS WITH CENTRAL AMERICA RECENTLY TOLD ME THAT MOST OF HIS NEBRASKAN CONSTITUENTS HAD NEVER HEARD OF NICARAGUA. IT SHOULD NOT BE THOUGHT, BECAUSE LEBANON AND CENTRAL AMERICA LOOM LARGE IN THE NEWSPAPERS OR EVEN ON TV NEWS, THAT THEY ARE OF DOMINANT PUBLIC CONCERN HERE. DOMESTICALLY, THE US PRESIDENT TRADITIONALLY HAS CONSIDERABLE LEEWAY IN FOREIGN AFFAIRS THOUGH THERE COMES AN OBVIOUS POINT EG. THE THREAT OF CONFRONTATION WITH THE SOVIET UNION OR OF ARMED INVOLVEMENT IN CENTRAL AMERICA, WHERE FOREIGN POLICY BECOMES AN IMPORTANT DOMESTIC ISSUE. HE ALSO NEEDS THE CONGRESS TO VOTE HIM MONEY. THERE IS CONCERN ABOUT THE ADMINISTRATION'S POLICY IN BOTH THESE AREAS. MANY AMERICANS WHO SHARE THE PRESIDENT'S DISLIKE OF THE SOVIET LEADERSHIP DO NOT NECESSARILY AGREE WITH HIS MANNER OF DEALING WITH THEM. IF THE PRESIDENT DECIDES TO RUN AGAIN, THERE WILL BE INCREASED PRESSURE FOR A MEETING WITH ANDROPOV. UNLIKE HIS PREDECESSORS, MR REAGAN HAS LITTLE ENTHUSIASM FOR US/SOVIET SUMMITRY. HE IS KEEPING THE OPTION OPEN, BUT WILL ONLY AGREE TO A MEETING IF HE BELIEVES THAT SOMETHING POSITIVE CAN BE ACHIEVED. THE PRESIDENT'S SPEECH ON CENTRAL AMERICA, MEANWHILE HAS HAD AN EFFECT IN CONGRESS, WITH HIS OPPONENTS FEARING THE CONSEQUENCES OF BEING HELD RESPONSIBLE FOR THE LOSS OF EL SALVADOR (FEW HERE CHALLENGE THE DOMINO THEORY IN CENTRAL AMERICA). IN THE MIDDLE EAST, THE ISRAEL/LEBANON AGREEMENT HAS MENDED US/ISRAELI FENCES, ANOTHER VALUABLE DOMESTIC ACHIEVEMENT SHOULD THE PRESIDENT DECIDE TO RUN AGAIN. ON ARMS CONTROL, THE BIPARTISAN RECOMMENDATIONS OF THE SCOWCROFT COMMISSION HAVE REDUCED OPPOSITION IN CONGRESS TO MX FUNDING. WITH THE LATEST VOTE IN THE HOUSE OF REPRESENTATIVES, THE PRESIDENT IS NOW CLOSE TO SUCCEEDING IN GETTING HIS STRATEGIC FORCES MODERNISATION PROGRAMME THROUGH. TO TAKE ACCOUNT OF THE SCOWCROFT RECOMMENDATIONS AND IN RESPONSE TO CONGRESSIONAL PRESSURE, THE ADMINISTRATION IS NOW REVIEWING THE US POSITION IN START.

/6. IN

6. IN THE USUAL ROLLER-COASTER MANNER OF OPINION IN THIS TOWN, THOSE WHO A FEW MONTHS AGO WERE GIVING LITTLE FOR HIS CHANCES ARE NOW PROFESSING CONFIDENCE THAT THE PRESIDENT WILL STAND AGAIN: AND THAT IF HE DOES, HE WILL WIN. THE PRESIDENT CERTAINLY WILL BE UNDER GREAT PRESSURE TO RUN AGAIN: ALL HIS STAFF ARE SAYING THAT THEY EXPECT THAT HE WILL DO SO. MY OWN FEELING IS STILL THAT HE GENUINELY HAS NOT YET MADE UP HIS MIND. IN ANY EVENT, HE WILL NOT ANNOUNCE HIS INTENTIONS UNTIL THE AUTUMN.

7. THE PRESIDENT, THEREFORE, WILL BE GOING TO WILLIAMSBURG NOT AT ALL IN BAD SHAPE DOMESTICALLY. A SUCCESSFUL SUMMIT WOULD BE A BONUS FOR HIM: BUT HE DOES NOT NEED IT AS A LIFE-LINE. NOR IS IT LIKELY TO AFFECT HIS OWN DECISION ABOUT THE FUTURE- EXCEPT TO THE EXTENT THAT IT CONFIRMS HIS EVIDENT ENJOYMENT OF THE BUSINESS OF BEING PRESIDENT. IF HE DOES STAND AGAIN, HE WILL TAKE SOME STOPPING.

WRIGHT

[THIS TELEGRAM WAS NOT ADVANCED]

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ESID	PS/MR RIFKIND
WED	PS/MR HURD
FED	PS/MR RAISON
NAD	PS/PUS
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PLANNING STAFF	MR EVANS
TRED	MR HANNAY
ESSD	MR THOMAS
EESD	MR DONALD
NEWS D	MR HAYES
PS —PCD	MR ADAMS

ADDITIONAL DISTRIBUTION
ECONOMIC SUMMIT

1. MR COLES - for comment

2. PRIME MINISTER

I think we shall be able to set aside at least 50 minutes for the media at 6.30 on Sunday. We shall have to have it about 7.30. A.J.C. 25/5

PRESS CONFERENCE IN WILLIAMSBURG

I need to take your mind on the timing of your press conference for British journalists before you leave Williamsburg.

Your programme is extremely full and there is the usual additional problem in the United States of British deadlines being 5 hours ahead.

At present there is 30 minutes in your Sunday schedule at 6.30pm USA time (11.30pm London time) for a press conference. This is of course tight given that you also wish to give interviews to BBC, ITN and IRN.

That timing would not get you much coverage in the Monday press (all of which are publishing, apart from the FT, notwithstanding the Bank Holiday). You would also miss the evening TV news bulletins - 9.45 (ITN) and 9.55 (BBC). But you would of course get breakfast and lunchtime TV on Monday and the Monday morning news programmes, including the Today programme.

During the Summit we shall of course try to maximise picture opportunities and there should be no shortage of film or news coverage of your activities.

Your options are constrained by the fact that the whole of Sunday afternoon will be taken up by discussions to 5.00pm, after which there is a drafting session for the final statement (which President Reagan apparently would like you to attend); and then an hour's bilateral with Mitterrand.

On the assumption that you would not wish to see the British media before you have at least a feel for the outcome of the discussions, the possibilities are:

- leave the Sunday afternoon plenary session from 4.00pm to brief the media and do radio and TV before the drafting session at 5.00pm; this would increase newspaper coverage and with a bit of luck achieve the evening TV news programmes;

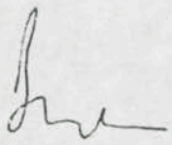
  But would you feel happy about leaving a session, bearing in mind your abbreviated attendance at the Summit, and missing the discussion on part of the US economic thematic paper and East/West economic relations?

- stick to the 6.30pm scheduled time for press conference and radio and TV, accepting that this will minimise newspaper coverage and miss evening TV programmes.

If you agree to the latter there is however one thing I might do to help increase your coverage:

- to feed out some clear guidance on your view of the achievement of the conference after the drafting session and before you go into the bilateral with Mitterrand, if not earlier?

Agree to stick with the 6.30pm schedule and for me to give out some guidance as proposed above at 5.30pm or before if possible?



B. INGHAM

25 May 1983

CONFIDENTIAL

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BF

10 DOWNING STREET

From the Private Secretary

25 May, 1983

Williamsburg: Bilateral with Mr. Nakasone

Thank you for your letter of 20 May.

I should be grateful if a message on the following lines could be conveyed to the Japanese.

The Prime Minister is greatly looking forward to meeting Mr. Nakasone at Williamsburg and would much like a bilateral meeting. Unfortunately, her stay in Williamsburg will be very short since she arrives on Saturday afternoon and leaves little more than 24 hours later. The only possibility we see at present for a bilateral is from 1700-1730 on Saturday. Would this be possible in principle for Mr. Nakasone - if so, we shall seek the Prime Minister's agreement to a firm arrangement. If this timing is not possible, the Prime Minister's staff will see on arrival in Williamsburg whether any other time is possible. The Prime Minister will, in any case, hope to have a good talk with Mr. Nakasone in the margins of the Summit.

A. J. COLES

R. B. Bone, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

SC

Ref. A083/1518

MR COLES

cc Mr Kerr
Mr Bone

Economic Summit, Williamsburg

The United States Personal Representative rang this afternoon about the Prime Minister's press briefing at Williamsburg on the evening of Sunday 29 May, before she departs.

2. He said that in the exceptional circumstances they saw no difficulty in accepting that the Prime Minister should give such a briefing, even though other Heads of State or Government were being asked not to brief until the Conference was over. She would presumably be briefing in place of the Foreign and Commonwealth Secretary on the Sunday evening; other briefings would be provided by Foreign Ministers at this time. They have consulted the other countries concerned, and all saw no difficulty, though some had expressed the hope that the Prime Minister's briefing would be closely based on the agreed conclusions from the afternoon's meeting of Heads of State or Government and would not pre-empt the final declaration.

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

Approved by
ROBERT ARMSTRONG
and signed in his absence

25 May 1983

3.65

CONFIDENTIAL

AJC ok

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

PRIME MINISTER

See record of P.M.'s meeting with President.
A.J.C. 30/5

THE US DEFICIT

In my minute of 4 May I suggested that it would be valuable if, during our forthcoming US visit, you could have a word with the President, in private, about the US deficit. I then had in mind that this might be best done during our visit to Washington just before the Williamsburg Summit; though that is no longer possible, I still think it well worth doing during your bilateral talk with Reagan at Williamsburg. I see from Washington telegram No 1363 that Sir Oliver Wright takes the same view.

2. I don't need to spell out the message which we want to get across: you have already conveyed it to Shultz and Volcker, as indeed I have done with Feldstein, Meese, and of course regularly with Don Regan. But it is getting it across to the President that counts; and you might like to glance at the attached short brief and charts. The brief picks up a suggestion, put to me by Feldstein last month, that the President would be interested in an account of our 1981 Budget, and its effects; and the first of the charts is an improved version of one which I showed Meese during his recent visit.

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

(G.H.)

24 May 1983

MEETING BETWEEN THE PRIME MINISTER AND PRESIDENT REAGAN

Points to make on US economic policy

(i) It is not only in the United States that there is great concern about high US real interest rates. Many of us fear that if they remain high, even more if they rise still further, they will cause enormous damage both to the US and the rest of the world:

- world recovery will be lopsided and difficult to sustain. Because of the damaging effect to investment longer term growth rates will suffer;

- interest rates in other industrial countries will be higher than they might otherwise be because of the importance of the dollar in the world capital markets and the competitive attraction of current dollar rates;

- the resulting high interest rates are a very large part of the immediate pressure on debtor countries;

- by increasing the trade deficit, interest rates and the exchange rate, the high budget deficit means that capital is being attracted to the US. The high exchange rate in turn is causing protectionist pressures in the US and the capital outflow to the US is causing resentment elsewhere at a time when the world needs more efficient long term investment;

(ii) We fear that markets will hold interest rates high unless the US can demonstrate its ability to maintain anti-inflationary monetary policy in a balanced way without distorting capital markets. This requires that the US authorities demonstrate their determination and ability to get a better control - over time - of the structural budget deficit.

(iii) The contrast between recent British and American experience shows the importance of budget deficits for interest rates. We have aimed to reduce our budget deficit (relative to GDP) in each of the last three budgets and the trend is unmistakably downward. At the same time the American deficit has been rising - and is now much larger than ours, an unusual state of affairs, particularly as the UK typically has a higher savings ratio than the US (Chart 1). As a result British long term interest rates were lower than American ones in 1982 for the first time in the post-war period (Chart 2). This is not only because of UK success on inflation which has been matched by similar progress in the US but must also reflect the balance of saving and borrowing in our respective countries.

(iv) The turning point for us came early in 1981, when we were faced with the choice between reducing the budget deficit and raising interest rates to keep monetary conditions under control. Domestic demand had been weak; the budget deficit had risen in the previous year; the exchange rate and interest rates were high. Despite rising unemployment and warnings from many commentators that it would intensify recession, we cut our budget deficit, mainly by raising taxes. The real burden of personal income tax was raised (by failing to increase allowances and thresholds by the inflation rate of 15%); real excise duties were raised (on alcoholic drinks, hydrocarbon oils and tobacco); and a supplementary petroleum duty and a special tax on bank deposits were introduced. The impact on inflationary expectations was as important as the direct financial effects; the message was that the Government was determined to stick to its course of reducing deficits. Since then the exchange rate has fallen to a more sustainable level; after some further upward pressure due to world interest rate levels, long term interest rates have fallen sharply; and domestic demand has been rising at about 3% per annum (Chart 3).

Background

(see also brief on World Economy, especially paragraphs 15-17)

There is some danger of overplaying the link between large budget deficits and high interest rates; other factors, particularly inflationary expectations, also have an important role. Nevertheless, if inflation is to be kept under control over the long-term, the budget deficit should not be monetised and high - perhaps rising - interest rates would be required to raise the necessary long-term finance.

2. Part of the explanation for the high interest rates in the US may be high inflationary expectations. These may in turn derive from the large present and prospective budget deficits and the fear that they may eventually be monetised. Mr Volcker said in Brussels on 19 May that the prospects for future deficits are a major part of the problem of reducing US interest rates in the long term: "This is not a problem that can be solved by pure monetary policy. I am looking ahead rather than at the current situation".

3. The administration argue that it is total world budget deficits that have caused high interest rates rather than just the US one, because the capital markets from which governments borrow are well integrated. There is some truth in this, but the US is a greater culprit (in terms of both the level of and the increase in the budget deficit) than Japan, Germany or the UK (but lesser than France and Italy). The administration's figures for the US Federal deficit are:

Fiscal year	Deficit ($ bill)	GNP ($ bill)	Deficit/GNP (per cent)
1981	80	2872	2.8
1982	128	3033	4.2
1983	225	3194	7.0
1984	203	3489	5.8
1985	205	3807	5.4

There are reasons to believe that the estimates for 1984 and 1985 may be optimistic: the administration has always revised their estimates upwards in the past, and the Congressional Budget Office - probably more impartial - show a rising deficit (in $) rather than a falling one from 1983 onwards. The largest general government deficits expected elsewhere in 1983 are about $40 bn (in Italy and Japan).

4. There is little controversy about the adverse effects of high interest rates.

5. The presentation of the British experience by the Prime Minister should impress the President. It benefits from avoiding a too-direct criticism of American policy. A full interpretation of what happened would involve some qualifications to the simple "points to

make" above. In particular, some of the fall in UK interest rates in 1981-82 is attributable to the fall in US rates rather than to the reduced PSBR. Another strong point to be made is that the UK at the time was just as concerned as the President now is to ease the burden of taxation and give incentives to industry and people; we judged - and have been confirmed in that judgment since - that the rise in taxes in 1981 is not inconsistent with the fundamental target of reducing taxation over the medium term.

CHART 1

US and UK Government Deficits as a percentage of Gross National Product

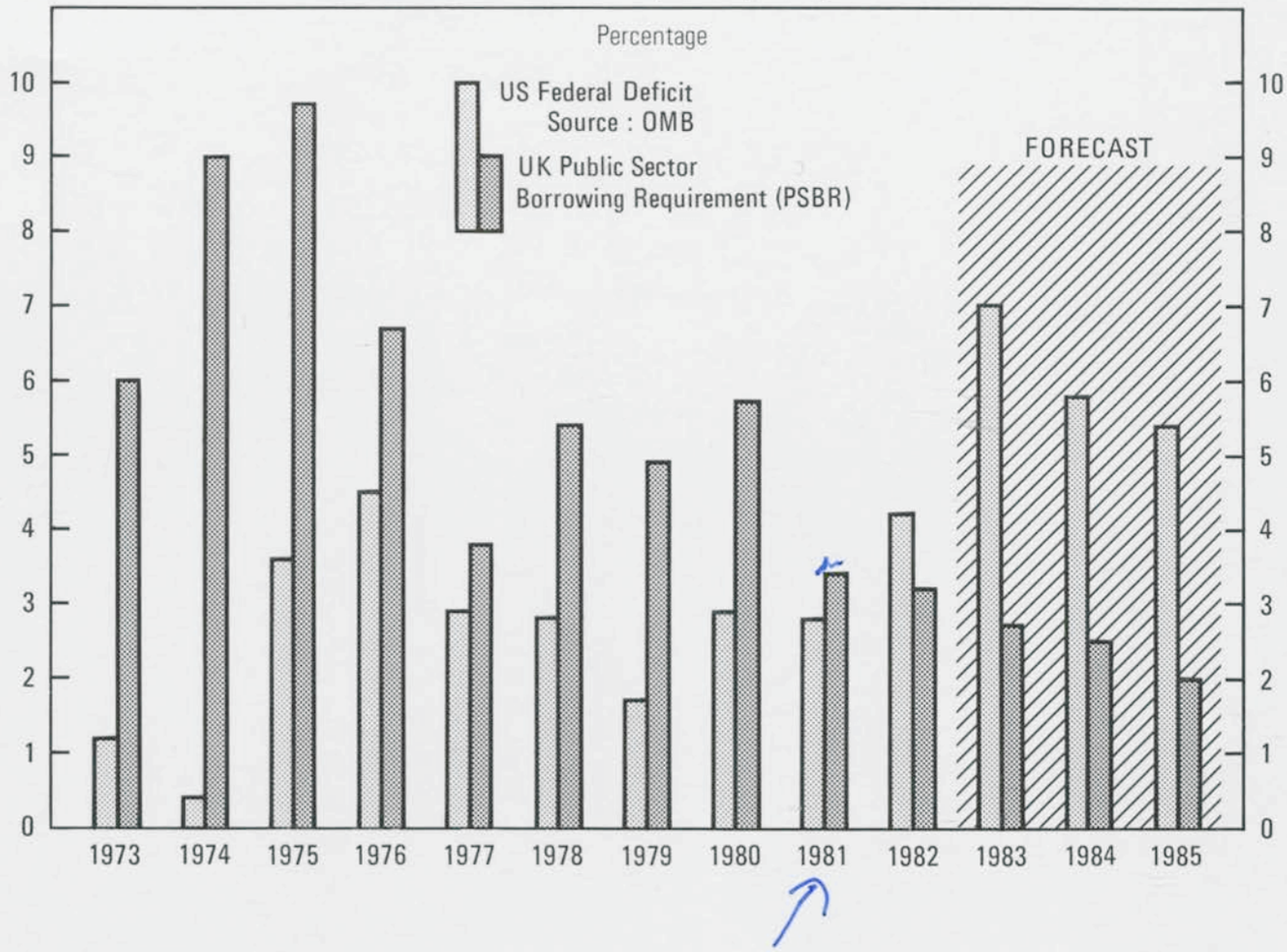


CHART 2

US and UK Long Term Interest Rates

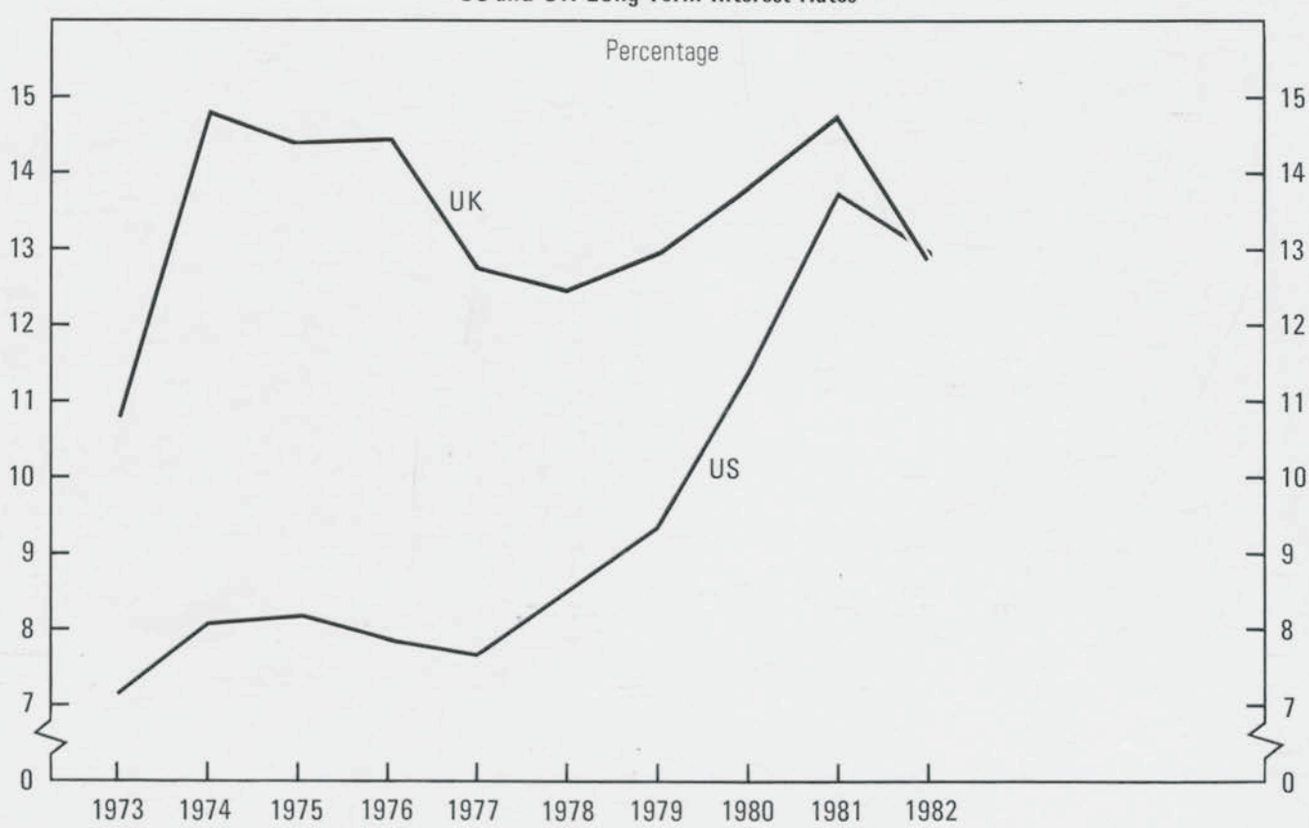
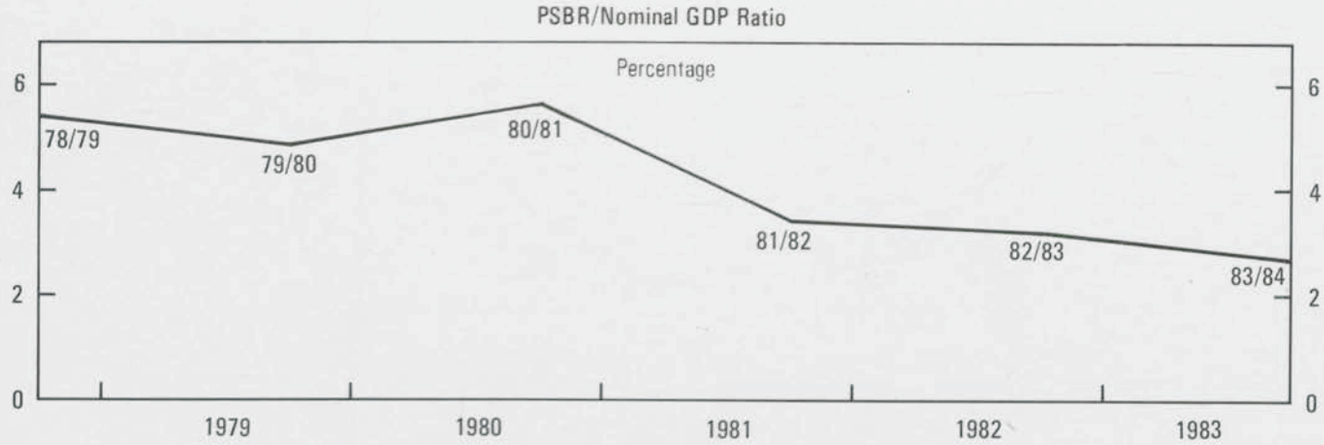
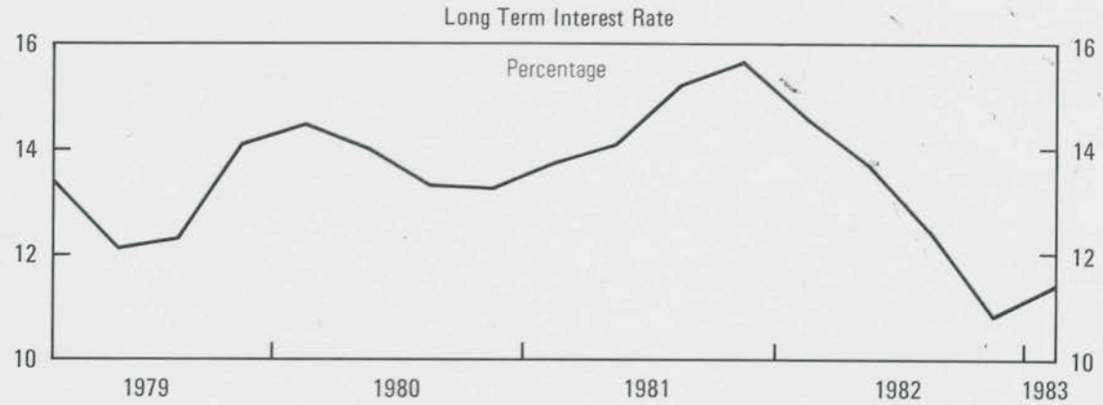
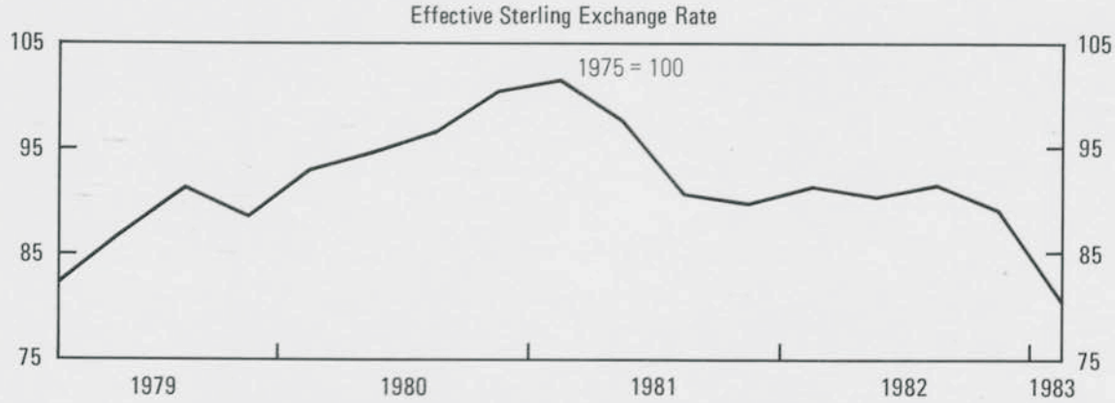


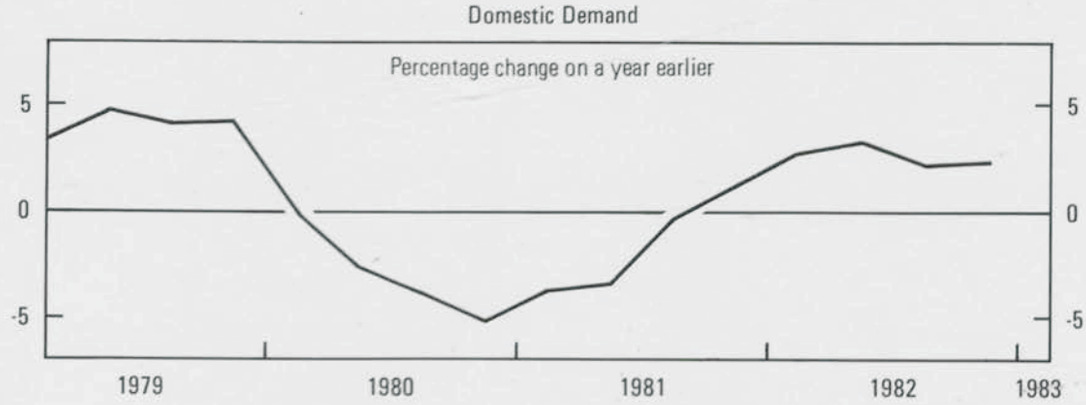
CHART 3

UK PSBR, Interest Rate, Exchange Rate and Domestic Demand









CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

25.5.83

SIR ROBERT ARMSTRONG

Williamsburg

I attach a copy of another message which the Prime Minister has received from President Reagan. I have submitted a draft reply to the Prime Minister and hope that she will be able to look at it tonight.

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

A. J. COLES

SC.

CONFIDENTIAL

SUBJECT

25.5.83

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 70/83

A.J.C. 26/5

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ZEM
C O N F I D E N T I A L VIA CABINET OFFICE CHANNELS WHØ3311

PLEASE DELIVER THE FOLLOWING MESSAGE FROM PRESIDENT REAGAN TO PRIME MINISTER THATCHER.

24 MAY 1983

DEAR MARGARET,

IT WAS GOOD NEWS TO HEAR YOU CAN MAKE IT TO WILLIAMSBURG FOR PART OF THE ECONOMIC SUMMIT MEETING. KNOWING YOU ARE INVOLVED IN A TOUGH ELECTION CAMPAIGN, I APPRECIATE YOUR TAKING TIME TO COME. I WILL BE GLAD TO MEET WITH YOU ON SATURDAY AFTERNOON AFTER YOU ARRIVE. IT WILL HAVE TO BE A SHORT MEETING BECAUSE OF OUR SCHEDULES, BUT I LOOK FORWARD TO IT.

I UNDERSTAND YOU WOULD LIKE TO TALK TO THE PRESS ON SUNDAY EVENING BEFORE YOUR DEPARTURE. I THINK YOU SHOULD, AND WE ARE WORKING TO GET PERMISSION FROM THE OTHER PARTICIPANTS.

WE HAVE DONE EVERYTHING POSSIBLE TO MAKE THIS SUMMIT A SUCCESSFUL AND HARMONIOUS ONE. WE SHOULD STRIVE FOR THIS OBJECTIVE IN THE MEETINGS THEMSELVES AND PARTICULARLY IN THE JOINT STATEMENT WHICH I WILL MAKE TO THE PRESS AT THE CONCLUSION. THIS JOINT PUBLIC STATEMENT WILL BE DRAFTED AFTER YOUR DEPARTURE. I MAY NEED YOUR HELP SUNDAY AFTERNOON WHEN WE INSTRUCT OUR PERSONAL REPRESENTATIVES TO DRAW UP THE FIRST DRAFT OF THE JOINT STATEMENT. ALTHOUGH WE HAVE WORKED HARD WITH THE FRENCH TO IDENTIFY COMMON GROUND, THEY MAY PRESS FOR A DIFFERENT TYPE OF JOINT STATEMENT FROM THE ONE YOU AND I AND HELMUT KOHL WILL PREFER.

ALTHOUGH WE WILL TRY TO ACCOMMODATE LEGITIMATE FRENCH CONCERNS, AND WE DO NOT WISH TO EMBARRASS FRANCOIS MITTERRAND, WE MUST INSIST ON A JOINT STATEMENT WHICH HAS A TONE OF REALISTIC OPTIMISM, AND WE MUST RESIST A CALL FOR A NEW BRETTON WOODS CONFERENCE.

I HOPE I CAN COUNT ON YOUR SUPPORT IN THESE ISSUES, AND THAT MY SHERPA, ALLEN WALLIS, CAN COUNT ON ROBERT ARMSTRONG'S SUPPORT DURING THE DRAFTING SESSIONS.

GOOD LUCK WITH YOUR ELECTION CAMPAIGN. I LOOK FORWARD TO SEEING YOU ON SATURDAY. IF THERE IS ANY WAY YOUR SCHEDULE WOULD

END OF PAGE Ø1

ALLOW YOU TO STAY THROUGH MONDAY, IT WOULD BE A GREAT HELP TO ME.

SINCERELY,

RON

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£3311

NNNN

CONFIDENTIAL

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

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

Sir Robert Armstrong GCB CVO

Ref. A083/1504 24 May 1983

Dear Geoffrey,

Economic Summit: Williamsburg

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

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

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

* by close of play tomorrow

/I am

J G Littler Esq CB

CONFIDENTIAL

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

ROBERT ARMSTRONG

DRAFT DECLARATION

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

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

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

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

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

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

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

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

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

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

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

process by a high level international monetary conference.

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

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

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

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

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

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

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

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

(1) the need for orderly and effective adjustment in the borrowing country;

(2) the provision of balance of payments financing by the International Monetary Fund, subject to appropriate conditions;

(3) the readiness of Governments and central banks to act quickly in response to debt emergencies, in advance of negotiations with creditors and the IMF;

(4) the readiness of commercial banks to roll over or restructure existing debts and to increase their net lending to developing countries, subject to the limits of commercial prudence;

(5) the achievement of sound and sustainable recovery in the industrialised countries, as a foundation for lower interest rates and increased trade between developed and developing countries.

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

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

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

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

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

Ref. A083/1505

MR COLES AR 26/5

Economic Summit: Williamsburg

Thank you for your minute of 24 May, attaching a copy of the message which the Prime Minister has received from President Reagan.

2. On the economic side it contains no surprises: it is consistent with the United States thematic paper and with our discussion of it at the final meeting of Personal Representatives in Paris a fortnight ago.

3. I was, however, surprised to see that he hoped for a public statement from the Summit on INF, since it had been suggested at the final meeting of Personal Representatives that that proposal ought not to be proceeded with unless Heads of State or Government were unanimously in favour of a statement, and I was given to understand that, following the meeting between President Mitterrand and Chancellor Kohl in Paris, a message had gone to President Reagan to say that neither President Mitterrand nor Chancellor Kohl thought that a statement on INF should be issued at Williamsburg.

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 Defence; and to Sir Julian Bullard.

RTA

ROBERT ARMSTRONG

24 May 1983

Econ Summit

file KB

cc AJC

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

ECONOMIC SUMMIT: WILLIAMSBURG

I attach withthis minute a copy of a message which the Prime Minister has just received from President Reagan.

The President suggests how discussion of economic issues at the Summit might be organised, indicates how he envisages the joint statement on economic questions being prepared, suggests a strong re-affirmation of the commitment to reverse protectionism and to move towards liberalisation of trade and confirms that he hopes fora public statement by the Summit on INF.

The message does not appear to require a reply.

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

A. J. COLES

24 May 1983

DVP

EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

May 24, 1983

p.a.
AR 27/5

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.

Sincerely,

John J. Louis, Jr.
Ambassador

Enclosure

CONFIDENTIAL

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

SUBJECT

24.5.83

CONFIDENTIAL

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T69/83

Dear Margaret,

I look forward to greeting you in a few days in Williamsburg.

The preparations for our meeting have been comprehensive and thorough. In the revised thematic paper, we have identified all of the serious issues we might address and on which we might decide to make public commitments. I do not anticipate that we will actually cover all these issues and certainly our discussion should not be limited to the preparatory materials. But I am sure you agree with me that in the preparatory work we have laid an excellent basis for our discussion at the Summit.

Let me offer some ideas as to how we might organize our discussion of the economic issues. We can review this agenda at our opening dinner on Saturday night and make any changes we wish. I am seeking only to stimulate your thinking before we arrive in Williamsburg.

At our heads only session on Sunday morning, I envision a general wide-ranging discussion of our respective approaches to the achievement of sustained non-inflationary domestic and world economic recovery. In this discussion, we might touch on many of the ideas contained in the first two sections of the thematic paper:

--Our domestic policies for non-inflationary, sustained growth;

--An assessment of our progress and persisting problems, both at home and abroad;

--An evaluation of convergence among our economies;

--The role of trade in achieving non-inflationary, sustained growth, especially in relations with developing countries;

--The role of finance in supporting trade and growth in the world economy;

--The coordination of trade, debt and finance issues and institutions to promote longer-term development; and

--An assessment of the underlying human and moral purpose of our economic efforts.

CONFIDENTIAL

In the afternoon, we can pick up more specific matters with our ministers. This discussion might include many of the items identified in the third and fourth sections of the thematic paper. The organization of the discussion into the short and long term elements of a Williamsburg program for economic recovery and growth seems to me to be quite appropriate. It corresponds to the integrated manner in which we are dealing with subjects at this Summit, and avoids the compartmentalization of the agenda, an objective we have sought since the outset of our preparations.

By the end of that first day's discussion, I hope that we will have identified most key elements of the message we will issue from Williamsburg. We can then discuss with our personal representatives the structure, tone and key themes of the Williamsburg message. I do not anticipate protracted negotiations of the joint statement if we issue full instructions to our personal representatives and ask them to confer periodically with us, perhaps at coffee later that evening, to clarify issues and to obtain our guidance. As we agreed at the beginning of our preparations, this statement should be a message that we personally design and develop to reflect our unique responsibilities as heads of government and state of the major industrial democracies.

I am excited by the prospect of our gathering. The economic situation is unquestionably improving. We want to build on this progress to meet continuing dangers in a spirit of realistic optimism. This spirit should recognize that the success of each of our countries is linked to the success of all our countries and indeed to the success of all countries of the free world. The only solution for ourselves and for the youth, who comprise the successor generations, is durable growth. We need to convey from Williamsburg a medium-term strategy that offers hope for such growth, and I hope that we can do so in part through the short annex to our joint statement on improving economic convergence.

In addition, building on the fine work done at the OECD Ministerial conference, I would favor a strong reaffirmation of our commitment to reverse protectionism and to continue to move, also in the medium-term, toward further liberalization of trade, especially with developing countries. This commitment provides the underlying rationale for seeking greater international monetary stability and financial soundness.

Finally, all of our economic effort is related to the expression and preservation of our shared democratic values and our security. Among the security issues we will discuss, perhaps the most important for this year will be INF where I believe we are in broad agreement. I therefore hope that we will be able to express publicly our continuing shared commitment to deploy intermediate range nuclear forces this fall at the same time that we pursue unremittingly the quest for effective arms control agreements.

I await your arrival at Williamsburg with great eagerness.

Sincerely,

/s/

Ron

(1).

A. S. C. 27/5

PRIME MINISTER

WILLIAMSBURG: BILATERAL MEETINGS

We have made the following firm arrangements:

Saturday 28 May

1730-1815 : Chancellor Kohl
1820-1905 : President Reagan

Sunday 29 May

1730-1830 : President Mitterrand

I should be grateful for your decisions on various points.

(a) Mr. Fanfani has been pressing quite hard for a bilateral. I do not think we can fit him in - and the latest assessment suggests that he may not be Prime Minister of Italy by the end of this month. I suggest that you make a point of singling him out at one of the receptions or meals for a talk. May we confirm that you will be happy to have an informal chat of this kind with him?

(b) Mr. Nakasone has announced that he is having bilateral meetings with Reagan, Kohl, Mitterrand and Fanfani. At the moment you are a conspicuous omission from the list. He has also made it clear privately to us that he would very much welcome a bilateral with you, however short. I do not think we should try to fit this in on Sunday because you are likely to want to devote your very limited free time then to the British media. Would you be prepared to see him at 1700 hours on Saturday, bearing in mind that you will have reached Williamsburg little more than an hour earlier and that you have bilaterals with Chancellor Kohl and President Reagan that afternoon as well?

/ (c)

(c) Finally, attendance at your talk with President Reagan. The Americans say (but I doubt whether it is the President speaking) that he will have with him Shultz, Regan, Clark and Wallace. This would suggest that you should be accompanied by the Chancellor, the Foreign Secretary, Sir Robert Armstrong and one other. But I think it would be a great pity if your brief time with Reagan involved such a large gathering. Would you like me to put the suggestion to the White House that you should see him entirely alone - or with one note-taker each? ~~beside?~~

Alone - not the mass meeting, ok

A.J.C.

24 May 1983

File

10 DOWNING STREET

From the Private Secretary

24 May 1983

WILLIAMSBURG SUMMIT: ARMS CONTROL

I should be grateful if you would refer to the brief which has been provided on this subject for the Prime Minister (PM VZ(83)11).

As the Prime Minister is unlikely to have an opportunity to consider this brief before her flight to the United States on Saturday, and as she is likely to be opening a discussion of arms control at dinner in Williamsburg on Saturday night, it is desirable that the brief should be fully self-explanatory. I think that in its existing form it will raise a number of questions in Mrs. Thatcher's mind. I list these below.

Paragraph 5

In present political circumstances, and given the danger of the contents of the dinner table discussion being leaked, I am rather doubtful whether the Prime Minister will wish to open up a debate on the longer-term implications of third country nuclear forces for strategic arms control. Secondly, in previous public references to this issue, the Prime Minister has always been careful to stress that she cannot speak for the French Government.

Paragraph 6

I doubt if Mrs. Thatcher will wish to say that the Scowcroft Report opens up interesting new possibilities without being clear in her own mind as to the nature of those possibilities. It is not entirely clear to me whether the possibilities are simply those described in paragraph 17 of the background brief - these appear to be little more than possible adjustments in the US negotiating position.

I think it would also be helpful if the Prime Minister were made aware of the adjustments to the Soviet position in the START talks which may be required as a result of Andropov's 3 May speech.

Paragraph 7

If the Prime Minister is to refer to the possibility of "an early outline framework agreement on START" I believe that she will need a rather fuller description of what would be involved than is provided by paragraph 17 of the background brief.

/ Paragraph 8

Paragraph 8

Could more background also be provided on the reference to a new US proposal for arms control in space?

Paragraph 10

On the assumption that the idea of a Summit statement on INF is still alive, it would be helpful if I could have a copy of the draft which has been under consideration.

Finally, I think the Prime Minister would find it helpful to have a brief note on the position of other Summit participants, in particular with regard to the INF talks. Mrs. Thatcher is of course familiar with the American, German and French positions but would, I am sure, find useful a few sentences on the position of Japan, Canada and Italy (the latter with particular reference to a possible change of Government later this month).

B/F

You may think that the simplest way of dealing with these points would be to produce a revised brief. It would be helpful if I could have this by midday on Thursday at the latest. You may want to have a word on the telephone about some of the above points.

I am sending copies of this letter to Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

A. J. COLES

R. B. Bone, Esq.,
Foreign and Commonwealth Office.

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MR MCMAHON BANK OF ENGLAND

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MS BOYS DEPT OF ENERGY
MISS DICKSON DEPT OF ENERGY

SENT
23 MAY 1983

CONFIDENTIAL
FM TOKYO 230720Z MAY 83
TO IMMEDIATEF C O
TELEGRAM NO 275 OF 23 MAY
RFI PRIORITY WASHINGTON, BONN, PARIS AND UKREP BRUSSELS.

WILLIAMSBURG SUMMITT.

1. THE JAPANESE PRIME MINISTER INVITED THE AMBASSADORS OF THE SUMMIT COUNTRIES TO LUNCH TODAY.

2. MR NAKASONE STRESSED THE IMPORTANCE WHICH HE ATTACHES TO MEETING INDIVIDUALLY THE VARIOUS HEADS OF GOVERNMENT. THE FORTHCOMING SUMMIT WAS A CRUCIAL ONE. HE HAD HEARD FROM ASIAN COUNTRIES AND FROM KOREA, WHICH HE HAD VISITED, OF THE EXTENT OF THEIR EXPECTATIONS FROM THE SUMMIT. THE SUCCESS OF THE SUMMIT WOULD BE A SIGN OF THE MATURITY OF WESTERN DEMOCRACY.

3. THE U S AMBASSADOR (FORMER SENATOR MANSFIELD) STRESSED PRESIDENT REAGAN'S DESIRE FOR AN INFORMED AND PRODUCTIVE SUMMIT. HE NOTED THAT THE RECENT IEA AND OECD MEETINGS HAD RESOLVED SOME OF THE MORE IMPORTANT PROBLEMS. WESTERN ECONOMIES WERE BEGINNING TO RECOVER, BUT THE PROBLEM OF UNEMPLOYMENT WAS VERY SERIOUS AND INEVITABLY LED TO PROTECTIONIST PRESSURES. MANSFIELD ENDED ON AN UNHELPFUL NOTE BY STRESSING THAT ASIA WAS BADLY UNDER-REPRESENTED AT THE SUMMIT. HE HOPED THAT ASIA AND THE PACIFIC WOULD BE BETTER REPRESENTED IN FUTURE, REMARKING THAT ''THE PACIFIC IS THE AREA OF THE FUTURE''.

4. PICKING UP MANSFIELD'S POINT ABOUT UNEMPLOYMENT, I THANKED MR NAKASONE FOR HIS EFFORTS TO INCREASE JAPANESE

4. PICKING UP MANSFIELD'S POINT ABOUT UNEMPLOYMENT, I THANKED MR NAKASONE FOR HIS EFFORTS TO INCREASE JAPANESE IMPORTS OF MANUFACTURES AND SAID THAT WE WERE LOOKING EXPECTANTLY FOR THE RESULTS TO COME THROUGH. THE ITALIAN AND FRENCH AMBASSADORS BOTH STRESSED THE IMPORTANCE OF STABILITY IN EXCHANGE RATES.

5. MR NAKASONE, WHO SPOKE IN JAPANESE, SHOWED HIMSELF CONFIDENT AND IN COMMAND OF THE SITUATION. I AM SURE THAT THE PRIME MINISTER WILL FIND HIM A MUCH MORE INTERESTING AND AGREEABLE INTERLOCUTER THAN MR SUZUKI.

6. IN A WIDE-RANGING CONVERSATION OVER LUNCH WITH MR NAKASONE I EMPHASIZED THE IMPORTANCE WHICH WE ATTACH TO EFFECTIVE INDUSTRIAL COLLABORATION AND OUR REGRET THAT NISSAN HAD STILL NOT MADE UP ITS MIND ABOUT INVESTMENT.
MR NAKASONE NOTED THE CONTINUING OPPOSITION OF THE NISSAN UNION, WHICH WAS PREVENTING A DECISION BY MR KAWAMATA DESPITE MR ISHIHARA'S SUPPORT FOR THE PROJECT.

7. MR NAKASONE EXPRESSED HIS ADMIRATION FOR MRS THATCHER PERSONALLY AND FOR HER POLICIES. ON HIS VISIT TO SOUTH EAST ASIA HE HAD CLEARLY BEEN PARTICULARLY IMPRESSED BY LEE KUAN YEW, BUT ALSO BY MAHATHIR.

CORTAZZI

NNNN

As Prime Minister has said, the presence of Heads of State at New York would be a collective manifestation of political will to grapple with major world problems in a spirit of cooperation: That it would help reduce international tensions and initiate a process which, we think, will make the political climate more conducive to finding solutions to problems.

2. The role of the United Nations has been seriously eroded in recent years. The UN Secretary General, in his report to the last GA described the world as perilously close to a "A new international anarchy". The proposed gathering at New York would demonstrate the world's confidence and faith in the UN machinery. It will be a symbolic reaffirmation on the part of one and all of the purposes and principles of the UN Charter.

3. The UN provides an independent stage for exploring, formally and informally, in small and large get-togethers, approaches for solutions to difficult and complex problems. We are aware that there are many differences on major issues, but the Assembly will provide an opportunity for listening to one another's analysis of the world's ills.

4. For the leaders of major powers, it will be a rare opportunity to meet a large cross-section of leaders of thegreat majority of less powerful and less privileged countries. We think this in itself could start off a process of greater mutual understanding on divisive issues.

5. Several world leaders had assembled at the 1960 session of the General Assembly when tensions were

as great, if not worse than they are now. Despite the fact that there was a good deal of bitterness and mutual recrimination in the general debate that took place then, the meeting provided opportunities for numerous formal and informal contacts. These in turn did give rise to a process of consultations and negotiations which resulted in several useful nuclear arms control measures in the decade of the sixties. The decade of the seventies and the early eighties have been totally barren in this respect, and we think the proposed gathering at New York cou'd set off the reverse trend.

6. It is not our intention to accuse or embarrass any of the great powers at New York. Our purpose is not to raise converversies or level charges but to provide an opportunity for sincere, face-to-face exchanges of perceptions on major issues between world leaders to help clear the air, generate greater tolerance of one another's viewpoint and induce a mood of willingness to compromise for the common good of humanity. Even though the great majority of countries are unable to contribute much to solutions of problems like Palestine and the nuclear arms race, their views and feelings are important and they should have an opportunity of sharing their anxiety with their more powerful contemporaries.

(7) Our own general thinking is that the Heads of State meeting could commence on September 26 and last for about a week. We have no set pattern in mind for the gathering and we are entirely open in the matter of procedures that should be adopted nor are we thinking in terms of cast-iron agreement or partisan resolutions. Perhaps the Assembly could adopt a brief declaration enshrining a general reaffirmation of commitment to general principles. Such a document could be prepared after extensive prior consultation. But even this is optional and subject to everyone's agreement.

..3.

8. Modalities of formal and informal meetings of a general debate if one is considered necessary and other aspects will need to be worked out carefully in consultation with the UN Secretary General. This task could be entrusted to the Permanent Representatives in New York.

(INDIAN HIGH COMMISSION,
23 MAY)

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TELEGRAM NUMBER 378 OF 21 MAY

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Register

WILLIAMSBURG AND THE UNGA SUMMIT

1. RASGOTRA (PUS IN THE FOREIGN MINISTRY) SUMMONED AMBASSADORS OF THE WILLIAMSBURG SEVEN TO A JOINT MEETING YESTERDAY EVENING. HIS MESSAGE, HE SAID, WAS POLITICAL NOT ECONOMIC. WE WERE ASKED TO PASS ON TO OUR GOVERNMENTS INDIA'S ''FERVENT PLEA'' THAT THE WILLIAMSBURG MEETING SHOULD GIVE FAVOURABLE CONSIDERATION TO THE NAM PROPOSAL FOR A SUMMIT MEETING AT THE UNGA IN THE AUTUMN. INDIAN AMBASSADORS WERE BEING INSTRUCTED TO MAKE PARALLEL REPRESENTATIONS IN OUR CAPITALS.

2. IT SEEMS CLEAR THAT THE INDIANS ARE BEGINNING TO PANIC ABOUT THE DAMAGE TO MRS GANDHI'S PRESTIGE IF NO ADEQUATE UNGA SUMMIT TAKES PLACE SEMICOLON AND ARE THEREFORE ANXIOUS TO PERSUADE THE WEST THAT THE NAM WILL NOT USE THE OCCASION FOR POLEMICS OR CONFRONTATION.

3. RASGOTRA'S MAIN POINTS WERE AS FOLLOWS:

(A) INDIA'S PROVISIONAL IDEA WAS A WEEK-LONG SUMMIT FROM 26 SEPTEMBER, IE THE SECOND WEEK OF THE SESSION. BUT ALTERNATIVES WERE POSSIBLE.

(B) INDIA WAS MAKING A SUGGESTION NOT A DEMAND. THE SUMMIT WOULD NOT SOLVE THE WORLD'S PROBLEMS. BUT IT COULD MAKE A BIG DIFFERENCE TO THE ATMOSPHERE OF THE NORTH-SOUTH AND EAST-WEST DIALOGUES. THE 1960 SUMMIT HAD HELPED TO MAKE THE SIXTIES A GOOD DECADE FOR ARMS CONTROL. THE SEVENTIES HAD BEEN MUCH MORE BARREN. IT WAS TIME TO TURN THE TIDE IN THE EIGHTIES.

(C) DECISIONS WOULD BE BY CONSENSUS, NOT MAJORITY. IT MIGHT BE THAT THE ONLY RESOLUTION EMERGING FROM THE SUMMIT WOULD BE A REAFFIRMATION OF EXISTING UN PRINCIPLES. ANYTHING MORE WOULD COME ABOUT ONLY IF CONSULTATION OVER THE NEXT 2-3 MONTHS REVEALED WIDER AREAS OF AGREEMENT BY ALL PARTIES.

(D) THE SUMMIT WOULD NOT NEED AS METICULOUS PREPARATION AS A BILATERAL OR REGINAL ONE. BUT IF THE RESPONSE WAS FAVOURABLE INDIA WOULD BE READY THIS SUMMER TO RUSH TASK FORCES TO THE MAJOR CAPITALS INVOLVED FOR ADVANCE CONSULTATIONS ON ORGANISATION AND SUBSTANCE, AS SHE HAD SUCCESSFULLY DONE WITH ABOUT HALF THE NAM MEMBERSHIP IN ADVANCE OF THE NEW DELHI SUMMIT.

(E) THE UN HAD BEEN CHOSEN AS THE SETTING FOR THIS SUMMIT BECAUSE IT BELONGED TO US ALL AND THERE WAS A GENERAL FEELING THAT IT SHOULD BE MADE MORE USE OF. ATTENDANCE WOULD SYMBOLISE, BY ACTION RATHER THAN WORDS, EACH COUNTRY'S COMMITMENT TO THE PRINCIPLES OF THE CHARTER.

(F) ONGOING NEGOTIATIONS EG ON NAMIBIA WOULD NOT BE INTERRUPTED. SUCH ISSUES NEED NOT BE ADDRESSED AT ALL. INDIA HAD AN OPEN MIND. EVEN A GENERAL DEBATE COULD BE AVOIDED IF IT WAS NOT WANTED. THE MOST IMPORTANT FEATURE OF THE SUMMIT WOULD BE SMALL GATERINGS OF KEY LEADERS, EG UNDER THE SECRETARY-GENERAL'S AUSPICES (NOT INDIA'S). AN INNER CAUCUS, EG OF CANCUN POWERS, MIGHT BE ONE ELEMENT. THE ESSENTIAL POINT WOULD BE FOR THE LEADERS TO GET TO KNOW EACH OTHER'S CHARACTERS AND PREOCCUPATIONS.

(G) THE EAST HAD NOT YET SHOWN ITS HAND ON THE SUMMIT PROPOSAL ANY MORE THAN THE WEST. IT WAS NOT KNOWN WHICH EASTERN LEADERS MIGHT ATTEND. NAM LEADERS WERE UNANIMOUSLY IN FAVOUR OF THE SUMMIT BUT NOT ALL OF THEM WOULD IN FACT BE THERE. INDIA HOPED FOR PERHAPS 50-70 HEADS OF STATE OR GOVERNMENT IN ALL.

(H) THE SUMMIT WOULD NOT DISCUSS MODALITIES FOR THE PROPOSED CONFERENCE ON MONEY AND DEVELOPMENT FINANCE. BUT GENERAL NORTH-SOUTH ECONOMIC ISSUES WOULD OF COURSE FEATURE.

(I) IT WOULD BE HELPFUL IF OUR PERMANENT REPRESENTATIVES IN NEW YORK COULD BE INSTRUCTED TO DISCUSS IDEAS ABOUT THE SUMMIT WITH THE INDIANS AND OTHERS THERE. THE SECRETARY-GENERAL TOOK A FAVOURABLE ATTITUDE AND HAD RESPONDED POSITIVELY TO MRS GANDHI'S APRIL LETTER ABOUT THE NEW DELHI MESSAGE.

(J) THE PRESENT APPROACH WAS NOT DIRECTLY CONNECTED WITH MRS GANDHI'S MORE GENERAL LETTER TO THE WILLIAMSBURG SEVEN, WHICH HAD BEEN DESPATCHED ON 9 MAY (MOST OF US SAID WE WERE NOT AWARE THAT IT HAD YET BEEN RECEIVED).

(K) INDIAN DID NOT UNDERSTAND WHY SOME IN THE WEST REGARDED THE NAM AS ANTI-WESTERN (SIC).

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TELEGRAM NUMBER 404 OF 21 MAY 1983
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WILLIAMSBURG SUMMIT

1. THE SECRETARIAT SENT US LATE YESTERDAY EVENING (20 MAY) FOR FORWARDING A LETTER FROM THE SECRETARY-GENERAL TO THE PRIME MINISTER ABOUT THE WILLIAMSBURG SUMMIT.

2. TEXT IS AS FOLLOWS. ORIGINAL WILL BE IN BAG LEAVING HERE ON 24 MAY

BEGINS

DEAR PRIME MINISTER,

AS YOU WILL SHORTLY BE PROCEEDING TO WILLIAMSBURG, I AM TAKING THE OCCASION TO SHARE A FEW THOUGHTS WITH YOU, FROM THE PERSPECTIVE OF THE UNITED NATIONS, ON THE PRESENT CRITICAL JUNCTURE IN THE WORLD ECONOMIC SITUATION AND IN NORTH/SOUTH RELATIONS.

IN RECENT MONTHS, I HAVE BEEN IN CONTACT WITH MANY LEADERS OF DEVELOPING COUNTRIES ON THESE MATTERS. DURING THIS PERIOD, I HAVE BEEN HEARTENED BY THE PRAGMATIC AND FLEXIBLE ATTITUDE THAT HAS BECOME EVIDENT ON THEIR PART. THIS TREND HAS BEEN CONFIRMED IN THEIR HIGH LEVEL MEETINGS IN NEW DELHI AND BUENOS AIRES.

I AM EQUALLY ENCOURAGED BY THE OUTCOME OF THE RECENT MINISTERIAL MEETING OF OECD, FOR I BELIEVE THAT A RESPONSIVE ATTITUDE IS NECESSARY ON ALL SIDES IF RESULTS ARE TO BE ACHIEVED. WILLIAMSBURG PROVIDES A MOST TIMELY OPPORTUNITY TO CARRY THAT PROCESS FURTHER AS DOES THE FORTHCOMING SIXTH SESSION OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT IN BELGRADE.

IT SEEMS TO ME THAT A MAJOR EFFORT IS NOW REQUIRED TO GIVE A CONCRETE FORM TO THE PRESENT PROMISING TRENDS.

THE ECONOMIC SITUATION FACING MOST OF THE DEVELOPING COUNTRIES IS STILL EXTREMELY DIFFICULT. OVERALL, 1983 WILL MARK THE THIRD YEAR OF DECLINING PER CAPITA INCOMES IN THESE COUNTRIES. IN THE FACE OF SUCH ADVERSITY, DOMESTIC ADJUSTMENT IN DEVELOPING COUNTRIES IS INEVITABLE. INDEED SUCH PROGRESS

/ HAS BEEN

HAS BEEN MADE IN THIS RESPECT, BUT THE PROCESS NEEDS TO CONTINUE. CLEARLY SUCH ADJUSTMENT WILL BE MORE SUCCESSFUL AND BEARABLE IF THE EXTERNAL ENVIRONMENT IS MORE CONDUCIVE TO DEVELOPMENT. THE RECOVERY IN THE INDUSTRIAL COUNTRIES, SIGNS OF WHICH ARE NOW BEING CONFIRMED IN SEVERAL OF THEM, WILL UNDOUBTEDLY HELP IMPROVE THE SITUATION IN DEVELOPING COUNTRIES. BUT INDICATIONS ARE THAT THE RECOVERY IN THE INDUSTRIAL WORLD MAY NOT, AT LEAST IN THE INITIAL STAGES, BE STRONG ENOUGH. FURTHERMORE, THERE IS AN INEVITABLE TIME LAG INVOLVED IN THE BENEFITS OF SUCH RECOVERY BEING TRANSMITTED TO DEVELOPING COUNTRIES.

IN SUCH CIRCUMSTANCES, IT APPEARS TO ME THAT FOUR AREAS DESERVE PARTICULAR ATTENTION AT THE INTERNATIONAL LEVEL:

- STRENGTHENING THE LIQUIDITY POSITION OF DEVELOPING COUNTRIES: SERIOUS THOUGHT COULD BE GIVEN TO A SPECIAL ALLOCATION OF SDRS,

- INCREASING AID, ESPECIALLY THROUGH MULTILATERAL INSTITUTIONS, AND COMMERCIAL FINANCE (INCLUDING PRIVATE INVESTMENT),

- STRENGTHENING AND STABILIZING OF COMMODITY MARKETS AND EARNINGS,

- HALTING AND ROLLING BACK PROTECTIONIST MEASURES AGAINST DEVELOPING COUNTRIES.

IN THE LONGER RUN, REINVIGORATED DEVELOPMENT IN THE DEVELOPING COUNTRIES WILL NOT BE SUSTAINABLE IF THE WORLD ECONOMY DOES NOT ACHIEVE HIGHER GROWTH. THIS IS WHY I TAKE HEART FROM THE EMPHASIS NOW BEING GIVEN IN THE INDUSTRIAL COUNTRIES TO TURN TOWARDS POLICIES TO PROMOTE NON-INFLATIONARY GROWTH AND EMPLOYMENT. I WELCOME THE PROSPECT THAT WILLIAMSBURG MAY MARK A TURNING POINT IN THIS REGARD THROUGH THE FORMULATION OF POLICIES AIMED AT BRINGING DOWN INTEREST RATES, REDUCING VOLATILITY IN EXCHANGE RATES, AND CONTAINING PROTECTIONIST PRESSURES.

THE SEVERITY OF CURRENT ECONOMIC DIFFICULTIES HAS PROMPTED IMPORTANT QUESTIONS, INCLUDING IN THE INDUSTRIAL COUNTRIES, ON THE FRAMEWORK OF INTERNATIONAL ECONOMIC RELATIONS COVERING THE TRADING, MONETARY AND FINANCIAL SYSTEMS. I WOULD NOT BELITTLE THE DIFFICULTIES INVOLVED IN TACKLING SUCH COMPLEX PROBLEMS, BUT THE SIXTH SESSION OF UNCTAD PROVIDES AN IMPORTANT OPPORTUNITY TO DEAL WITH THEM.

/ A SUCCESSFUL

A SUCCESSFUL CONFERENCE IN BELGRADE WOULD GREATLY IMPROVE THE CLIMATE OF INTERNATIONAL COOPERATION AND HELP EASE DIFFERENCES THAT EXACERBATE POLITICAL TENSIONS. SUCH AN OUTCOME WOULD ALSO ALLOW A FRESH LOOK AT THE WIDER ISSUE OF GLOBAL NEGOTIATIONS WHICH IS ON THE INTERNATIONAL AGENDA.

POSITIVE DEVELOPMENTS FOR THE FUTURE GREATLY DEPEND UPON YOUR DELIBERATIONS IN WILLIAMSBURG. AS THE LEADERS OF KEY INDUSTRIAL COUNTRIES YOU ARE UNIQUELY PLACED TO GIVE THE NEEDED IMPULSE TO ACTIONS THAT CAN HAVE FAR-REACHING BENEFITS BOTH DOMESTICALLY AND INTERNATIONALLY. YOU ARE DEEPLY CONSCIOUS, I KNOW, OF THE CLOSE RELATIONSHIP BETWEEN THE ECONOMIC AND SOCIAL WELL-BEING OF PEOPLES, AND THE PEACE AND SECURITY OF NATIONS. IT IS IN THIS SPIRIT THAT I AM COMMUNICATING THESE THOUGHTS TO YOU.

PLEASE ACCEPT, PRIME MINISTER, THE ASSURANCES OF MY HIGHEST CONSIDERATION.

JAVIER PEREZ DE CUELLAR

ENDS

THOMSON

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10 DOWNING STREET

From the Private Secretary

20 May 1983

I enclose a copy of a letter the Prime Minister has received from Mrs. Gandhi. Mrs. Gandhi sets out some of the concerns of the Non-Aligned Movement which she hopes might be discussed at the Williamsburg Summit. I should be grateful for your advice on Mrs. Gandhi's letter and, if necessary, for a draft reply for the Prime Minister's signature. You will no doubt wish to consider whether this should be despatched before or after the Summit. It would be helpful to have your advice as soon as possible.

BHF

I am sending copies of this letter and its enclosure to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

W. F. S. RICKETT

Roger Bone, Esq.,
Foreign and Commonwealth Office.

BTC

File

28

20 May 1983

I am writing to thank you for your letter of 19 May addressed to Mr. Michael Burton in the Foreign and Commonwealth Office, with which you enclosed one from Shrimati Indira Gandhi, the Prime Minister of India, to Mrs. Thatcher. I will place this before the Prime Minister as soon as possible.

CDR

His Excellency Dr. V. A. Seyid Muhammad.

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CONFIDENTIAL

ATC 01V

Foreign and Commonwealth Office

London SW1A 2AH

20 May 1983

A.S.C. 24/5

Dear John,

Williamsburg: Bilateral with Mr Nakasone

You mentioned in the penultimate paragraph of your letter to Brian Fall of 17 May that the Prime Minister would wish to consider in due course whether she could also manage a bilateral with Mr Nakasone at Williamsburg.

I should record that the Japanese Ambassador telephoned Lord Belstead yesterday to convey his Prime Minister's strong wish that a time should be found for a very short bilateral with Mrs Thatcher. The Ambassador pointed out that Nakasone speaks excellent English, which would avoid the delays involved in interpretation. Lord Belstead undertook to ensure that this was conveyed to you. The Embassy have also approached the Department at official level with the same message.

We have told the Embassy that we will let them have a reply as soon as possible.

Yours ever

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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cc Mr. Jackling

MR. COLES

ANTI-AMERICANISM

I have seen a copy of Brian Fall's letter of 18 May. This is a subject which I have discussed on two or three occasions recently with Antony Acland and Julian Bullard.

As the Prime Minister knows from my discussions with her and one or two notes I have sent down, I very much share the anxiety of the FCO on this subject. In particular, I have felt for some time that our dialogue with the White House is not as close, continuing and effective as it ought to be. This is mainly because of the difficulty of finding anyone with whom it is possible to have a serious conversation in the White House staff. By contrast, I have a feeling that our relationship with the State Department is about as good as it could be.

I am, therefore, attracted by the idea of the Prime Minister and the President each designating a personal representative to sit down together in private, look at the problem of our mutual perception, etc. I am less enthusiastic about the Ditchley Park idea. These get-togethers are all very well but their results are ephemeral and everyone tends to go away thinking that they have achieved something, whereas in a month or two's time any effect of the meeting has evaporated.

A.D. PARSONS
19 May 1983

CONFIDENTIAL

INDIA HOUSE,
ALDWYCH,
LONDON, W.C.2.

Dr. V. A. Seyid Muhammad

No. L002/HC/390/83

May 19, 1983

Dear Mr Burton,

I am sending herewith a sealed cover addressed to The Rt. Hon'ble Mrs. Margaret Thatcher, Prime Minister of the United Kingdom from Shrimati Indira Gandhi, Prime Minister of India with the request that it may kindly be forwarded immediately to its high destination.

Yours sincerely,

(V. A. Seyid Muhammad)

Mr. Michael St. E. Burton,
Head of South Asian Department,
Foreign & Commonwealth Office,
King Charles Street,
London SW1

Encl: as above.

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PREPARATIONS FOR WILLIAMSBURG

SUMMARY
1. COMMISSION REPORTED ON THE SHERPAS MEETING 11-13 MAY. THE EC AND THE US WERE MOVING CLOSER TOGETHER ON THE MAIN ISSUES. THE COMMISSION REMAIN HOPEFUL THAT EAST WEST ECONOMIC RELATIONS SHOULD NOT BE A DIVISIVE ISSUE AT WILLIAMSBURG. BUT THEY ARE CONCERNED AT THE PERSISTENCE OF US IDEAS ON REGULAR MEETINGS OF TRADE AND FINANCE MINISTERS OF THE SEVEN.

DETAIL
2. DURIEUX (THORN'S CHEF DE CABINET) REPORTED TO PERMANENT REPRESENTATIVES ON THE LAST SHERPAS MEETING. DISCUSSION HAD CONCENTRATED ON THE US NOTE REVIEWING THE STATE OF PLAY. A REVISED VERSION WOULD BE CIRCULATED AS ONE ELEMENT OF THE RAW MATERIAL FOR THE JOINTLY APPROVED STATEMENT WHICH WILL EMERGE FROM WILLIAMSBURG. BUT DURIEUX EMPHASISED THAT THIS MIGHT BEAR LITTLE RELATION TO THE FINAL PRODUCT. IT MERELY REPRESENTED THE SHERPAS DISCUSSIONS AND PRESIDENT REAGAN WAS DETERMINED THAT THE JOINT STATEMENT SHOULD REFLECT ACTUAL DISCUSSION OF THE SUMMIT.

3. THE MAIN ELEMENTS TO DATE WERE
(A) EWER: THE COMMISSION REMAINED HOPEFUL THAT THIS WOULD NOT BE A DIVISIVE ISSUE AT THE SUMMIT. IT WOULD NOT FIGURE AS AN IMPORTANT PART OF THE STATEMENT ALTHOUGH IN PRACTICE THERE MIGHT BE QUITE A LOT OF DISCUSSION.
(B) NORTH/SOUTH: THIS WOULD BE THE CENTRAL THEME. THE US HAD MADE SOME CONCESSIONS. THE EC REPRESENTATIVES HAD PERSUADED THE US THAT THERE SHOULD BE AN EXPLICIT REFERENCE IN THE STATEMENT TO G77 CONCERNS ON UNCTAD VI. THIS WOULD CONSOLIDATE THE INCREASING INFLUENCE OF THE MODERATE ELEMENTS IN THE G77.
(C) ECONOMIC: THERE WOULD BE A CLEAR REFERENCE TO THE ROLE OF INTEREST RATES AND THEIR CONNECTION WITH PUBLIC SECTOR DEFICITS. THE US WERE NOW PREPARED TO ACKNOWLEDGE THE LINK AND THE ROLE OF GREATER EXCHANGE RATE STABILITY. THERE WOULD ALSO PROBABLY BE AN ANNEX TO THE STATMENT ON THE WORK INITIATED AT VERSAILLES ON COORDINATING THE MACRO ECONOMIC POLICIES OF THE SUMMIT 7.

/(D)

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(D) PROTECTIONISM: US IDEAS ON TRADE LIBERALISATION STILL REMAINED TOO SPECIFIC. THE COMMISSION HAD SUGGESTED REFERENCE TO TRADE IN AGRICULTURE AND EXTRATERRITORIALITY ALTHOUGH THESE WOULD NOT APPEAR IN THE FINAL STATEMENT.

4. DURIEUX'S CONCLUSION WAS THAT WHILE DIFFERENCES OF EMPHASIS REMAINED THE GAP HAD BEEN USEFULLY NARROWED AND A BETTER BALANCE OF INTERESTS WAS EMERGING. QUESTIONED BY THE SMALLER MEMBER STATES HE THEN EXPLAINED, HOWEVER, THAT THE COMMISSION WAS CONCERNED ABOUT CONTINUED US INSISTENCE ON MORE REGULAR MEETINS OF TRADE AND FINANCE MINISTERS. THE US SEEMED TO BE OBSESSED WITH THE IDEA. THE COMMISSION HAD MADE IT CLEAR THAT THIS PRESENTED CONSIDERABLE DIFFICULTIES NOTABLY IN TERMS OF COMPETENCE IN EXTERNAL TRADE POLICY AND THE EXCLUSION OF THE SMALLER MEMBER STATES. SUCH MEETINGS WOULD ALSO UNDERMINE UNCTAD AND THE GATT. HOWEVER THERE WAS NO SIGN THAT THE US WERE TONING DOWN THEIR ASPIRATIONS. IT WAS ESSENTIAL TO ESTABLISH FIRM PROCEDURES FOR FUTURE MEETINGS. THIS WAS CLEAR FROM THE DISARRY OVER EC REPRESENTATION AT THE PARIS MEETINGS DURING THE OECD MINISTERAIL. IF THE EC WAS NOT FIRM IN INSISTING ON ESTABLISHING FIRM GROUND RULES IT WOULD ONLY LOSE OUT. THE ISSUE WAS FAR MORE IMPORTANT THAN THE US RECOGNISED AND DURIEUX THOUGHT THAT THORN WOULD RAISE THE ISSUE AT NEXT WEEK'S FOREIGN AFFAIRS COUNCIL DISCUSSION ON WILLIAMSBURG.

FCO ADVANCE TO:-
FCO - EVANS HANNAY THOMAS CROWE APPLEYARD GOWLLAND YOUNG
CAB - PS/SIR R ARMSTRONG HANCOCK LAMBERT
DOT - GRAY WILLIAMS MEADWAY HEALEY
MAFF - ANDREWS HADLEY
TSY - LITTLER UNWIN

ECONOMIC SUMMIT DISTRUBITION

BUTLER

ADVANCED AS REQUESTED

FRAME EXTERNAL
ECD(E)
ERD

ADDITIONAL DIST
ECONOMIC SUMMIT

cc ATC (1).

PRIME MINISTER

WILLIAMSBURG - MEDIA

You should be aware of the arrangements made so far for dealing with the media on your visit to Williamsburg. This will be an intensely media occasion from your point of view, because of the election, and I would like your guidance in completing my arrangements.

First, before departure, Sir Robert Armstrong has already briefed those British journalists travelling to the Summit. You may well also be asked questions at the party press conferences.

You had agreed to see the American correspondents on the evening of May 25 immediately before leaving. You indicated that you would like to drop this from your programme.

No On the other hand, there remains a slot in your diary that evening; it is an opportunity for you to work yourself into the subject; and it will provide another publicity focus of a helpful kind, for I could get the British cameras and radio tapes in for a short opening statement (which the US radio and tv networks would very much like you to give). Moreover, the Association of American Correspondents has asked if you could keep the date.

Agree to see the American correspondents, supplemented by British TV cameras and microphones, on Wednesday evening, May 25? No

The Chancellor of the Exchequer is also anxious to see economic correspondents on-the-record before departure. If you were to see the Americans on May 25 he might usefully see British correspondents two days later on the eve of the visit.

Content? Yes

Departure

I would not see any particular advantage in speaking to the media before leaving Heathrow. They may well ask negative questions as they have been known to do in the past.

Consequently, agree only to photo facility (from behind bars) when you board the 'plane? (If you felt advantage you could say a few words in passing without getting trapped into an interview).

En Route

I expect to have on board 12-16 correspondents, though not as yet a TV camera. The correspondents have asked if they could have a chat with you on the 'plane and I have said I'm sure you will pop down to see them for 15-20 minutes.

Agree? Yes

If we do get a cameraman on board I am sure it would be helpful to give them a little time working at a box or in a working situation.

Agree? Yes

Arrival

Here I suggest you are simply seen to camera advantage; no interviews.

Agree? Yes

Bilaterals

If at all possible, we ought to get as much film as possible back in this country of your various bilaterals, either before or after each of them. And I would strongly urge you to try to appear on the President's lawn with Mr Reagan if possible each saying a few words into the microphones, after that bilateral.

Yes Agree in principle we try to maximise film coverage of bilaterals?

Departure

John Coles is pursuing with the White House the problem of squaring your saying a few words on departure with the rules. On the assumption that this is resolved, I suggest I arrange for BBC, ITN, IRN, Press Association and Jack Warden, chairman of the Lobby, representing other journalists, to see you for a short time immediately before you leave

Williamsburg. The occasion could take the nature of short news interviews of the kind you normally give, with a short opportunity for PA and Mr Warden to ask any supplementaries for press purposes.

Agree?

Return Journey

I will discuss when you have a moment A.J.C. 18/5

John is making these arrangements. I am being entirely vague about them. Indeed I have told the media that for security reasons they will get no briefing on how you will return let alone your flight number.

I think it would be a sensible precaution however if I flew with you to the point of embarkation whether or not I travel back. My only concern about your return journey is lest some journalists have by devious means got themselves on to your aircraft.

Arrival

This is the plan. A.J.C. 19/5.

I would hope that arrangements could be made for you to be met on the tarmac with a car and transported straight to No 10. I shall however make arrangements for press officers to be both at Heathrow (where you are not likely to be pestered) and at No 10.

If you would like a picture facility on your return we could alert the British press once you are in the air. We would make it clear there would be only pictures, behind barriers, (no interviews) on touchdown.

It is of course most unwise to submit yourself to questions on your return from foreign parts, however briefly you have been away.

Content?

Yes mt

Bernard

B. INGHAM

19 May 1983

cc CO
FCO
HMT

10 DOWNING STREET

From the Private Secretary

19 May 1983

The Prime Minister has asked me to thank you for your letter of 4 May enclosing a copy of the statement by the President of the Overseas Development Council containing recommendations for the Williamsburg Summit. The Prime Minister found this an interesting and timely paper.

T. L. COLES

Mr. J.W. Sewell

cc AP

Foreign and Commonwealth Office

London SW1A 2AH

18 May 1983

Dear John

Anti-Americanism

As you know, the Foreign and Commonwealth Secretary is concerned about the growth of anti-Americanism in Britain, and indeed in Western Europe generally, during recent months. Although not a new phenomenon, it is more widely and more strongly evident now than at other periods since the war, except possibly the Suez crisis. It also extends to more issues, the nuclear question being only the most prominent. Mr Pym thinks it would be unsafe to see this as a passing phase.

In a telegram at the beginning of May, Sir O Wright suggested that the visit of Mr Meese should be used to 'clear the air' on this subject. It was touched on by implication during the Prime Minister's talk with him, and Mr Pym spoke to Meese in detail about the difficulties caused to Britain by some American statements and actions on arms control, relations with the Soviet Union, extra-territoriality and the anti-trust proceedings against British Airways. (This list could be lengthened.) Mr Meese gave a different explanation in each case, but he seemed to understand that the various examples could not but be connected in British eyes.

The Prime Minister may wish to bear this general problem in mind during the Williamsburg Summit. The American Embassy are well aware of the anti-Americanism there is in this country, and have reported it fully, although it is doubtful how many of these reports will have reached the White House. The President himself may be more conscious of the converse phenomenon of anti-Europeanism in the United States, resting mainly on the presumption that the European Allies are soft on Russia and not doing enough for their own defence.

/Various

Various suggestions have been offered. One is that a special conference be held at Ditchley Park on European perceptions of the United States and vice-versa. Another is that the Prime Minister and the President (or perhaps Mr Pym and Mr Shultz) should each designate a trusted senior official to sit down together in private, look at the problem of our mutual perceptions, and produce joint recommendation.

Mr Pym is not sure how far the Prime Minister will want or be able to pursue this subject at Williamsburg, now that the day in Washington has been cancelled and her private talk with the President reduced probably to about an hour. It might in any case be difficult to go into great detail with him without touching on the question of his own personal image in Britain, which is very much part of the problem. But the President's idea for a greatly expanded programme of youth exchanges between America, Europe and Japan is likely to be mentioned at Williamsburg, and this may give the Prime Minister or the Foreign and Commonwealth Secretary the opportunity to say something about the bad state of mutual perceptions and the need to do something to improve them.

The biggest single improvement, in Mr Pym's judgement, would be a resolve on the part of the US Administration not to spring surprises on their allies as they have so often done in recent months; and an understanding that consultation on all subjects in future will be as exemplary as it has been on the question of INF deployment.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer and to Sir Robert Armstrong.

Yours ever

Brian

(B J P Fall)
Private Secretary

A J Coles Esq
10 Downing Street

Type letter pl.

A.J.C. 19/5

Ref.A083/1415

MR COLES

As requested, I attach a draft reply to the President of the Overseas Development Council which you might send on behalf of the Prime Minister.

Papers attached

R P HATFIELD

18 May 1983

DRAFT LETTER FROM MR COLES TO
MR J W SEWELL, OVERSEAS DEVELOPMENT COUNCIL,
1717 MASSACHUSETTS AVENUE NW,
WASHINGTON DC 20036

The Prime Minister has asked me to thank you for your letter of 4 May enclosing a copy of the statement by the President of the Overseas Development Council containing recommendations for the Williamsburg Summit. The Prime Minister found this an interesting and timely paper.

Ref. A083/1414

MR COLES

JR
18/5

Williamsburg Economic Summit: Briefing Meeting

Sir Robert Armstrong agrees that the briefing meeting could very well take place on the aircraft on the way to the Summit. If you are content, I will inform the Private Secretaries to the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary.

Lindsay Wilkinson

LINDSAY WILKINSON

18 May 1983

AJC agreed the above & informed Cab Office. 19/5/83

GRS 340

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DESKBY 180900Z
FM OTTAWA 172100Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 180 OF 17 MAY
INFO PRIORITY WASHINGTON, ROME, PARIS, BONN, TOKYO, UKREP BRUSSELS.

MY TELNO 169: PREPARATION FOR WILLIAMSBURG

1. TRUDEAU HAS BEEN GIVING INCREASING EMPHASIS IN PUBLIC TO THE NEED FOR WILLIAMSBURG TO ENSURE ADEQUATE FINANCIAL FLOWS TO THE THIRD WORLD. (PARA 1(C) OF TUR).

2. IN A SPEECH TO CANADIAN INSTITUTE OF INTERNATIONAL AFFAIRS ON 6 MAY HE DREW ATTENTION TO AND ENDORSED CALCULATIONS BY DE LAROSIERE (IMF) ESTIMATING THAT NON-OIL DEVELOPING COUNTRIES NEED EIGHTY-TWO BILLION DOLLARS OF NET NEW FINANCIAL FLOWS TO FINANCE A VERY MODEST INCREASE IN IMPORTS, PAY INTEREST ON DEBTS AND ALLOW A VERY MODEST RESTORATION OF DEPLETED RESERVES. (THE EIGHTY-TWO BILLION COULD, DE LAROSIERE SUGGESTS, COME FROM CORE FUNDING (OFFICIAL AID, INCLUDING WORLD BANK AND IDA) 50 BILLION: ADDITIONAL COMMERCIAL BANK CREDITS 20 BILLION: AND IMF 12 BILLION). FRD AND NAD HAVE RECEIVED COPIES OF THIS SPEECH BY BAG.

3. TRUDEAU HAS REVERTED TO THIS THEME IN AN INTERVIEW WITH THE TORONTO STAR, IN WHICH HE REITERATES THAT 82 BILLION DOLLARS IS THE MAGNITUDE OF NEW MONEY NEEDED. HE ALSO TOUCHES ON THE POSITION OF THE PRIVATE BANKS, WHO MUST, HE SAYS PROVIDE SOME 20 BILLION DOLLARS, AND WHO WILL HAVE TO ''SWALLOW HARD'' BEFORE THEY MAKE NEW LOANS OF THAT MAGNITUDE TO SOME OF THE THIRD WORLD COUNTRIES.

''SO, IT IS A VERY SERIOUS PROBLEM. IF THIS KIND OF MONEY IS NOT FORTHCOMING, THEN IT IMPERILS THE WHOLE TRADE AND FINANCIAL SYSTEM WHICH UNDERPINS THE LIBERAL WORLD AS WE KNOW IT.''

TRUDEAU SAYS HE HAS TALKED TO SOME LEADING CANADIAN BANKERS, AND KLAUSEN OF THE WORLD BANK, AND THEY THINK IT MIGHT BE POSSIBLE.

/"THEY

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''THEY ARE NOT ABSOLUTELY PESSIMISTIC ABOUT IT. I GUESS THEY ARE A LITTLE BIT MORE CONCERNED ABOUT THEIR SHAREHOLDERS AND THEIR DEPOSITORS. MAYBE IT IS UP TO CANADIANS GENERALLY TO TELL THE BANKERS THAT, IN THIS AREA, CANADIANS ARE SUPPORTIVE OF ANY EFFORT BY THEIR BANKS TO HELP MEET THE PROBLEMS OF THE THIRD WORLD. BUT IT IS A PROBLEM OF GREAT MAGNITUDE, THERE IS NO DOUBT ABOUT IT.''

COPIES FOLLOW BY BAG (NOT TO ALL).

4. PLEASE PASS TO TREASURY, BANK OF ENGLAND AND ODA.

MORAN

(REPEATED AS REQUESTED)

LIMITED

ERD
ESID
WED
FED
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

A.J.C. 16/5

With the compliments of

THE PRIVATE SECRETARY

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

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Copy to No 10 please.

GRS 80

CONFIDENTIAL
FM PARIS 131717Z MAY 83
TO PRIORITY FCO
TELEGRAM NUMBER 392 OF 13 MAY
INFO WASHINGTON

PARIS TELNO 383: BILATERAL AT WILLIAMSBURG.

1. MOREL (ELYSEE) HAS TELEPHONED US ON MITTERRAND'S INSTRUCTIONS TO OFFER 1730-1830 ON SUNDAY 29 MAY AS A POSSIBLE TIME FOR A BILATERAL MEETING BETWEEN THE PRIME MINISTER AND MITTERRAND. MOREL UNDERSTANDS THAT IT IS NOT YET CERTAIN THAT THE PRIME MINISTER WILL GO TO WILLIAMSBURG

PETRIE

[THIS TELEGRAM WAS NOT ADVANCED]

LIMITED

ERD	PS/LORD BELSTEAD
ESID	PS/MR RIFKIND
WED	PS/MR HURD
FED	PS/MR RAISON
NAD	PS/PUS
ECDS	SIR J BULLARD
PLANNING STAFF	MR EVANS
TRED	MR HANNAY
ESSD	MR THOMAS
EESD	MR DONALD
NEWS D	MR HAYES
PS	MR ADAMS

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Cabinet Office
70 Whitehall
London SW1A 2AS

17 May 1983

PS(83) 11

Dear Private Secretary,

Williamsburg Economic Summit: 28-30 May 1983

With my letter of 11 May I attached at Annex A a list of briefs to be prepared for the Williamsburg Economic Summit. This list has now been revised. I attach the revised list and should be grateful if Departments could prepare briefs as appropriate.

I am sending copies of this letter to the Private Secretaries to Sir Antony Acland, Mr Peter Middleton, Sir Anthony Rawlinson, Sir Kenneth Stowe, Sir George Moseley, Sir Brian Hayes, Sir Kenneth Couzens, Mr Michael Franklin, Mr Geoffrey Littler, Mr John Sparrow and Dr Robin Nicholson, and to John Coles at No 10.

Yours sincerely,

(Signed) LINDSAY WILKINSON (MISS)

ANNEX A

LIST OF BRIEFS FOR WILLIAMSBURG ECONOMIC SUMMIT 28-30 MAY 1983

PMVZ(83)	Subject	Lead Department	In consultation with
1.	Steering Brief	FCO	as appropriate
Economic Subjects			
2.	United States Thematic Paper	FCO	as appropriate
3.	World Economy: Economic and Monetary Policies	Treasury	FCO
4.	International Monetary Matters	Treasury	as appropriate
5.	Trade	Trade	as appropriate
6.	North/South	FCO	as appropriate
7.	Energy	Energy	as appropriate
8.	East/West Economic Relations	FCO	as appropriate
9.	Impact of Technology	Cabinet Office	Industry Treasury
Political Subjects			
10.	East/West (including CSCE and Poland)	FCO	as appropriate
11.	Arms Control (including INF, START, etc)	FCO	as appropriate
12.	Middle East	FCO	as appropriate
13.	Central America	FCO	as appropriate
14.	Other Issues:		
	(a) Southern Africa	FCO	as appropriate
	(b) Afghanistan	FCO	as appropriate
	(c) South East Asia	FCO	as appropriate
	(d) Terrorism	FCO	as appropriate
	(e) Youth Exchanges	FCO	as appropriate
	(f) Acid Rain	FCO	as appropriate
	(g) Cancer	FCO	as appropriate

PMVZ(83)		Subject	Lead Department	In consultation with
	(h)	Ratification of Montreal Protocols	Trade	as appropriate
	(i)	President Reagan's Initiative on Promoting Democracy	FCO	as appropriate
	(j)	Non-proliferation	FCO	as appropriate
	(K)	High Energy Physics	CO	DES
Others				
15.		1984 Economic Summit	FCO	
16.		Bilateral Meetings	FCO	as appropriate
17.		Statistics	Treasury	
18.		Personality Notes	FCO	

Econ Pol
Econ Summit

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10 DOWNING STREET

From the Private Secretary 17 May 1983

Williamsburg: Political Preparation

Thank you for your letter of 13 May.

In a separate letter of today's date I recorded that the Prime Minister was willing to introduce the discussion on arms control and INF at the dinner in Williamsburg on Saturday, 28 May. The Prime Minister is also prepared to support the idea of a public statement at Williamsburg on INF, provided this can be agreed without difficulty with our other Summit partners. It would be most important to avoid any appearance of divisiveness.

I am copying this letter to Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

8

Ref. A083/1394

CONFIDENTIAL ANNEX TO NOTE FOR RECORD

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cc Mr Coles (No 10)
Mr Fall (FCO)
Sir Antony Acland (FCO)
Sir Julian Bullard (FCO)

Meeting of Personal Representatives held at Chateau La Celle St Cloud, Paris: 11-13 May 1983

Meeting of Political Directors

On the evening of 11 May, Mr Richard Burt (United States) reported on a meeting of Political Directors held earlier in the day in Paris. There had been general agreement that discussion of political issues at Williamsburg should be informal, with no structured agenda. It had been agreed that political discussion should be reserved for the meals which Heads of State or Government would take together. It was proposed that arms control and INF should be discussed at dinner on Saturday 28 May; East-West political relations at lunch on Sunday 29 May; and the Middle East at dinner on Sunday 29 May. Lunch on Monday 30 May would be used for a general "wrap-up" discussion. There should be no statements to the Press, though the United States Foreign Minister would no doubt be briefing the Press in general terms. The Canadian Political Director had, however, proposed that a statement or "open letter" on INF should be released on Sunday 29 May. Such a statement might support the zero option, the intermediate course as a means of progress to the zero option, the exclusion of British and French strategic nuclear weapons from INF negotiations, and the insistence upon a global limit for Soviet intermediate nuclear weapons (in other words, the Russians should not be able to compensate on their Eastern border for reductions of intermediate nuclear weapons on their Western border). Mr Burt had undertaken to produce a draft of such a statement for further consideration by Political Directors before the Williamsburg Summit.

2. Subsidiary political issues for discussion by Foreign Ministers at Williamsburg would include youth exchanges, international terrorism, nuclear proliferation, and President Reagan's initiative on democracy.

3. Monsieur Attali (France) agreed with the proposals for dividing up the subjects for discussion by Heads of State or Government. He was nervous, however, of a discussion leading up to a paper on INF. He doubted the wisdom of having a communique on one issue. If Heads of State or Government wanted to issue such a communique, it should be prepared at Williamsburg. This was a very difficult issue: the positions of all those concerned were different, and the attempt to achieve a communique could weaken the Western position.

4. Mr Burt said that Political Directors did not have in mind a detailed statement on INF, but a general statement, the main purpose of which would be to make two detailed points, one on the exclusion of British and French nuclear forces from the INF negotiations, and the other on global limits on Soviet intermediate nuclear weapons. He doubted whether it would be practicable to put a statement like this together at the Summit itself.

5. Mr de Montigny Marchand (Canada) said that the Canadian Political Director had put forward his proposal without instructions. He was mindful of the problems indicated by Monsieur Attali, but thought that on this subject there would be positive advantages to be gained, if a statement could be put together.

6. Mr Motono (Japan) said that he was unbriefed on this proposal, and could give only an initial reaction. Two years ago Japanese public opinion would not have permitted such a statement. Now such a statement could help to improve relations between Japan and Europe.

7. Herr Tietmeyer (Federal Republic of Germany) thought that, if it proved possible to find ground for a meaningful statement, the Federal Chancellor would appreciate and welcome that. It would depend on how much common ground it would be possible to find. It would be advisable to have some preliminary negotiations before Williamsburg to see what that common ground might be.

8. Sir Robert Armstrong (United Kingdom) said that he thought that the Prime Minister would welcome a statement which dealt with the two issues of the exclusion of British and French nuclear weapons from INF negotiations and with global limits on Soviet

intermediate nuclear weapons. A statement on the lines suggested might be even more striking because it would be unexpected. But if the attempt to achieve agreement on a statement went wrong, then the damage could be greater than if the attempt had never been made.

9. Signor Paolini (Italy) said that he was unbriefed on this subject, and would indicate the Italian view in a few days.

10. Monsieur Attali said that to try and to fail on this subject would be very bad. Discussion of this matter should be kept very secret; and no preliminary work should be undertaken until there was clear personal commitment and authority from Heads of State or Government. The French President would commit himself by Thursday 19 May. If any Head of State or Government was against the idea of a statement, it would be wise to forget it.

11. Mr Burt thought that it should be possible to maintain secrecy. He agreed that it would be wise not to move forward without the agreement of Heads of State or Government. He would send out no paper until he had heard from Political Directors that the reaction of their Heads of State or Government was positive. He did not think that the risk of failure should be allowed to frustrate an attempt, and he thought that the attempt could well succeed.

12. Sir Robert Armstrong said that the position of the Japanese Government could be crucial.

13. Mr Motono supported the position of Monsieur Attali and agreed that any further progress should depend upon a clear and positive indication of the intention of Heads of State or Government.

14. Mr Marchand agreed that prudence in handling this matter would be essential. But people would not understand silence on the subject.

15. Monsieur Attali said that he did not know what point of view the French President would take. But, if the President was prepared to go forward, he would want to write any such statement himself; he would not trust anybody else to do so. There was a danger that the whole of the first dinner at Williamsburg would be devoted to discussing the wording of a statement.

16. Mr Allen Wallis (United States) said that we had already begun to take risks on this matter. The risk of trying and failing was outweighed by the risk of not trying.

17. Mr Burt, summing up the discussion, said that such a statement could lead to a more constructive relationship with the Soviet Union, which the West was seeking. The basis of the statement would be to assert the need for maintaining military equilibrium. The United States were negotiating in Geneva to eliminate the INF threat. The President had made firm and equitable proposals for equalising the levels of United States and Soviet forces. Any agreement should be applied globally. The British and French nuclear weapons should be excluded from INF negotiations. He asked that Political Directors or Personal Representatives should let him know as soon as possible whether their Heads of State or Government agreed that the preparation of a draft statement should go ahead.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

16 May 1983

Ref. A083/1393

NOTE FOR RECORD

cc Mr Coles (No 10)
Mr Fall (FCO)
Mr Kerr (Treasury)
Mr Rhodes (Trade)
Sir Antony Acland (FCO)
Sir Anthony Rawlinson (Trade)
Mr Littler (Treasury)
Mr Evans (FCO)

Meeting of Personal Representatives held at Chateau La Celle St Cloud, Paris: 11-13 May 1983

This meeting was attended by Personal Representatives only, save that the United States Personal Representative, Mr Allen Wallis, was supported by Mr Robert Morris, Mr Henry Nau and Mr Beryl Sprinkel.

Political Questions

2. The discussion of this matter on the evening of 11 May has been separately recorded.

Representation of European Community

3. At breakfast on 12 May, Mr Allen Wallis (United States) said that the President of the European Commission had proposed that Mr Ortoli and Mr Haferkamp should attend the Williamsburg Summit and go to the meetings of the Finance and Foreign Ministers respectively as observers. He would be content to agree with whatever was acceptable to the European Personal Representatives.

4. Sir Robert Armstrong (United Kingdom) thought that the Prime Minister would not wish to object to this, provided that Mr Ortoli and Mr Haferkamp attended the meetings of Foreign and Finance Ministers respectively only as observers, and on the understanding that they would not be present at any meeting of or with Heads of State or Government.

5. The proposition was accepted on that basis.

Paris Meeting of Trade and Finance Ministers

6. Mr Beryl Sprinkel (United States) said that a number of Trade and Finance Ministers had met in Paris in the margins of the OECD meeting, together with the Managing Director of the IMF, the

Director General of the GATT and the Director General of OECD. There were no proposals for institutionalising the meeting as a Summit group. It was felt, however, to have been fruitful, and it was followed up by a further meeting the following morning. There had been a hint from the Managing Director of the IMF that he and the Director General of the GATT were exploring whether it was possible that developing countries might be willing to reduce obstacles to trade in their countries in exchange for similar gestures in the developed world.

7. Herr Tietmeyer (Federal Republic of Germany) agreed that the discussion at the dinner had been fruitful. He agreed with the point made by Mr Sprinkel: 30 per cent of the trade of developing countries was subject to restrictions, and in some countries the figure was as high as 60 per cent. He welcomed the prospect of closer co-operation between the staff of the IMF and the staff of the GATT. The IMF had said that they would look at trade as well as macroeconomic questions, and would work with the staff of the GATT. The IMF would focus on the question of opening markets. The OECD would make a study of the costs and benefits of protectionism. The discussion at the meeting of Trade and Finance Ministers could be followed up, and the issues further considered, at meetings of the G10.

8. Mr Motono (Japan) said that the Managing Director of the IMF had said that a similar range of topics had been considered at the meeting of the CG18 in Geneva. He too welcomed the prospect of closer co-operation between IMF and GATT.

Administrative Questions

9. Mr McManus (United States) said that the United States were proposing to arrange for the national television news of each of the countries whose Heads of State or Government were at Williamsburg to be relayed via a satellite to Williamsburg, where it would be taped and could be played back as required in the houses where Heads of State or Government were staying. This facility was warmly welcomed.

10. Mr McManus said that at all working meals it was proposed that each Head of State or Government should speak in his or her own language. Where that language was not English, it would be translated out loud by his or her own interpreter into English, and then

whispered by their own interpreters from English into whatever language other individual Heads of State or Government wanted. All that each Head of State or Government would need therefore was someone who could translate from English into his own language and vice versa.

11. The simultaneous translation at the formal meetings would be provided by United States interpreters; there would no note-takers at the morning session of Heads of State or Government alone on Sunday 29 May.

12. Monsieur Attali (France) hoped that it would be possible to arrange for Foreign Ministers and Finance Ministers to take coffee with Heads of State or Government after the dinner at Carter's Grove on the evening of Saturday 28 May. He also hoped that it would be possible to arrange for the Personal Representatives to see their Heads of State or Government individually after dinner on the evening of Sunday 29 May. Monsieur Attali suggested that each Personal Representative would need to have a typist and a liaison officer at his disposal during the period of the preparation of the draft declaration on the evening of Sunday 29 May.

13. Mr McManus said that the state dinner on the evening of 30 May would be informal dress (not black tie); no spouses would be present, save that Mrs Reagan might come.

14. Mr Allen Wallis (United States) reverted to the order of business at Williamsburg. He suggested that the meeting of Heads of State or Government alone on the morning of Sunday 29 May should be used for a broad-ranging discussion of the approach to world economic recovery, based upon the first two sections of the United States thematic paper. At a similar meeting on the afternoon of Sunday 29 May Mr Schultz and Mr Regan would summarise the meetings that would have taken place in the mornings between Foreign Ministers and Finance Ministers respectively. The discussion could then turn to the matters in sections 3 and 4 of the United States thematic paper. The afternoon session might conclude with a discussion lasting for 15 or 20 minutes on East-West economic relations. President Reagan would then sum up the discussion, or invite one of his colleagues to do so, with a view to giving

instruction to Personal Representatives on the basis of which the first draft of a declaration could be prepared.

15. Mr McManus asked that the names of official delegations who would be guests of the United States Government and of guests for the state dinner should be sent to him as soon as possible.

Press Arrangements

16. It was noted that the United States delegation proposed that there should be no background briefing at Williamsburg until the morning of Sunday 29 May.

17. A number of Personal Representatives thought that this was unrealistic, particularly given the fact that President Reagan and President Mitterrand would be having a bilteral meeting after their arrival at Williamsburg, and the United States and French delegations would presumably find it necessary to brief after that. The United States Personal Representative stressed that he hoped that the rule for no background briefing until the Sunday morning would be observed, in order to take the pressure off Heads of State or Government on Saturday 28 May.

United States Thematic Paper

18. Personal Representatives spent most of the day discussing the United States thematic paper and amending it in detail. By the end of the day they had agreed upon a revised text as a basis for discussion by the Heads of State or Government at Williamsburg. At a late stage in the discussion the United States delegation introduced an alternative version of the thematic paper, with the various points for action and consideration unchanged in substance but arranged in a different order. Other Personal Representatives thought that it would be very confusing for Heads of State or Government if there were two versions of the paper circulating, and stressed the hope that the United States delegation would confine themselves to the paper which had been agreed in discussion during the day.

19. The United States delegation also tabled a draft statement on international monetary and macroeconomic issues which had been agreed by senior Finance Ministry officials. It was not entirely clear what the status or purpose of the paper was, but it was

eventually agreed that it should be considered by Finance Ministers at Williamsburg, and then presented to Heads of State or Government, who could either endorse it and attach it as an annex to their own declaration, or invite Finance Ministers to issue it separately, or direct Personal Representatives to draw from it for the purposes of preparing the draft final declaration but not otherwise to issue it.

20. Monsieur Attali (France) said that during the course of the meeting at Williamsburg President Mitterrand would introduce his proposal for a high level international monetary conference. He would propose that Ministers of Finance should be invited to get together and study the idea and to make proposals. Monsieur Attali stressed that President Mitterrand was not looking for an early decision to set up such a conference, but saw it as the culmination of a process in which the Versailles undertakings and the follow-up now proposed for Williamsburg would be early steps.

East-West Economic Relations

21. Mr Allen Wallis (United States) said that good work had been done on this subject in OECD. It would be important to continue the exchange of data on this matter, both in OECD and through Western Embassies in Moscow. It would be important to keep up the momentum in COCOM, and perhaps to strengthen the COCOM Secretariat. The United States were interested in the idea of a defence sub-committee. At the Williamsburg meeting President Reagan's position on East-West economic relations would not be just cosmetic.

22. Monsieur Attali (France) suggested that the European Heads of State or Government might want to raise the question of extraterritoriality at Williamsburg. The United States delegation suggested that it might not be wise for the Europeans to gang up on President Reagan on this matter.

RCA

ROBERT ARMSTRONG

16 May 1983

FILE

BM

cc CO
Lord Roll
AW

10 DOWNING STREET

THE PRIME MINISTER

16 May 1983

Dear Lord Lever

Thank you very much for the letter which you and Eric Roll sent to me on 4 May, and for the memorandum reporting the conclusions which were reached at your meeting under Helmut Schmidt's chairmanship.

I found the memorandum interesting and stimulating as I would expect from its distinguished authorship. You will not be surprised if I say that there are points at which our emphasis would be different but I enjoyed reading it.

I am sending a copy of this letter to Eric Roll.

Yours sincerely

Margaret Thatcher

The Rt. Hon. The Lord Lever of Manchester

✓ Stuttgart file

PRIME MINISTER

MEETING ON WILLIAMSBURG & STUTTGART

This minute lists the issues for decision at your meeting on Tuesday, together with supporting facts.

1. Will you attend Williamsburg?

I think you intend to do so.

2. For how long and by what transport?

I attach the Summit Programme (Flag A).

Outward Journey

The Americans have suggested (though the idea has not yet been put to President Reagan) that each meal should be devoted to discussion of a particular topic and that you should lead a discussion of arms control/INF at dinner on Saturday evening. You may feel the best plan is to attend all the Saturday events, including the official arrival ceremonies. That would mean arriving in Williamsburg at 3.30 p.m. US time.

You could do this:-

(a) either by commercial Concorde leaving Heathrow at 1330 London time, arriving Washington at 1220 US time, and reaching Williamsburg an hour or so later.

(b) or by VC10, leaving Heathrow at 12 noon London time and flying direct to Langley Air Force Base and on by helicopter to Williamsburg, arriving at 3.30 US time (we shall have to check that this suits the Americans).

The VC10 journey would be 4 hours longer but has certain advantages - the freedom of your own aircraft, no extra cost, no possibility of criticism and you could have your briefing meeting

/ on the

on the plane with the whole team (we could then dispense with the usual briefing meeting at No.10 and save campaigning time).

You have no campaign commitments on the Saturday.

Return Journey

The options depend on how long you want to stay at Williamsburg. But the priority should perhaps be to get you back to No. 10 in good time on the night of Monday, 30 May for an up-date on the election campaign and a decent night's rest.

There is no commercial Concorde from Washington on that day.

The options I see are:-

(a) Leave Williamsburg at about 11.30 a.m. US time, fly to New York by US Government aircraft (which they have offered), leave New York by commercial Concorde at 1345 and arrive Heathrow at 2225 London time.

(b) Cut Monday's proceedings entirely and fly back overnight on Sunday by VC10. This would cut down jet lag and give you maximum resting time before Tuesday - but it would be expensive because the remainder of the party would have to fly back commercial on Monday.

(c) Hold a meeting at 8.00 a.m. on Monday in Williamsburg, leave instructions on the overnight draft conclusions, depart at 9.00 a.m. and take the VC10 to arrive back at Heathrow at about 2230 on Monday night.

/ (d)

(d) Stay until mid-afternoon on Monday, attend President Reagan's press conference when, flanked by other participants, he will read the agreed conclusions, and then leave - but you will then get back to No.10 in the middle of the night. (You will wish to bear in mind that the next day (31 May) you have a news conference, a Panorama recording and a rally in Edinburgh).

I suggest you go by VC10, and come back with minimal staff on the Concorde, leaving the rest of the party to return by VC10 after the Summit (the "extra" costs for Concorde to be borne by Conservative Central Office). There will be a host of details to be sorted out but I can settle these in the light of your decisions on the above.

3. Who will represent you in Williamsburg, if you decide to leave before the end?

Someone should be there to negotiate the final conclusions, attend President Reagan's press conference and attend the State Dinner on the Monday evening. All these events probably require a Minister. Either the Chancellor, or the Foreign Secretary, or both might be asked to stay behind. Sir Robert Armstrong will presumably also stay.

4. Do you agree that the Summit should issue a statement on INF?

The present US idea is that this should be issued on the Sunday.

There will of course be an "economic" statement on Monday (see Sir Robert Armstrong's minute at Flag B).

5. With whom should you have bilateral meetings at the Summit?

Mitterrand has offered an hour at 1730 on Sunday, which we should perhaps accept.

You will want to talk to Kohl but I doubt if we need arrange a formal bilateral.

On the other hand, I suggest that we do try to arrange a bilateral meeting with President Reagan. Most other participants are doing this and it will look odd if you do not.

I doubt if you will now have time for Nakasone but you could consider when we have arranged the others.

6. Press statement?

You told ITN today that you would take a clear decision on Tuesday. I suggest that we first let President Reagan know that you have decided to attend and that then Bernard puts out a statement saying:

> "The Prime Minister will attend the Economic Summit at Williamsburg. She will be accompanied by the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary".

He would not disclose details of travel plans (we have to have security in mind, especially if you are to use Concorde) and in answer to questions about Stuttgart would say:

> "The question of attendance at Stuttgart is still being considered. A decision will be taken in due course".

/ STUTTGART

STUTTGART

We await news from Chancellor Kohl as to whether our partners have agreed to postponement until 18/19 June. Meanwhile there is little point in discussing the question of attendance. We should be very careful not to leak Kohl's proposal.

You may like to invite the Foreign Secretary to give an account of Schloss Gymnich.

The meeting could then usefully discuss Mr. Williamson's minute at Flag C which seeks decisions on three points:-

(a) handling of our Budget problem at the Foreign Affairs Council on 24 May;

(b) action if the outcome of that Council is unsatisfactory;

(c) the longer-term Budget problem.

A. J. C.

16 May 1983

SUMMARY SCHEDULE

1983 ECONOMIC SUMMIT OF INDUSTRIALIZED NATIONS
MAY 28 - 31, 1983

Saturday, May 28, 1983

1:00-4:05	pm	Heads of Delegations and Official Delegations arrive at Langley Air Force Base, Hampton, Virginia
1:20-4:25	pm	Heads of Delegations and Official Delegations arrive at Market Square, Williamsburg, Virginia. Heads of Delegations ride in carriage to Governor's Palace
1:25-4:30	pm	Heads of Delegations arrival ceremony at Governor's Palace
7:00-10:00	pm	Carter's Grove Reception and Dinner

Sunday, May 29, 1983

9:00-10:00	am	Heads of Delegations, Foreign Ministers and Personal Representatives attend respective meetings at The Capitol
10:15-11:30	am	Heads of Delegations and Finance Ministers attend joint meeting at Williamsburg Inn
12:00-1:00	pm	Heads of Delegations, Ministers and Personal Representatives lunch at Colonial Williamsburg taverns
1:15-2:00	pm	Heads of Delegations, Finance Ministers and Personal Representatives attend respective meetings at The Capitol
2:15-3:30	pm	Heads of Delegations and Foreign Ministers attend joint meeting at Williamsburg Inn
7:30-10:00	pm	Governor's Palace reception and dinner

12:00 3/3/83

Monday, May 30, 1983

9:00-12:00	pm	Heads of Delegations and Visiting Delegates attend Plenary Session at Williamsburg Inn
		Heads of Delegations luncheon
		Heads of Delegations Joint Statement
7:00-10:30	pm	State Dinner at Williamsburg Inn

Tuesday, May 31, 1983

9:00-12:00	pm	Heads of Delegations and Official Delegations departure ceremony in Williamsburg Inn lobby
9:30-12:30	pm	Heads of Delegations and Official Delegations departure ceremony at Langley Air Force Base, Hampton, Virginia

12:00 3/3/83

SECRET AND PERSONAL

Prime Minister

1) Agree in principle that the Summit should issue a statement on INF?

2) We can discuss at Tuesday's meeting whether you will arrive in time to lead the Saturday dinner discussion on INF.

It will be strange for an economic summit the main communique is about INF. We should need an economic one too.

MT

Foreign and Commonwealth Office
London SW1A 2AH

13 May 1983

Dear John,

A.J.C. 13/5

Williamsburg: Political Preparation

Julian Bullard attended a Political Directors' meeting with our three closest allies in Paris yesterday morning, before the meeting of the Political Directors of the Seven Economic Summit countries (reported in Paris telegram No 382, a copy of which is enclosed).

The Quadripartite Meeting is reported in the second telegram which I enclose. The US Political Director, Burt, was more explicit in the smaller than in the larger group about American ideas, both on organising the discussion at the four meals in Williamsburg and on a possible declaration on INF.

As you see, Burt said that President Reagan was inclined to invite the Prime Minister to introduce the first discussion, on arms control and especially INF, at the dinner on Saturday, 28 May. Julian Bullard undertook to report this suggestion, but made it clear that the Prime Minister was at present reviewing her commitments in view of the impending General Election.

The telegram also records what Burt said about US ideas for a statement on INF. Again, Julian Bullard undertook to consult and to let Burt have our views. The Foreign and Commonwealth Secretary is inclined to think that a statement would be useful. Williamsburg is perhaps the ideal forum to emphasise that the other Western Governments fully support our insistence that British and French nuclear forces must be excluded from the talks, and that the INF problem in Europe should not be solved at the expense of friends in other regions (Japan).

/Perhaps

SECRET AND PERSONAL

Perhaps you could let us know what the Prime Minister's reaction is to the INF proposal, and to the idea that she might lead the arms control discussion.

I am copying this letter to Richard Mottram (Ministry of Defence) and to Richard Hatfield (Cabinet Office).

Yours ever,

(B J P Fall)
Private Secretary

A J Coles, Esq
10 Downing Street

OUT TELEGRAM

	Classification and Caveats	Precedence/Deskby
	SECRET BURNING BUSH	IMMEDIATE

ZCZC 1 ZCZC
GRS 2 GRS
CLASS 3 SECRET BURNING BUSH
CAVEATS 4 DEDIP
DESKBY 5
FM FCO 6 FROM FCO
PRE/ADD 7 TO IMMEDIATE PARIS
TEL NO 8 TELEGRAM NUMBER
9 REPEATED FOR INFO IMMEDIATE WASHINGTON, BONN, UKREP BRUSSELS
10 Following from Bullard.
11 PARIS TELNO 382: POLITICAL PREPARATIONS FOR WILLIAMSBURG
12 1. This meeting of the Seven was preceded by a Quadripartite
13 meeting of Political Directors in Paris on the morning of
14 11 May. (The other three are of course unaware of this.)
15 2. Discussion in the Four was along much the same lines as
16 afterwards in the Seven, except that Burt (US) outlined in
17 greater detail the idea that the Seven Heads of Government might
18 issue a statement at Williamsburg specifically on INF. He
19 suggested that this might contain the following elements:
20 (i) The best solution to the problem is still the
21 elimination of all Soviet and US INF systems;
/// 22 (ii) but in the absence of (i) above, all the Summit
// 23 participants endorse the US interim proposal;
/ 24 (iii) the Heads of Government of the NATO participants, ie all
25 except Japan, reaffirm that INF deployment will begin

NNNN ends telegram	BLANK	Catchword at
File number	Dept	Distribution PS PS/Mr Hurd PS/Mr Rifkind PS/PUS Sir J Bullard Mr Evans Mr Wright Mr Gillmore Mr James Hds Planning Staff Defence Dept EESD ERD NAD WED ECD(E)
Drafted by (Block capitals)		
Telephone number		
Authorised for despatch JB 12/5		
Comcen reference	Time of despatch	

<<<<

at the end of this year as planned, and proceed in accordance with the December 1979 decision unless agreement in Geneva permits modifications to that decision;

(iv) there must be global limits on Soviet INF systems, (to take account of the Japanese concern that the Russians might redeploy missiles from Europe to the Far East);

(v) British and French nuclear systems cannot be taken into account at Geneva.

3. Schauer (FRG) expressed unhappiness about point (iv). When the double decision had been taken in 1979, there had been no intention of negotiating on a global basis. The FRG government might object to the implication that an agreement covering the European theatre alone would not be enough. Burt said sharply that any such objection would run counter to the US negotiating position on INF, which had been agreed by the SCG, and would be unacceptable to the US. I said that, if Heads of Government did agree to issue a statement on INF, this difficulty could be overcome by careful drafting, eg a sentence to the effect that there could be no question of solving the problem in Europe at the expense of another region. The others agreed.

4. Andreani (France) said that any statement on INF should make the political point that the West wishes to improve relations with the Soviet Union but believes that the restoration of the military balance, by deployments/reductions, is necessary to create the conditions for any such improvement. I agreed that the political context should be brought out.

5. Burt promised to circulate the draft of a possible statement to Quadripartite partners within the next few days. Andreani, Schauer and I undertook to consult our Heads of Government and let Burt have a considered reaction to his idea as soon as possible.

6. Burt also described American ideas as to which participants should be invited to introduce the discussion at the first three

NNNN ends telegram	BLANK	Catchword meals

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meals, viz the Prime Minister to lead on arms control and INF at the dinner on Saturday 28 May; Chancellor Kohl on East/West political relations at the lunch on Sunday 29 May; and President Mitterrand on the Middle East and possibly other regional topics at dinner on 29 May. On this too we undertook to consult our Heads of Government and let Burt have their reactions as soon as possible.

PYM

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GRS 750
CONFIDENTIAL
FM PARIS 111530Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 382 OF 11 MAY
AND TO PRIORITY WASHINGTON, BONN, OTTAWA, UKREP BRUSSELS,
TOKYO, ROME.

POLITICAL PREPARATIONS FOR WILLIAMSBURG.

FOLLOWING FROM BULLARD.

1. FOLLOWING A MEETING OF THE SEVEN POLITICAL DIRECTORS OVER LUNCH IN PARIS TODAY, BURT (US) WILL REPORT TO PERSONAL REPRESENTATIVES (SHERPAS) THIS EVENING AS FOLLOWS:

(I) THERE IS A GENERAL DESIRE THAT DISCUSSION OF POLITICAL ITEMS BY HEADS OF STATE AND GOVERNMENT AT WILLIAMSBURG SHOULD BE ''TRULY INFORMAL''.

(II) THERE SHOULD BE NO POLITICAL COMMUNIQUE, BUT THE SEVEN PARTICIPANTS MAY WISH TO CONSIDER ISSUING A STATEMENT, PERHAPS OR PERHAPS NOT IN THE FORM OF AN OPEN LETTER TO ANDROPOV, ON ARMS CONTROL, OR POSSIBLY ON INF ALONE. THE US WILL CIRCULATE A DRAFT. MEANWHILE ALL PARTICIPANTS WILL CONSULT THEIR HEADS OF GOVERNMENT ON THIS SUGGESTION AND REPORT REACTIONS. TO ENSURE A PUBLIC IMPACT SEPARATE FROM THE ECONOMIC CONCLUSIONS OF THE MEETING, A STATEMENT ON ARMS CONTROL/INF COULD BEST BE ISSUED ON THE SUNDAY.

(III) PRESIDENT REAGAN PROPOSES THAT THE POLITICAL DISCUSSIONS SHOULD TAKE PLACE AT THE FOUR MEALS (DINNER ON SATURDAY 28 MAY, LUNCH AND DINNER ON SUNDAY 29 MAY AND LUNCH ON MONDAY 30 MAY). HIS INTENTION IS TO ORGANIZE THE DISCUSSION IN SUCH A WAY THAT THE FIRST THREE MEALS SHOULD BE DEVOTED RESPECTIVELY TO ARMS CONTROL: EAST/WEST POLITICAL RELATIONS: AND THE MIDDLE EAST, AND POSSIBLY OTHER REGIONAL QUESTIONS. THE FOURTH MEAL WOULD BE A ''WRAP UP'' SESSION.

(IV) THE PRESIDENT PLANS TO INVITE A DIFFERENT HEAD OF GOVERNMENT TO INTRODUCE THE DISCUSSIONS AT EACH OF THE FIRST THREE MEALS. HE HIMSELF WILL LEAD THE ''WRAP UP'' SESSION. SINCE THERE WILL BE NO NOTE-TAKERS PRESENT AT THE MEALS, THE HEAD OF GOVERNMENT WHO INTRODUCES EACH DISCUSSION MIGHT SUMMARISE IT BRIEFLY AT THE BEGINNING OF THE FOLLOWING PLENARY.

/(V)

(V) THE FOREIGN MINISTERS MIGHT DISCUSS THE SAME 3 BROAD THEMES, BUT IN GREATER DETAIL. THE US WILL CIRCULATE A SUGGESTED LIST OF SUB-HEADINGS UNDER EACH THEME AND INVITE COMMENTS AND ADDITIONS.

(VI) THE US PROPOSES THAT FOREIGN MINISTERS SHOULD ALSO DISCUSS THE FOLLOWING ITEMS:

- PRESIDENT REAGAN'S PROPOSALS ON YOUTH EXCHANGES:
- HIS INITIATIVE ON PROMOTING DEMOCRACY:
- TERRORISM:
- NON-PROLIFERATION.

THE AMERICANS WILL CIRCULATE A NOTE EXPLAINING HOW THEY INTEND TO RAISE THESE POINTS AND WHAT CONCLUSIONS THEY WOULD HOPE TO REACH. (THE FRENCH POLITICAL DIRECTOR AND I EXPRESSED SOME DOUBTS ABOUT THE VALUE OF DISCUSSION OF THE LAST TWO ESPECIALLY).

(VII) THE JAPANESE HAVE SPECIFICALLY PROPOSED THAT SOUTH EAST ASIA SHOULD BE AMONG THE REGIONAL THEMES DISCUSSED.

(VIII) SHULTZ WILL GIVE THE PRESS PERIODIC BRIEFINGS ABOUT THE POLITICAL DISCUSSIONS, IN PARTICULAR A HALF-TIME BRIEFING AT MIDDAY ON SUNDAY. THESE WILL BE VERY GENERAL, LISTING THE TOPICS DISCUSSED AND THE SPIRIT IN WHICH THEY WERE APPROACHED, BUT NOT THE CONTENT OF THE DISCUSSION.

(IX) ASSUMING THAT THE FINAL STATEMENT ON ECONOMIC ISSUES WILL BE INTRODUCED BY THE PRESIDENT ON MONDAY 30 MAY, SHULTZ WILL FOLLOW THIS WITH A SUMMARY OF THE POLITICAL DISCUSSION IN TERMS WHICH HE WILL HAVE CONCERTED WITH HIS COLLEAGUES.

FRETWELL

LIMITED

ERD	PS/LORD BELSTEAD
ESID	PS/MR RIFKIND
WED	PS/MR HURD
FED	PS/MR RAISON
NAD	PS/PUS
ECD	SIR J BULLARD
PLANNING STAFF	MR EVANS
TRED	MR HANNAY
ESSD	MR THOMAS
EESD	MR DONALD
NEWS D	MR HAYES
PS	MR ADAMS

ADDITIONAL DISTRIBUTION
ECONOMIC SUMMIT

Prime Minister

MT.

Ref. A083/1369

MR COLES

Williamsburg Economic Summit: Meeting of Personal Representatives 11-13 May

I attended a final meeting of Personal Representatives before the Williamsburg Economic Summit from 11 to 13 May. The meeting took place in Paris, since most of the Personal Representatives were already there for the OECD Ministerial Meeting.

Political Issues

2. We had a report of a meeting of Political Directors earlier in the day. The United States delegation have proposed that all four meals - dinner on 28 May, lunch and dinner on 29 May and lunch on 30 May - should be taken by Heads of State or Government on their own, without Foreign or Finance Ministers. It is proposed that the meals should be used for political discussions: arms control and INF on the evening of Saturday 28 May, East/West political relations at lunch on 29 May and the Middle East at dinner on 29 May. The lunch on Monday 30 May would be used as a "wrap up" session. In general there would be no statements on political subjects from the Heads of State or Government. The Canadian Political Director had, however, proposed that Heads of State or Government should issue a statement or "open letter" to Mr Andropov on INF. This might be released on Sunday 29 May. The statement would support the zero option, and the intermediate proposals as a stage to the zero option; it would support the exclusion of British and French strategic nuclear weapons from the INF negotiations; and it would insist that the reduction should be global (ie that the Russians could not make up on their eastern border what they reduced on their western border). The United States Political Director had undertaken to prepare a draft which would be considered with other Political Directors before Williamsburg.

3. Personal Representatives were cautiously attracted by this proposal, but emphasised the need for absolute discretion before Williamsburg: if it became known that there was a possibility of such

a statement, then failure to agree upon the statement at Williamsburg would do more harm than if there had been no suggestion of a statement in the first place.

4. No doubt the Foreign and Commonwealth Secretary will be reporting on this matter.

Economic Issues

5. Most of the rest of the meeting was taken up with detailed discussion of the "thematic paper" prepared by the United States delegation and enclosed with the letter which President Reagan sent to the Prime Minister earlier this month. As revised, the paper was agreed as constituting a good basis for discussion by Heads of State or Government at Williamsburg. I attach a copy of the revised paper herewith.

A good paper.

6. It falls into four sections: a general introduction, an assessment, a list of points for action now, and a list of long-term policies and goals. The first two sections might well form the basis for the general discussion on the morning of 29 May, and the last two sections for the plenary discussion on the afternoon of 29 May.

7. During the course of the discussion the French Personal Representative made it clear that at Williamsburg the French President would revert to his proposal for a high-level international monetary conference - or "new Bretton Woods". But this would not be offered as a proposal for immediate action: rather as something about which we should think and towards which we should work over the coming years. The progress made following Versailles was seen as a useful step on that path.

8. It was agreed that at the end of the plenary session on the afternoon of 29 May, Personal Representatives would ask Heads of State or Government for general guidance on the structure and content of the declaration which the President is to make at the end of the meeting. As there has been no preliminary drafting of the declaration, a first draft will have to be written in the light of the guidance received from Heads of State or Government, and revised and refined as necessary through the night. It was agreed that the

American Personal Representative would be responsible for writing the first draft; but I was asked by him to work with him on that: this was in response to a wish on the part of the other Personal Representatives that the first draft should not be prepared by the Americans on their own.

9. We also received the draft of a statement which had been prepared by senior Ministry of Finance officials following up the "international monetary undertakings" which were annexed to the Versailles communique. It was agreed that this draft should go to Finance Ministers at Williamsburg; and the Heads of State or Government should consider what they wished to be done with it: whether they wished to adopt it and attach it as an annex to the declaration, or to ask Finance Ministers to issue the document, or whether not to publish it in its present form but incorporate the gist of it as appropriate in the President's final declaration. This will be a decision to be taken on the afternoon of Sunday 29 May.

10. I should add that the United States delegation made it very clear to me that the President was very much hoping that the Prime Minister would come to Williamsburg. He had been wondering whether to ring her up to press her to do so, but had thought that it might perhaps be unfair to do that: as he had said, it was more important that she should win the Election than that she should come to Williamsburg. But if she can do both, not only the President but all the other Heads of State or Government would undoubtedly warmly welcome it and be greatly impressed. The United States delegation said that, if she wanted to come out in a scheduled Concorde to Washington or New York, they would of course arrange transport for her from there to Williamsburg.

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

RTA

ROBERT ARMSTRONG

13 May 1983

May 12, 1983

I. SUMMARY INTRODUCTION

This is a time of real improvement in economic circumstances. Recovery is underway, and this fact increases our mutual confidence that it will soon spread to all countries, industrial and developing. The challenge is to ensure that this recovery endures and reverses a decade of cumulative inflation and unemployment. In this effort, we are mindful of the basic interrelationships that link our economies and the world economic system:

-- The link between sustainable domestic growth and the open trading system.

-- The link between convergence of domestic policies towards non-inflationary sustainable growth stability.

-- The link between open markets and the availability of financing.

-- The link between international economic cooperation and world progress.

To meet the challenge of an enduring recovery for ourselves and future generations requires steady and purposeful action over both the short- and longer-term, across a range of policies that exploit and reinforce these interrelationships:

-- Promoting conditions for growth, employment and job creation, structural adjustment, and acceptance of technological development.

-- Maintaining the fight against inflation with the objective of achieving lower interest rates and more stable exchange rates while identifying consultations on economic policies and market conditions.

-- Supporting the international financial system and strengthening world economic cooperation and institutions.

-- Reversing protectionism and beginning to work to achieve further trade liberalization.

-- Recognizing that prosperity is more than material gain, but also reflects our basic shared values of political freedom, economic opportunity, cultural creativity, and human dignity, and

contributes to the defense of these values which also guide our economic and other relations with Eastern countries.

II. ASSESSMENT: REALISTIC OPTIMISM

Improvements are undeniable:

-- Major successes have been achieved in reducing inflation.

-- Interest rates have been significantly reduced.

-- Productivity increases are being registered.

-- Some successes in controlling budget expenditures are being achieved.

-- Consensus exists to reduce inflation and unemployment on the basis of sustainable growth promoting policy convergence, further reduction of interest rates and greater stability of exchange rates.

-- Measures to reduce dependence on oil have helped to bring about a decline in oil prices.

-- Recovery in our countries spreading to others will help ensure the revival of world trade and easing of debt burden of many developing countries.

However, unemployment, especially among young people, remains intolerably high and continues to increase in some countries. It can be brought down only if an enduring recovery is achieved. Serious problems remain which, if untended, will endanger the prospect of an enduring recovery.

-- Differences in inflation among countries remain too great.

-- Inflationary expectations, together with unacceptably high current and future budget deficits and the possibility of excessive and volatile monetary growth, keep interest rates too high, threatening to inhibit investment and recovery and producing distortions and volatility in exchange rates.

-- Protectionist pressures threaten our open trade and financial system and prospects for recovery in both industrial and developing countries.

-- Conditions in many developing countries remain much more acute than in our own; in many of them,

unprecedented international debt burdens, exacerbated by high interest rates and low commodity prices, continue to constrain trade and, even in some cases, to threaten financial and related political stability and create human hardship.

III. COMMON APPROACH TO A SUSTAINED RECOVERY

No single country, policy or immediate action can ensure a quick or sustained recovery. Success requires a common approach involving actions taken now across a broad range of policy areas, anchored within a framework of longer-term policy goals and decisions.

Actions Now:

-- Enhance the intensive consultation process initiated at Versailles to promote convergence of economic conditions in key currency countries and thereby contribute to greater exchange rate stability.

-- Develop cooperative consultations on policies and exchange market conditions and, while retaining the freedom to operate independently, be willing to intervene in exchange markets in a coordinated manner in instances where we agree such intervention would be helpful.

-- Encourage governments to reduce excessive budget deficits, especially by reducing expenditures, thereby lowering inflationary expectations and high interest rates.

-- Pursue appropriate non-inflationary growth of monetary aggregates to achieve and maintain low inflation and interest rates.

-- Halt and reverse protectionism and make use of favorable conditions provided by recovery progressively to relax and dismantle trade barriers and trade-distorting domestic measures, including those related to trade in high technology products.

-- Give new impetus to resolve current problems in agricultural trade, conflicts of jurisdiction and the need to achieve a safeguard agreement (by October 1983) as mandated by the GATT Ministerial.

-- Agree to press forward with the GATT work program on trade in services.

-- Begin work now to achieve further trade liberalization in the GATT, focusing particularly on trade with and among the developing countries, and on their ability to export and so to service their debt.

-- Secure early ratification of the increases in IMF and GAB resources and provide interim financing as appropriate.

-- Reaffirm commitments to provide agreed funding levels for IDA and the other multilateral development banks.

-- Continue with agreed strategy, and strengthen cooperation, for managing current debt problems, including effective adjustment, adequate private and official financing, and sustained, non-inflationary recovery in industrial countries.

-- Welcome openness to dialogue expressed by developing countries at New Delhi and Buenos Aires conferences and engage constructively in UNCTAD VI, emphasizing our program for a durable recovery and practical proposals to manage debt problems, facilitate adjustment, promote trade, revive commodity markets, encourage more private investment in, and official assistance for, developing countries and strengthen the dialogue with developing countries in appropriate fora.

-- Agree to consult among each other and with other countries to address interrelationships among growth, trade, and finance in the world economy and to encourage better coordination among international economic institutions.

-- Implement agreed conclusions for early action reflected in the results of work programs on East-West economic relations. (Identify significant results of pre-Summit meetings.)

IV. LONGER-TERM POLICY GOALS AND DECISIONS

-- Sustain fight against inflation and structural budget deficits to encourage a higher level of investment and new job creation.

-- Pursue the consultative arrangement agreed at Versailles to promote economic convergence toward low inflation and sustained growth and thereby achieve greater exchange rate stability, continuing with our agreement on exchange market intervention, in the context of an open trading investment and financial system.

-- Invite Ministers of Finance, in consultation with the Managing Director of the IMF, to define the conditions for improving the international monetary

system and to consider the part which might, in due course, be played in this process by a high-level international monetary conference.

-- Promote technological development and trade, including their public acceptance, and in particular the implementation of the specific projects included in the program for cooperation initiated at Versailles.

-- Promote structural adjustment and its public acceptance, in order to enhance competition and the flexibility of markets and to improve the allocation of resources, by all appropriate means including revitalization of training and the encouragement of mobility.

-- Invite Ministers of Trade, in consultation with the Director General of the GATT, to define the conditions for improving the open multilateral trading system, including trade between developed and developing countries, and to consider the possibility of more frequent Ministerial meetings in the GATT to maintain urgency in this process.

-- Examine ways to improve the effectiveness of the development process and structural adjustment by assuring non-inflationary flows of public and private finance and investment to the developing countries, with special attention to an adequate flow of resources to the poorer countries, both bilaterally and through IDA, the IBRD and similar institutions.

-- Continue efforts to conserve energy and develop economic alternative energy resources so as to ensure Western energy security and enhance energy production in developing countries.

-- Find practical ways to promote increasing food production in developing countries.

-- Work together to find ways, without discouraging growth and technological development, to protect and preserve natural resources and to reduce the threat of pollution from industrial processes (e.g., acid rain).

-- Promote cooperation in the development of human resources, including education and training and the improvement of health.

-- Continue work in appropriate existing fora to develop agreed analysis of our economic relations with the East, with attention to our shared security concerns, and on this basis pursue independent policy actions consistent with agreed principles and common analysis reflecting the fact that these relations should be compatible with the basic values and security concerns of Western countries.

DRAFT STATEMENT

Strengthening Monetary Cooperation for Stability and Growth

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

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

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

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

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

(1) Monetary Policy. Disciplined noninflationary growth of monetary aggregates, and appropriate interest rates, to avoid subsequent resurgence of inflation and rebound in interest rates.

(2) Fiscal Policy. Discipline over government expenditures, particularly transfer payments. We will aim to reduce structural budget deficits and bear in mind the consequences of fiscal policy for interest rates.

(3) Exchange Rate Policy. We will improve consultations, policy convergence and international cooperation to help stabilize exchange markets.

(4) Policies Toward Productivity and Employment. While relying on market signals as a guide to efficient economic decisions, we will take measures to improve training and mobility of our labor forces, and accommodating continued structural adjustment, especially by:

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

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

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

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

Type letter pl.

AR 13.5

Ref. A083/1340

MR COLES

As requested I attach a draft reply for the Prime Minister to send to Lord Lever and Lord Roll, to thank them for the communication which they sent her on 4 May.

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

RTA

ROBERT ARMSTRONG

13 May 1983

DRAFT LETTER FROM THE PRIME MINISTER TO THE RT HON THE LORD LEVER OF MANCHESTER, 86 EATON SQUARE, LONDON SW1

Thank you very much for the letter which you and Eric Roll sent to me on 4 May, and for ~~sending on to me~~ the memorandum reporting the conclusions which were reached at your meeting under Helmut Schmidt's chairmanship.

I found the memorandum interesting and stimulating as I would expect from its distinguished authorship. You will not be surprised if I say that there are points at which our emphasis would be different but I enjoyed reading it.

It is interesting and useful to have this memorandum before the Williamsburg Summit. I dare say that you will not be surprised to hear that the general drift of it is much in line with the general drift of our own thinking, though there are certainly points at which our emphasis would be different.

I am sending a copy of this letter to Eric Roll.

ADVANCE COPIES

ECONOMIC SUMMIT +34

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

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

PS/NO 10 DOWNING STREET

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

SIR R ARMSTRONG
CABINET OFFICE

MR J CAINES) DOT
MR E BESTON)

MR MCMAHON BANK OF ENGLAND

MR BUIST ODA

MS BOYS DEPT OF ENERGY
MISS DICKSON DEPT OF ENERGY

CONFIDENTIAL

FM PARIS 111530Z MAY 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 382 OF 11 MAY

AND TO PRIORITY WASHINGTON, BONN, OTTAWA, UKREP BRUSSELS, TOKYO, ROME.

POLITICAL PREPARATIONS FOR WILLIAMSBURG.

FOLLOWING FROM BULLARD.

1. FOLLOWING A MEETING OF THE SEVEN POLITICAL DIRECTORS OVER LUNCH IN PARIS TODAY, BURT (US) WILL REPORT TO PERSONAL REPRESENTATIVES (SHERPAS) THIS EVENING AS FOLLOWS:

(I) THERE IS A GENERAL DESIRE THAT DISCUSSION OF POLITICAL ITEMS BY HEADS OF STATE AND GOVERNMENT AT WILLIAMSBURG SHOULD BE ''TRULY INFORMAL''.

(II) THERE SHOULD BE NO POLITICAL COMMUNIQUE, BUT THE SEVEN PARTICIPANTS MAY WISH TO CONSIDER ISSUING A STATEMENT, PERHAPS OR PERHAPS NOT IN THE FORM OF AN OPEN LETTER TO ANDROPOV, ON ARMS CONTROL, OR POSSIBLY ON INF ALONE. THE US WILL CIRCULATE A DRAFT. MEANWHILE ALL PARTICIPANTS WILL CONSULT THEIR HEADS OF GOVERNMENT ON THIS SUGGESTION AND REPORT REACTIONS. TO ENSURE A PUBLIC IMPACT SEPARATE FROM THE ECONOMIC CONCLUSIONS OF THE MEETING, A STATEMENT

ON ARMS CONTROL/INF COULD BEST BE ISSUED ON THE SUNDAY.

(III) PRESIDENT REAGAN PROPOSES THAT THE POLITICAL DISCUSSIONS SHOULD TAKE PLACE AT THE FOUR MEALS (DINNER ON SATURDAY 28 MAY, LUNCH AND DINNER ON SUNDAY 29 MAY AND LUNCH ON MONDAY 30 MAY). HIS INTENTION IS TO ORGANIZE THE DISCUSSION IN SUCH A WAY THAT THE FIRST THREE MEALS SHOULD BE DEVOTED RESPECTIVELY TO ARMS CONTROL: EAST/WEST POLITICAL RELATIONS: AND THE MIDDLE EAST, AND POSSIBLY OTHER REGIONAL QUESTIONS. THE FOURTH MEAL WOULD BE A ''WRAP UP'' SESSION.

(IV) THE PRESIDENT PLANS TO INVITE A DIFFERENT HEAD OF GOVERNMENT TO INTRODUCE THE DISCUSSIONS AT EACH OF THE FIRST THREE MEALS. HE HIMSELF WILL LEAD THE ''WRAP UP'' SESSION. SINCE THERE WILL BE NO NOTE-TAKERS PRESENT AT THE MEALS, THE HEAD OF GOVERNMENT WHO INTRODUCES EACH DISCUSSION MIGHT SUMMARISE IT BRIEFLY AT THE BEGINNING OF THE FOLLOWING PLENARY.

(V) THE FOREIGN MINISTERS MIGHT DISCUSS THE SAME 3 BROAD THEMES, BUT IN GREATER DETAIL. THE US WILL CIRCULATE A SUGGESTED LIST OF SUB-HEADINGS UNDER EACH THEME AND INVITE COMMENTS AND ADDITIONS.

(VI) THE US PROPOSES THAT FOREIGN MINISTERS SHOULD ALSO DISCUSS THE FOLLOWING ITEMS:

- PRESIDENT REAGAN'S PROPOSALS ON YOUTH EXCHANGES:
- HIS INITIATIVE ON PROMOTING DEMOCRACY:
- TERRORISM:
- NON-PROLIFERATION.

THE AMERICANS WILL CIRCULATE A NOTE EXPLAINING HOW THEY INTEND TO RAISE THESE POINTS AND WHAT CONCLUSIONS THEY WOULD HOPE TO REACH. (THE FRENCH POLITICAL DIRECTOR AND I EXPRESSED SOME DOUBTS ABOUT THE VALUE OF DISCUSSION OF THE LAST TWO ESPECIALLY).

(VII) THE JAPANESE HAVE SPECIFICALLY PROPOSED THAT SOUTH EAST ASIA SHOULD BE AMONG THE REGIONAL THEMES DISCUSSED.

(VIII) SHULTZ WILL GIVE THE PRESS PERIODIC BRIEFINGS ABOUT THE POLITICAL DISCUSSIONS, IN PARTICULAR A HALF-TIME BRIEFING AT MIDDAY ON SUNDAY. THESE WILL BE VERY GENERAL, LISTING THE TOPICS DISCUSSED AND THE SPIRIT IN WHICH THEY WERE APPROACHED, BUT NOT THE CONTENT OF THE DISCUSSION.

(IX) ASSUMING THAT THE FINAL STATEMENT ON ECONOMIC ISSUES WILL BE INTRODUCED BY THE PRESIDENT ON MONDAY 30 MAY, SHULTZ WILL FOLLOW THIS WITH A SUMMARY OF THE POLITICAL DISCUSSION IN TERMS WHICH HE WILL HAVE CONCERTED WITH HIS COLLEAGUES.

FRETWELL

Econ Pol
Summit
PA 13

AJC.

CONFIDENTIAL

AR 13/5.

Cabinet Office
70 Whitehall
London SW1A 2AS

11 May 1983

PS(83) 8

Dear Private Secretary,

Williamsburg Economic Summit: 28-30 May 1983

This letter sets out the briefing arrangements for the Williamsburg Economic Summit on 28-30 May 1983.

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

70 copies of each brief should be sent to the Cabinet Office as soon as they are ready. They should reach the Cabinet Office by 12.00 noon on Monday 23 May and be addressed to Mr R D Roscoe in Committee Section, who should be consulted (tel no 233 7343) about any technical points arising.

I am sending copies of this letter to the Private Secretaries to Sir Antony Acland, Mr Peter Middleton, Sir Anthony Rawlinson, Sir Kenneth Stowe, Sir George Moseley, Sir Brian Hayes, Sir Kenneth Couzens, Mr Michael Franklin, Mr Geoffrey Littler, Mr John Sparrow and Dr Robin Nicholson, and to John Coles at No 10.

Yours sincerely,

(Signed) LINDSAY WILKINSON (MISS)

CONFIDENTIAL

ANNEX A

LIST OF BRIEFS FOR WILLIAMSBURG ECONOMIC SUMMIT 28-30 MAY 1983

PMVZ(83)	Subject	Lead Department	In consultation with
1.	Steering Brief	FCO	as appropriate
Economic Subjects			
2.	World Economy: Economic and Monetary Policies	Treasury	FCO
3.	International Monetary Matters	Treasury	as appropriate
4.	Trade	Trade	as appropriate
5.	North/South	FCO	as appropriate
6.	Energy	Energy	as appropriate
7.	East/West Economic Relations	FCO	as appropriate
8.	Impact of Technology	Cabinet Office	Industry Treasury
Political Subjects			
9.	East/West (including CSCE and Poland)	FCO	as appropriate
10.	Arms Control (including INF, START, etc)	FCO	as appropriate
11.	Middle East	FCO	as appropriate
12.	Central America	FCO	as appropriate
13.	Other Issues (eg Southern Africa, Afghanistan, Terrorism, Youth Exchanges, Acid Rain, Cancer)	FCO	as appropriate
Others			
14.	1984 Economic Summit	FCO	
15.	Bilateral Meetings	FCO	as appropriate
16.	Statistics	Treasury	
17.	Personality Notes	FCO	

ANNEX B

INSTRUCTIONS ABOUT FORMAT

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

Content

(a) Briefs should be concise. Each brief should if possible be no more than two sides long.

(b) The main body of each brief should comprise three sections: a very brief statement of the United Kingdom Objective (normally no more than a couple of lines); a concise list of Points to Make; and a factual Background section which distinguishes clearly between information which can be freely used and information which should not be disclosed.

(c) Briefs should be complete and self-contained with all the information required on that particular subject. Briefs should not be divided into separate self-contained sub-sections.

Layout

(d) Briefs should be typed in double spacing, using both sides of the paper. Pages should be numbered at the foot of each page.

(e) As shown in the specimen at Annex C, the top page only of each brief should contain the following details: the symbol and number of the brief in the top left-hand corner (eg PMVZ(83) 10) with the date of circulation below: a copy number in red at the top right-hand corner; the visit heading; the title of the brief (in capitals) and the name of the Department responsible.

(f) At the foot of the last page and on the left-hand side, briefs should bear the name of the originating Government Department and the date of origin.

Reproduction

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

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

Updating

(i) If late developments require a brief to be amended or updated, a revise should be prepared. It should be set out in the form described at (e) above, with the brief number amended to show that it is a revise (eg PMVZ(83) 10 (Revise)). Subsequent revises should be numbered (eg PMVZ(83) 10 (Revise 2), etc). If it is a question of adding material to the brief rather than revising its existing contents, an addendum may be prepared, in the form described at (e) above with the brief number (eg PMVZ(83) 10 Addendum) and title to which it relates at the top of the front page. The Private Secretary to the Secretary of the Cabinet should be informed when a revise or an addendum is in preparation and also about corrigenda to briefs.

(j) Additions to the list of briefs in Annex A require the authorisation of the Private Secretary to the Secretary of the Cabinet.

[CLASSIFICATION]

ANNEX C

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

[Leave 1½" margin]

PMVZ(83) [Serial No as specified in Annex A] COPY NO [in red]

[Date]

WILLIAMSBURG ECONOMIC SUMMIT
28-30 MAY 1983

[SUBJECT] [Insert subject in capitals]

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

[At foot of last page on left-hand side:-]

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

[Date of origin]

[CLASSIFICATION]

Econ Pol.
Econ Summit
(Williamsburg)
Pt 13.

✓ Stuttgart file

PRIME MINISTER

WILLIAMSBURG AND STUTTGART

Following your meeting with the Foreign and Commonwealth Secretary today, I have arranged a meeting at 0930 on Tuesday (the Chancellor is away on Monday) to discuss the question of representation at these two events.

Stuttgart

Sir Jock Taylor is seeking an appointment to call on Chancellor Kohl on Thursday of this week. I shall let you have a proposed telegram of instructions tomorrow.

Sir Michael Butler rang today to report that some people in Brussels, including Emile Noël (the Secretary General of the Commission), are beginning to talk about postponing the European Council until after the UK elections - and so as not to put Italian noses out of joint, until after the Italian elections as well. This would mean a meeting right at the end of June. The thought in these peoples minds is that there would be a better chance at the end of June of your agreeing to an increase in own resources, which you would not contemplate during an election campaign.

Postponement until late June would in some ways be a help. But we should not become too excited about the prospect. There has not been the slightest hint from the Germans that they could contemplate this - and the difficulty of getting Heads of Government together for a new date may well be quite insuperable. Nor can we reasonably ask for a postponement since the date of the Council was fixed before our election date.

The Chancellor of the Exchequer told me that he thought that postponement, if it could be achieved, was a very attractive course. ✓ PERB

I have asked the FCO to consider advice on the question of postponement and this will be available tomorrow also.

/ Williamsburg

Williamsburg

I attach a reply from President Reagan to your message. He wants you to go to Williamsburg and suggests that you could attend from noon on the Sunday until the "formal closing" on the Monday. I think we can reply after your meeting next week.

A.J.C.

10 May 1983

Econ Pol
Econ Summit
(Williamsburg)
Pt 13

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Prime Minister

A.J.C. 12/5

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IMMEDIATE

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D E D I P

PS/No 10

C O N F I D E N T I A L
FM WASHINGTON 102310Z MAY 83
TO IMMEDIATE F C O
TELEGRAM NUMBER 1289 OF 10 MAY

FOLLOWING PERSONAL FOR PRIVATE SECRETARY, NO 10 DOWNING ST.

1. MIKE DEAVER HAS JUST TELEPHONED TO SAY THAT IN DISCUSSION WITH WHITE HOUSE STAFF, THE PRESIDENT HAD SAID THAT NO PRESSURE WAS TO BE PUT ON THE PRIME MINISTER ONE WAY OR ANOTHER ABOUT HER ATTENDANCE AT THE WILLIAMSBURG SUMMIT. QUOTE HELL UNQUOTE HE IS REPORTED AS SAYING QUOTE THE MAIN THING IS FOR HER TO GET RE-ELECTED. UNQUOTE

2. DEAVER, WHO HAS A KEEN EYE FOR THE VISUAL IN POLITICS, ADDED IN HIS OWN RIGHT THAT IF THE PRIME MINISTER WERE ABLE TO GET TO WILLIAMSBURG, FOR HOWEVER SHORT A TIME, THERE WOULD BE QUOTE PHOTO OPPORTUNITIES UNQUOTE.

WRIGHT

Foreign and Commonwealth Office

London SW1A 2AH

10 May 1983

A.J.C. 10/5

Dear John,

Williamsburg and Stuttgart

We spoke about a line for use in the House of Commons this afternoon. As you know, Mr Pym looks forward to discussing the question of representation with the Prime Minister. Meanwhile, he would suggest the following:

> 'We shall of course be represented both at Williamsburg and at Stuttgart. I shall take my decision on Williamsburg in good time before the meeting which starts on 28 May. Similarly, I shall take a decision on Stuttgart nearer the time of the European Council on 6 and 7 June.'

Yours ever,

Brian

(B J P Fall)
Private Secretary

A J Coles Esq
10 Downing Street

Econ Pol Summit 83

File

6

10 DOWNING STREET

From the Private Secretary

10 May 1983

WILLIAMSBURG

I enclose a copy of a message which the Prime Minister has received from President Reagan in reply to her message of 9 May.

With regard to the first paragraph, we are announcing this evening that the Prime Minister will now not be able to visit Washington on 26/27 May.

In the second paragraph, President Reagan suggests that the Prime Minister might attend the Williamsburg Summit from noon on Sunday, 29 May until the formal closing on Monday 30 May. I shall be showing the Prime Minister this message overnight. Unless she wishes to respond sooner, it will be considered at the meeting which we are arranging on Tuesday 17 May to discuss attendance at both Williamsburg and Stuttgart.

B/F 15/5

I am sending copies of this letter and its enclosure to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office) and should be grateful if you and they would not circulate President Reagan's message beyond Private Offices.

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

SC

Subject

10.5.83

5

cc Master
Ops

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 61A/83

ZCZCWAG074
TOO WTE24
DE WTE £2978 1301610
O 101635Z MAY 83
FM THE WHITE HOUSE
TO CABINET OFFICE LONDON
ZEM
S E C R E T VIA CABINET OFFICE CHANNELS WH02978

MAY 10, 1983

DEAR MARGARET:

THANK YOU FOR YOUR MESSAGE WITH THE NEWS THAT YOU HAVE CALLED ELECTIONS ON JUNE 9. I FULLY UNDERSTAND THE DIFFICULTIES OF LEAVING THE UNITED KINGDOM DURING THE ELECTION CAMPAIGN PERIOD. IT IS FINE WITH ME IF YOU ANNOUNCE TODAY THAT YOU WILL NOT BE ABLE TO COME TO WASHINGTON FOR A BILATERAL MEETING.

I WOULD VERY MUCH HOPE THAT YOU WOULD SEE YOUR WAY CLEAR TO PARTICIPATING PERSONALLY IN THE WILLIAMSBURG MEETING ITSELF. OUR APPROACHES TO COMMON CHALLENGES ARE VERY SIMILAR, AND I WOULD APPRECIATE YOUR IDEAS AND SUPPORT DURING THE DISCUSSIONS IN WILLIAMSBURG. PERHAPS YOU COULD ATTEND FROM NOON SUNDAY, MAY 29, TO THE FORMAL CLOSING ON MONDAY, MAY 30. DURING THIS PERIOD YOU WOULD PARTICIPATE BOTH IN THE CRITICAL SUBSTANTIVE DISCUSSIONS AND THE MAJOR PUBLIC EVENT OF THE SUMMIT.

I WISH YOU EVERY SUCCESS IN THE ELECTION, AND IN GAINING ANOTHER MANDATE TO CARRY OUT THE COURAGEOUS AND PRINCIPLED POLICIES WHICH YOU HAVE BEGUN.

SINCERELY,

RON

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£2978

NNNN

Econ Pol
Summit
PtB.

SECRET

Sir Robert Armstrong will provide advice, if necessary, on the thematic paper after the Paris meeting.

4

N.S.P.R. 10/5

Ref. A083/1322

MR COLES

Williamsburg Summit

In your minute of 9 May you asked for advice on the line which I propose to take at the forthcoming Sherpa meeting on the President's thematic paper.

2. I propose to be guided by:

flag A (a) The paper which the Chancellor of the Exchequer prepared for discussion at the NEDC earlier this month.

flag B (b) The statement which the Chancellor of the Exchequer made about the Government's approach to the Williamsburg Summit at a press briefing before he left for the Development Committee in Washington.

flag C (c) The attached note prepared in the Treasury identifying the main issues which will arise at the Summit.

flag D (d) The line which the Prime Minister took with Mr Meese at their meeting on 4 May, as recorded in the note attached to your letter of 5 May.

RTA

ROBERT ARMSTRONG

10 May 1983

SECRET

INTERNATIONAL ECONOMIC ISSUES

Introduction

The world economy has been going through a painful process of adjustment and transition affecting all countries.

2. In the 1970's most industrial countries adopted expansionary fiscal and monetary policies, while developing countries extended their borrowing, in an attempt to stimulate economic growth. The result was cycles of successively higher rates of inflation, coupled with successively higher levels of unemployment, and compounded by shock increases in oil prices.

3. A halt to this process was inevitable, and has led to a recession which has proved long and difficult. We have seen further sharp rises in unemployment, increases in public deficits, high interest rates, a reduction in the volume of world trade, and falling commodity prices. This has produced severe imbalances for non-oil-exporting developing countries, and dramatic increases in the short-term debts of some developing countries. It has contributed to increased volatility in exchange rates as industrial countries have adjusted economic and financial conditions at different times and with varying success.

4. This paper considers what has been done to improve the prospects for recovery, and what remains to be done.

The Objective

5. The broad objective must be to strengthen the foundations of sustainable, non-inflationary growth for the world economy as a whole. Much of the responsibility lies with the conduct by individual governments, particularly in the major industrial countries, of their domestic economic and financial policies. Internationally, we need also to pay attention to two other objectives:

- to overcome the legacy of excessive debts incurred by some countries. This requires policy adjustment by debtor countries, and support from the international financial community while this proceeds;

- to restore greater stability in exchange rates, in the interest of more confident international trade and investment and of a more settled framework for many domestic financial decisions.

What Has Been Done?

6. At the Economic Summit in Versailles a year ago important conclusions were reached about the need for adjustment. It was agreed that recovery on a durable basis depended on success in the continuing fight against inflation. The first task for the main industrial countries, therefore, was to restore their own economies, by reducing their structural public deficits, controlling monetary growth and reducing rates of inflation. It was recognised that the immediate prospect for industry, trade and unemployment would be difficult, but that this was the price to be paid for having lived for so long on inflation and debt.

7. Internationally, a series of major debt problems erupted during the second half of 1982. The international financial community responded speedily and effectively. The principle was recognised at the outset: necessary adjustment of domestic policies must be undertaken by debtor countries, with the IMF playing a supervisory role. This would be supported by creditor governments and central banks, and commercial banks would continue to play an important part. It was increasingly recognised that a major increase in IMF resources was vital and urgent, and early this year governments agreed to an expansion of the General Arrangements to Borrow and a major increase in IMF quotas. The result, subject to ratification, will be effectively to double the resources available to the IMF by the beginning of 1984, some two years earlier than previously planned.

Progress So Far

8. There are important signs of progress in some key areas:

- a growing number of countries are successfully tackling budget deficits, and the determination to gain and keep control of structural deficits is widespread and strong - though not always easy to translate into practice;

- most countries are also paying close attention to the need to discipline monetary growth;

- inflation has fallen steeply among major countries and now averages about 5 per cent, the lowest rate for a decade;

- nominal interest rates have fallen significantly in the United States, the United Kingdom and elsewhere;

- oil prices have fallen by some 15 per cent, offering on balance hope of favourable impact on both world inflation and world output; though for some oil-producing countries this obviously creates problems, at least in the short run;

- there are growing signs of recovery of real demand and real output, particularly in those countries which have had the greatest success in bringing down rates of inflation and interest rates.

9. For the world economy as a whole there are grounds for cautious optimism. In the United States economy, GDP, industrial production and capacity utilisation all seem to have been increasing since the turn of the year; retail sales have picked up slightly; and the Administration has revised its forecast for GDP growth in 1983 from 1½ per cent to almost 3 per cent. In the United Kingdom, the rapid fall in the rate of inflation last year helped to promote a revival of demand, and there have been more recent indications of increased output coupled with some revival of business confidence. In Germany, industrial production has recovered, while construction activity and the volume of new orders have improved, creating there too a revival of business confidence. Output in Japan is expanding, although at a modest rate, and perhaps in Canada also. In France and Italy, little growth is expected this year as both concentrate on reducing their continuing high inflation rates.

10. For the leading industrial countries taken together, there is a prospect of real growth of perhaps 2 per cent between 1982 and 1983, becoming stronger as the year proceeds and into 1984. The prospect for inflation also remains favourable. Recovery on this scale would be modest and gradual. It could not be associated with any early and dramatic reduction in unemployment. But it could, and should, be durable and gather strength, with beneficial effects on unemployment, and without precipitating renewed inflation.

What Needs To Be Done?

11. The task now is to maintain and consolidate the foundations for sustainable growth. The industrial countries (and so the world) would not benefit from short-lived boosts to public expenditure or consumption which cannot be matched by output: that is the road to higher inflation. Nor is there any foundation for the idea that countries which have been relatively successful in reducing their rates of inflation could help others by expanding their domestic demand in a co-ordinated way: that course too would simply generate more inflation.

12. It is important to have room for sustainable growth of real demand and output. But that is best achieved by making more head-way against inflation, against high interest rates, and against high public deficits. The importance of the US economy means that their success in these directions - and particularly in relation to their Budget deficit - is of special significance for the rest of the world.

13. Meanwhile, we must look to ways of gradually easing strains on developing countries, especially those which need to tackle severe debt problems, over the years ahead.

A Programme For Action

14. All these matters have been or will be discussed extensively in international meetings, particularly of the IMF/IBRD Development Committee last week in Washington, of the OECD in Paris next week, and of the Summit at Williamsburg at the end of May. I hope that those meetings will confirm the objective of sustainable, non-inflationary growth, and develop proposals for action through international co-operation on the following lines:

1. Industrial economies: at Versailles it was agreed that industrial countries, particularly the five whose currencies constitute the SDR (United States, United Kingdom, France, Germany and Japan), should seek to strengthen their co-operation with the International Monetary fund through a process of mutual examination of their economic and financial development. We have made progress in outlining a common approach to the strategies each of our countries needs to adopt. A closer concertation of our economic objectives over the medium-term would be valuable, and mutually reinforcing.

2. Exchange rates: a convergence of economic policies designed to produce low rates of inflation should facilitate greater stability of exchange rates and interest rates.

3. Exchange rate intervention: as a result of a study which was commissioned at Versailles agreement may be reached on the limited but valuable role of exchange rate intervention.

4. Debt: the debt problems which still confront a number of countries will need continued vigilant monitoring.

5. IMF resources: the authority and skill of the IMF in helping with the adjustment problems of individual countries has to be reinforced by the availability of

adequate resources. Before the enlargement of IMF Quotas takes effect there could be liquidity problems which would need to be resolved, whether by official bridging operations or possible market borrowing; subsequently it will remain necessary to monitor total IMF resources, in relation to the scale of debt problems. The case for a new issue of SDR to maintain adequate world liquidity will need to be further considered.

6. Aid: programmes of official aid should be maintained, and it is particularly important now to complete the IDA VI programme (in which the UK has played a leading role and in which we look to the United States now to play its part), and to prepare for IDA VII.

7. Protectionism: we need to halt, and reverse, the tide of protectionism, and to find ways of doing so effectively and fairly.

8. East/West trade: we need to steer through potential misunderstandings and conflicts of interest to arrangements which satisfy common strategic and overall economic interests.

B

THE APPROACH TO THE WILLIAMSBURG SUMMIT

/ Statement by the Chancellor of the Exchequer: 26 April /

In just over one month, the Economic Summit meeting will take place in Williamsburg on 28-30 May. There are other important meetings between now and then: of the Development Committee in Washington this week on 28-29 April, and of the Ministerial Committee of the OECD in Paris on 9-10 May. Both in Washington and in Paris, I and my Finance Minister colleagues of the Summit countries will be taking the opportunity to talk together, and in Paris we will be joined by our Foreign and Trade Minister colleagues.

2. The central theme of all our discussions will be world economic recovery - the prospects, the dangers, the strategy we need to nurse the recovery through to sustained non-inflationary growth, whose benefits can be shared by all countries.

Since Versailles

3. At the Economic Summit in Versailles a year ago, as the recession was deepening, important conclusions were reached about the need for adjustment to escape from the imbalances and turbulence of the 1970's. It was agreed that recovery on a durable basis would be obtainable only if the continuing fight against inflation were successful.

4. Adjustment to the second oil price shock of 1979 has inevitably been painful. The struggle to restore sanity to our economic and financial life has been at the centre of the recent recession. For industrial countries it has meant initially a further inflationary shock and major disruption to key industries, with rapidly rising unemployment. Developing countries have suffered from the oil price increase, from high inflation, from reduced export earnings and from

high interest rates which in some cases have led to a dramatic growth of short-term debt, threatening the structure of financial markets. The hardship for many of the developing countries has, of course, been all the more severe because of the poverty from which they still suffer.

5. Since Versailles, the cumulative effects of recession have in many respects become more visibly grave, and therefore more alarming to many people. But appearances often lag behind the underlying reality, and in fact we can record some very important progress:

- inflation has fallen steeply among major countries and now averages about 5 per cent, the lowest rate for a decade;

- progress has been made in a growing number of countries in tackling budget deficits, and the determination to gain and keep control of structural budget deficits is widespread and strong;

- nominal interest rates have fallen significantly in the United States, the United Kingdom and elsewhere;

- oil prices have fallen by some 15 per cent, offering on balance hope of favourable impact on both world inflation and world output;

- growing signs of recovery are now seen, particularly in those countries which have had the greatest success in bringing down rates of inflation and interest rates

(United States, Germany, Japan and, happily, the United Kingdom), and this recovery does not result from artificial stimulus of demand.

The Prospects for Recovery

6. Activity has clearly picked up in the United States, where the Administration has recently revised upwards its forecast for GDP growth in 1983 from 1½ per cent to almost 3 per cent. There are signs of recovery in the United Kingdom and Germany, coupled with a revival of business confidence. Output in Japan is expanding, although at a modest rate, and perhaps in Canada also. In France and Italy, little growth is expected this year as each concentrates on reducing its continuing high rate of inflation.

7. The prospect for Summit countries taken together seems to be of some 2 per cent real growth between 1982 and 1983, becoming stronger as the year proceeds and into 1984, and with prospects for inflation remaining favourable. Recovery on this scale would be modest and gradual. It could not be associated with any early and dramatic reduction in unemployment. For some time indeed it would do no more than gradually check the rise. But it could, and should, be durable and gather strength, without precipitating renewed inflation. This is the opportunity which must be grasped.

A Co-operative Strategy

8. I believe there is a strong and shared desire of all Summit countries to see the recovery sustained and extended to each of them, without rekindling inflation pressures. We need lower inflation, which will contribute directly to higher real incomes and a better prospect for employment. We need lower interest rates, which will in turn both benefit the cash flow of companies and improve their profitability, and so help to finance higher

output, stock-building and investment. This will improve the outlook for jobs.

9. The individual and collective strategies of Summit countries must focus on making room for the recovery to develop without relaxing the disciplines on growth of monetary aggregates, and without losing control - in some cases indeed improving control - of fiscal deficits. This is the only prescription for maximising growth of demand and output in real terms, and not in money terms.

10. At Versailles it was agreed that Summit countries would seek to strengthen their co-operation with the International Monetary Fund in mutual surveillance of their economic development, and to develop this particularly among the countries whose currencies constitute the SDR (United States, United Kingdom, France, Germany and Japan). I hope that the meeting at Williamsburg will give additional authority and impetus to this development, so that our individual policies can take account of each other, and mutually reinforce each other over the years ahead. The idea of concerting our economic policies over the medium term is something which needs to be reinforced.

Problems and Uncertainties

11. There are some important problems and uncertainties, which we need to guard against:

- those of developing countries, among which the problems of major sovereign debtors have loomed large, will be a particular focus of attention at the meeting of the Development Committee later this week;

- protectionism has significantly, and understandably, been growing as individual countries and industries have found themselves subject to particular pressures. This is a process which could threaten to choke off wider opportunities for recovery. The general need to halt, and indeed reverse, the tide of protectionism, and to find ways of doing so effectively and fairly, will be an important topic for consideration at the meetings in Paris, and again at Williamsburg;

- high real interest rates, reflecting pessimistic expectations of future inflation and imbalances of policies, are a major obstacle to recovery, and contribute substantially to current debt problems. Our discussions of strategy must address themselves to the need to keep interest rates down, on a basis which can be maintained without excessive monetary expansion;

- exchange rate volatility has been a substantive and increasing worry over recent years. It is clear that greater stability of exchange rates would benefit international trade and investment, as well as providing a more settled framework for development by individual countries of their own domestic policies.

All these problems will be eased by the sound recovery we are seeking. Let me say more about two of these problems in particular, which have attracted a gooddeal of recent attention.

International Debt

12. There have been some key landmarks over recent months in handling the debt situation:

- the international community has shown itself able to undertake major rescue operations in short order, in conjunction with adjustment programmes worked out with the International Monetary Fund;

- a major new development has been the role of the Fund in establishing contact and exchange of information with commercial banks in order to encourage them to play an appropriate continuing part;

- early this year the international community agreed speedily on a substantial replenishment of resources for IMF. This was achieved in part by a major increase in credit lines available under the General Arrangements To Borrow and their availability to non-Members, and in part by a 50 per cent increase in the size of the Fund itself. Subject to ratification, these measures represent a doubling of resources available in practice to the IMF, made available some two years earlier than previously planned.

13. Further progress in easing the financial problems of debtor countries can be expected from:

- lower interest rates;

- a gradual improvement in export prospects as recovery in the industrial countries emerges;

- the effects of major adjustment programmes agreed by debtor countries themselves, with the IMF;

- continuation of the key role played by the World Bank, and in particular by IDA, in meeting the needs of other countries.

The Fund estimates that non-oil developing countries will reduce their current deficits from $90 billion in 1982 to $70 billion this year. The recent reduction in oil prices should help them on balance.

14. We must expect continuing pressure on the resources and skill of the IMF in superintending the adjustment process, and the many problems which will still arise in it. There have recently been proposals, of greater or less ingenuity, involving wholesale refinancing of debt. It is right to consider such proposals on their merits. But I am distrustful of "blanket solutions", usually involving major institutional developments which would take years to implement. I am wary too of proposals which would replace market judgements and financing by Government decisions and funding. It is generally preferable to build on existing techniques. It is important that Governments, international institutions and the financial community generally should be ready and able to continue their effective co-operation.

Exchange Rate Stability

15. Experience has shown that exchange rate stability can only sensibly be built on parallel policies and performance by major industrial countries. Direct market intervention may sometimes help with short-term fluctuations. But stability in currency relationships over the medium term requires:-

- reduced and convergent inflation rates;

- a healthier and more convergent general balance of fiscal and monetary policies.

16. I believe that an approach to these requirements can be reinforced by the evolution, in a medium-term framework, of the arrangements for leading industrial and currency countries to work together with the IMF in the development of their policies.

17. It is contrary to the experience of many years to believe that any system of exchange rate rules, or any practice of relying on intervention, can overcome large basic differences in the performance of different economies. We have to begin with the essentials, and create stable foundations, before we can aspire to a more stable exchange rate system.

Conclusions

18. There have been strident voices in recent times, understandably worried by the depth and duration of the recession, crying for "locomotive" action by some or all industrial countries to get the world's economy moving, for a new Bretton Woods to recreate order, and for the artificial creation of flows of funds to resolve debt problems and finance activity regardless of consequences.

19. A common feature of many of these demands is that they seek to resolve this year's problems - or indeed last year's - at the expense of the future. We cannot afford that attitude. It gives me confidence that there has developed over the last year or two a strong consensus among the nations' leaders that we should set our sights on a sounder and more durable future. That is the objective we shall be seeking at our meetings in the coming weeks, building on the foundations which are already being laid.

26th April 1983

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ECONOMIC THEMES FOR WILLIAMSBURG SUMMIT

Since Versailles

At Versailles, as the recession was deepening, important conclusions were reached about the need for adjustment to escape from the imbalances and turbulence of the 1970's. It was agreed that recovery on a durable basis would be obtainable only if the continuing fight against inflation was successful.

2. Progress has in fact been made since Versailles (see below), but the cumulative effects of recession have in many respects become more visibly grave and therefore more frightening to many people.

Broad Theme of Williamsburg Summit

3. Economic recovery is the key to the range of inter-related problems which overshadow the world at present - recession, unemployment, debt problems, growing protectionism, instability of prices, interest rates and exchange rates.

4. The Summit will assess the prospects for recovery, debate the strategies necessary to support and sustain it, and examine the implications for other problems and actions which can be taken to help in dealing with them.

Recovery

5. The basis for recovery has undoubtedly strengthened:

- inflation has fallen steeply among major countries and now averages about 5 per cent, the lowest rate for a decade;

- progress has been made in a growing number of countries in tackling budget deficits;

- nominal interest rates have fallen, although real interest rates remain high in some countries;

- growing signs of recovery are seen particularly in those countries which have had the greatest success in bringing down rates of inflation and interest rates (United States, Germany, Japan and, happily, the United Kingdom), and do not result from artificial stimulus of demand.

6. Latest forecasts have been tending to take a more optimistic view than was held six months ago, although still rightly cautious. They suggest GDP growth among major industrial countries from now on averaging about 2½ - 3 per cent. This would be a modest pace of recovery by comparison with some past experiences, but those past experiences led always to renewed inflationary pressures which then choked off the recovery.

Strategy

7. A strong desire of all Summit countries to see the recovery sustained and extended to all of them, without rekindling inflationary pressures. Their individual and collective strategies must focus on making room for the recovery to develop without relaxing the disciplines on growth of monetary aggregates and maintaining, in some important cases improving, control of fiscal deficits. This is the only prescription for maximising growth of demand and output in real terms, and not in money terms.

Multilateral Surveillance

8. At Versailles it was agreed that Summit countries were ready to strengthen their cooperation with the IMF in surveillance of their economic development, and to develop this on a multilateral basis, taking into account particularly the currencies constituting the SDR. We shall be developing our individual and collective strategies in this framework.

Unemployment

9. Gradual and sustainable recovery cannot be expected to have a dramatic impact on levels of unemployment. Initially, we must look to halting the rise in unemployment. Persistent recovery, widely spread, is the only way to reduce unemployment healthily by providing durable jobs.

Debt Problems

10. A continuing preoccupation of Finance Ministers and Central Bank Governors, and of the IMF Interim Committee. Note that debt problems are heavily concentrated on about a score of countries, the relatively advanced developing countries, and particularly heavily concentrated on half a dozen, mainly Latin American.

11. Two key requirements:

- responsible adjustment of domestic policies by the debtor countries;

- financial help for those countries through the period of adjustment, which must take some time.

12. Three stages of action:

- leading creditor countries, together with the IMF, have shown the ability to get together quickly and mobilise rescue arrangements for several individual debtors, in conjunction with new policies developed by those debtors;

- the IMF plays a vital role: steps taken in January and February, with great urgency and successfully, effectively to double resources available to the IMF and bring forward by some two years the time at which extra resources are available;

- continuing discussions, among Finance Ministers, Central Bank Governors and in the IMF, to deal with further problems which will undoubtedly arise, and to monitor continuously the adequacy of resources available.

13. The single most important contribution which Summit countries can make now to the resolution of debt problems is to sustain a recovery which will not provoke new inflation. That will give opportunity for debtor countries to improve their export performance; it will ease (indeed has already eased) the interest-rate burdens of debt; and it will support the renewal of confidence.

Protectionism

14. Understandable as a response to pressure on individual industries. But fundamentally a wrong direction. Post-war growth benefitted from the widening of trade. Recovery now needs wider, not narrower, international trading opportunities.

15. The Summit should discuss possibilities of preventing further protectionism and taking opportunity as recovery develops to reduce barriers which now exist. It will also explore the complex relationships between protectionism, the rate of growth of activity, problems of debtor countries which need to export, secular changes in world industry and trade patterns and exchange rates.

Exchange Rates

16. Study since Versailles of experience in exchange rate intervention during the past decade of floating. Likely to be made public after meeting of Finance Ministers in Washington on 29 April. Conclusion on intervention has to be that it cannot secure stability of exchange rates while economic performance of major countries diverges. But it can serve a more modestly useful purpose in countering disorderly market conditions and short-term volatility. If used at all, intervention should support other policies, not conflict with them. More fundamental stability requires a greater degree of convergence, at low rates of inflation, in the performance of separate economies. Such convergence will be a central part of the strategy being pursued under the multilateral surveillance arrangements.

Developing Countries

17. Long habit of speaking of developing countries as if they were homogeneous is badly out of date. It is at least necessary to distinguish between oil-producing countries, countries at a fairly high stage of development which have attracted commercial capital and many of whom are now encountering debt problems, and the poorest developing countries.

18. One thing all have in common is that they will benefit from a gradual and sustained recovery and would be hurt, even if not immediately and in differing ways, by a resurgence of inflation. As far as special action is concerned:

- there is need to consider what more the world bank itself can do - possibilities for discussion at the Development Committee [best not specify now];

- it is important for the poorest countries to maintain the operations of the IDA;

- investment, which brings with it sound and experienced management, should be given greater respectability again, in preference to the dangerous habit of commercial financial support of a general balance of payments kind, such as developed too widely in the last few years;

- the idea of an allocation of SDR is often suggested in favour of developing countries, but this is really part of a wider question of the state and need of global liquidity, to which following the Interim Committee meeting in February the IMF will be devoting special attention a few months from now (studies are at present being prepared).

East-West Trade

19. A political and strategic problem, rather than a strictly economic problem, and in economic terms not on a scale affecting the world economy generally. But it is important for the world economy that frictions in areas such as this should be reduced. Progress is being made in OECD and NATO discussions and elsewhere, and we hope these will be productive.

General

20. The Summit is not a meeting for operational decisions. It is an opportunity for a searching exchange of views between countries which share current problems and are conscious of the close interaction of the decisions of each upon the others. Do not expect dramatic new announcements - there are no quick and simple solutions. What is to be expected is rather an assessment and orientation, building on work already done in individual countries, in the IMF and IBRD, and in frequent meetings in the OECD and groups of Finance Ministers and others, and indicating ways in which some of that work can most usefully develop in future.

CONFIDENTIAL

D File

Subject

cc Master

10 DOWNING STREET

From the Private Secretary

5 May 1983

CALL ON THE PRIME MINISTER BY MR. MEESE

Thank you for your letter of 29 April. Mr. Meese called on the Prime Minister yesterday. I enclose a record of the conversation.

With regard to the passage on page 2 dealing with East/West relations, the Prime Minister subsequently asked me to make it clear to the Americans that she was in no sense proposing that there should be formal discussion at Williamsburg of the West's overall strategy towards the Soviet Union. Our position remained that we do not wish the question of East/West relations to become a divisive issue at Williamsburg. But if an opportunity arose informally, perhaps over a meal, there might be value in a general exchange of views about East/West relations. I was able to make these points at the American Ambassador's dinner for Ed Meese last night.

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

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND MR. EDWIN MEESE, COUNSELLOR TO PRESIDENT REAGAN, AT 1615 HOURS ON WEDNESDAY 4 MAY 1983 AT 10 DOWNING STREET

Present

Prime Minister	Mr. Meese
Sir A. Parsons	Mr. Louis
Mr. Coles	Mr. McCormack

* * * * * *

The Prime Minister said that it was important to damp down expectations about the Williamsburg Summit. It was not realistic to expect new ideas. The emphasis should be on the good elements in existing ideas. The main value of the Economic Summits was that the participants were encouraged to follow sensible economic policies, e.g. in combatting protectionism and in restraining inflation. This presented them with a better opportunity of sustained and steady growth.

Mr. Meese said that President Reagan felt very strongly that we should try to lower expectations. He saw the Summit as an opportunity for meetings between world leaders and not as a treaty-signing ceremony. There were two matters which could usefully be stressed. Since Versailles there had been productive studies on a number of East/West Relations (for example the IEA Report, the OECD Study on Credit, the COCOM discussions). We should be able to present these as evidence that the allies were dealing with problems in an orderly way. Secondly, we could point to increased coordination and communications between the allies on economic policies, for example with regard to exchange rates.

The Prime Minister said that we must be very careful about referring to exchange rates. Such references could be highly misleading. All that we could usefully do was try to pursue stable economic policies. That was the way to achieve stable exchange rates. The sections of the Versailles Communique dealing with economic matters had been basically

/ correct.

correct. We might draw on these again. The main reason for optimism about Williamsburg was that there was now a chance that we were on the path to economic recovery. We should give an impression of cautious optimism. For it was better that cautious optimism should be fulfilled than that inflated optimism should be confounded.

We must avoid divisions in the alliance. In any discussion of East/West relations it might be desirable to consider a reassessment of our political stance in the wake of Afghanistan and in the light of Mr. Andropov's arrival on the scene. The basic question was how, by political, commercial or defence measures, we could influence the Soviet Union to our advantage. She had noted that the Americans were prepared to renegotiate their wheat contract with the Soviet Union, because they saw this as being in their interests. But this had implications for the West's post-Afghanistan policy.

As regards arms control, the tactics for each separate arms negotiation needed to be carefully considered.

Mr. Meese said that it was difficult to explain arms control issues to public opinion. Andropov's statement of 3 May might be considered to have some plausibility but in fact it did not make sense. It was impossible to include the British and French strategic deterrents in the INF negotiations.

The Prime Minister said that in her media interviews in Washington she would be supportive of the US Administration. But she had to say that some of the protectionist measures of the United States Congress were objectionable. Mr. Meese suggested that she might make some general public references to protectionism in the United States.

The Prime Minister enquired about Mr. Shultz's progress in the Middle East. Mr. Meese replied that progress was fair.

/ The President

The President had felt that Habib and Draper had taken the negotiations as far as they could and that it was necessary for Mr. Shultz to visit the area. He would not just be trying to make progress on the Lebanon but would be letting the Israelis know that the United States would cooperate with them, e.g. over aircraft sales, if progress could be made on withdrawal from the Lebanon. The enterprise was at some political risk to the President and to Mr. Shultz.

The Prime Minister asked whether the Americans had any intention of involving Syria in the current discussions. Mr. Meese said that messages had been sent to the Syrians so that they should not feel snubbed by the present exercise. But there was no point in Mr. Shultz visiting Damascus until he had made some progress with Israel. At an earlier stage, the Syrians had been prepared to withdrawn their troops from the Lebanon. But Israeli resistance had given them the opportunity to reconsider their position and had allowed time for them to become more exposed to Soviet influence. As long as the Israelis resisted withdrawal, it was very hard to persuade other Arab countries to put pressure on the Syrians.

There was considerable concern in the United States that the Lebanese situation should be stabilised and the Multinational Force withdrawn. The training programme for the Lebanese Armed Forces was going well but the political dimension remained to be solved.

On the US domestic situation, Mr. Meese said that the leading economic indicators had been up for the last seven months. This was particularly significant in the case of housing and automobiles.

The Prime Minister said that she had been most impressed by President Reagan's speech on Central America. There would be some merit in the President discussing his policy in the region with the Williamsburg participants, perhaps over a meal.

/ But the

But the French held different views and she would not wish to suggest that any divisive steps should be introduced.

Mr. Meese said that the Soviet Union were now using Nicaragua as a base for their actions in El Salvador. If the latter fell, Honduras would be vulnerable and Costa Rica could follow. The situation in Mexico was also unstable.

The Prime Minister said that she had noted President Reagan's reference to the commercial and strategic importance of the Panama Canal. She drew the conclusion that if things in that area went wrong, our position in the Falkland Islands became doubly significant.

Finally, she thought that we must encourage the IMF and the commercial banks to be more prudent in their lending policies towards developing countries. Argentina was not playing the game at present. It was discriminating against repayments to our banks. If this continued, we should have to oppose further IMF lending to Argentina.

The discussion ended at 1700 hours.

A. S. C.

4 May 1983

10 DOWNING STREET

From the Private Secretary

MR HATFIELD

Williamsburg Summit

I attach to this minute a copy of a letter which the Prime Minister has received from the President of the Overseas Development Council which in turn encloses a statement of the Council containing recommendations for the Williamsburg Summit.

I should be grateful if you could let me have a suitable draft reply for my signature on behalf of the Prime Minister.

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

A.J. COLES

10 May 1983

6

10 May 1983

I am writing on behalf of the Prime Minister to thank you for your letter of 4 May.

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

Mr J.W. Sewell.

 9.5.83 3

Subject

SECRET

MESSAGE FROM THE PRIME MINISTER TO THE PRESIDENT OF THE UNITED STATES OF AMERICA

Dear Ron,

We are announcing today that there will be a General Election in the United Kingdom on Thursday, 9 June. I wanted to be in touch with you at once.

I am convinced that it would not have been right in the national interest to delay the Election any longer. But the date I have chosen has implications for my plans to visit Washington on 26/28 May and Williamsburg on 28/30 May.

I had been much looking forward to my meetings with you in Washington on 27 May but I know you will understand that it is simply not possible for me to be away from the United Kingdom for several days in the middle of an Election campaign. I am afraid, therefore, that I must postpone my visit to Washington. With your agreement I would propose to make this known publicly on Tuesday, 10 May.

In answer to questions about Williamsburg we are at present saying that the United Kingdom will of course be represented but that decisions on the composition of our delegation have yet to be taken. I shall let you know as soon as I have been able to decide whether I should personally attend. I very much want to come ~~and to help you make the Summit a success~~ but I have to weigh this against the requirements of the Election campaign and possible criticism here if I attend. I shall be in touch again about this as soon as possible.

The Government will, of course, continue to exercise full responsibility during the electoral period, not least with regard to our obligations towards the Western Alliance.

Meanwhile, my very best wishes to you and my warm thanks to you for everything you have done for our two countries during the period of my present administration.

MT 9/5

Yours ever
Margaret

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SUBJECT

cc Mr Ker
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PRIME MINISTER
INDIA

New Delhi
May 9, 1983

Dear Prime Minister,

In a few weeks, some leading industrialized countries will meet at Summit level in Williamsburg. You will naturally discuss problems of concern to your countries, but I am sure that issues which form the subject of North-South dialogue will also be considered. I thought I should share with you the concerns of the Non-aligned Movement about the prevailing world economic situation and our ideas of resolving the crisis in mutual cooperation and partnership.

The current crisis affects all countries. It has particularly grave consequences for developing ones. The widening gap between the developed and the developing countries is a source of instability which could pose serious threat to world peace and security. No one now disputes the fact of growing interdependence amongst nations and the need of dialogue and constructive cooperation among them. Recovery in the developed countries depends, to a large extent, on the ability of the developing countries to purchase from them since the developing countries constitute an important segment of the global trade. Similarly, many industries in the developed countries depend on stable supplies of raw

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materials and other inputs from the developing countries. Hence the resumption of growth in developing countries is essential not only for promoting recovery in the developed world but also for sustained economic growth in the world as a whole.

Some growth oriented structural reforms in the world economic system are indispensable for the economic health of all nations. The existing international institutions in the financial, monetary and trade fields were established at a time when most of the developing countries were not independent. Even from the point of view of developed countries, these institutions cannot be said to be functioning altogether satisfactorily. For example, they have not been able to find adequate solutions to the problems of debt, liquidity and exchange rates. It would not be realistic to expect private commercial banks to play the role that they did in the 70s in the recycling of surplus liquidity.

The Non-aligned countries believe that such restructuring of international economic relations and strengthening of multilateral economic cooperation on the basis of mutual benefit can be achieved only through comprehensive discussions on international economic cooperation for development. Fresh political impetus can be given to global negotiations in a two phased approach - first taking up those issues on which some degree of agreement is in sight and then the remaining one.

In the meantime, urgent international action in areas of critical importance to developing countries such as money and finance, food, financial flows, trade, raw materials, energy is indispensable. We have proposed a Programme of Immediate Measures to

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stimulate the economies of developing countries while reactivating the world economy, suggesting the convening of an International Conference on Money and Finance for Development with universal participation. Our approach is flexible and we look forward to discussing, in a spirit of partnership and cooperation with you and leaders of other developed countries, the scope and modalities of the proposed Conference. This approach has received the broad endorsement of the Group of 77 at its Ministerial Meeting in Buenos Aires last month.

We hope that the concerns I have set out above will receive your personal attention and be carefully considered at the Williamsburg Summit.

With warm regards,

Yours sincerely

Indira Gandhi

The Rt. Hon'ble Margaret Thatcher,
Prime Minister of the United Kingdom of
Great Britain and Northern Ireland,
London.

SECRET

cc FCO

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Steve

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10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

Williamsburg Summit

I enclose a copy of a message which President Reagan has sent to the Prime Minister about the above. This in turn encloses a "thematic paper" which the President asks participants to review before the final preparatory session in mid-May.

I should be grateful if you could let the Prime Minister have advice on the line which you propose to take on this at the next Sherpa meeting.

I am copying this letter, with its enclosures, to Brian Fall (Foreign and Commonwealth Office) and John Kerr (H.M. Treasury).

A. J. COLES

9 May 1983

SECRET

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9 May 1983

The Prime Minister has asked me to thank you for your letter of 9 May containing a message from the President of the United States about the Williamsburg Summit.

A. J. COLES

His Excellency the Honourable John J. Louis, Jr.

Covering SECRET
cc Master
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Subject

1

EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

May 9, 1983

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T59/83

Dear Prime Minister:

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

Sincerely,

John J. Louis, Jr.
Ambassador

Enclosure

SECRET

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

9.5.83

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. .....

Dear Maggie,

It is now less than a month before we assemble in Williamsburg. I am satisfied that this Summit will have more flexibility and opportunity for a thorough exchange of views. My earlier letters to you confirmed our common determination to preserve an informal environment, avoid a pre-negotiated communique, and ensure a preparatory process reflecting our personal views at each stage.

The preparations to date reflect the careful contributions of each of you. We have laid a solid foundation of issues and points of view from which to begin our discussions at Williamsburg. Our common objective is to have a well prepared Summit which can produce meaningful results, yet does not begin with a pre-negotiated communique that leaves only a few bracketed phrases for us to resolve. Since this is the first time that we have sought to avoid a pre-negotiated communique, I wanted to lay out for you, in some detail, how I envision the remaining preparations before the Summit and our discussions at the Summit itself.

After the last preparatory meeting, my personal representative circulated a final, integrated summary, outlining the results of the preparatory discussions thus far. Through your personal representative, we requested you to respond with suggested themes for Williamsburg. My personal representative then drafted an initial thematic paper, and he or members of his team met individually with each of your personal representatives to discuss it. The paper has now been revised and I am sending it to you to review before the final preparatory session in mid-May.

May I stress that this paper is merely a point of departure, not a formal agenda for our deliberations at Williamsburg. The most important themes we have agreed on are the interrelationships among our economies, and the policies we should pursue for a lasting, non-inflationary recovery. The paper also notes areas of both progress and continuing problems, while suggesting a common approach to ensure the new era of growth we want to achieve in the industrial and developing world.

At the mid-May meeting, I would hope you could transmit your further views on the content of the thematic paper. Then, after carefully noting points of agreement and disagreement, our respective representatives can brief us and each leader

can gain a better understanding of the general themes and specific results we can anticipate at the Summit. Through your cooperation and participation, we can use the thematic paper as a vehicle to prepare for a more productive Summit.

But let me stress that the thematic paper should not constrain our discussions at Williamsburg in any way. I feel strongly that the outcome of the Summit should be determined by our meetings at Williamsburg, not by a preparatory document. Certainly, we need careful preparatory work and the thematic paper should identify the serious issues we will discuss. However, I do not want us to be faced with a situation where our first conversation centers on the communique, even before we have begun our substantive discussions.

Our thematic paper should serve as background for addressing the serious issues. On the first day of discussions, at our heads-only morning session, we can discuss our overall approach to world economic recovery, including an assessment of current economic conditions, and national and international actions to ensure sustained, non-inflationary growth. In the afternoon, we will be joined by our Ministers, to explore specific issues in more detail, such as domestic policies and international trade and finance, and a review of East-West economic relations. On the basis of these discussions, we will instruct our personal representatives to develop the first draft of the final joint statement.

As we all agree, a successful Summit requires both careful preparation and the necessary flexibility for each of us, as democratically-elected heads of state, or government, to discuss fully our respective points of view, and to decide personally on the collective expression of our message to the world from Williamsburg. I think we have found the right balance between careful preparation, as reflected in the thematic paper, and flexibility as reflected in the process for drafting the joint statement at Williamsburg itself.

I am grateful to each of you for your strong support in taking a new approach to this Summit. I am firmly convinced that our efforts will produce a more meaningful and relevant discussion and a more timely and direct message to the world from those of us who have the leadership responsibilities in our great democracies.

Sincerely,

/s/

Ronald Reagan

THEMATIC PAPER

I. SUMMARY INTRODUCTION

THIS IS A TIME OF REAL IMPROVEMENT IN ECONOMIC CIRCUMSTANCES. RECOVERY IS UNDERWAY IN SOME COUNTRIES, AND THIS FACT INCREASES CONFIDENCE THAT IT WILL SOON SPREAD TO OTHER COUNTRIES, BOTH INDUSTRIAL AND DEVELOPING. THE CHALLENGE IS TO INSURE THAT THIS RECOVERY ENDURES AND REVERSES A

DECADE OF CUMULATIVE INFLATION AND UNEMPLOYMENT. TO ACHIEVE THIS GOAL FOR OURSELVES AND FUTURE GENERATIONS REQUIRES STEADY, PURPOSEFUL ACTION OVER BOTH THE SHORT AND LONG TERM ACROSS A RANGE OF POLICIES THAT EXPLOIT AND REINFORCE INTERRELATIONSHIPS AMONG OUR ECONOMIES, BETWEEN OUR ECONOMIES AND THE INTERNATIONAL TRADE AND FINANCIAL SYSTEM AND BETWEEN ECONOMIC STRENGTH AND WESTERN SECURITY:

-- PROMOTING CONDITIONS FOR GROWTH WHILE OPENING MARKETS TO SPREAD AND REINFORCE GROWTH.

-- MAINTAINING THE FIGHT AGAINST INFLATION WITH THE OBJECTIVE OF ACHIEVING MORE STABLE EXCHANGE RATES WHILE INTENSIFYING CONSULTATIONS ON ECONOMIC POLICIES AND MARKET CONDITIONS.

-- SUPPORTING THE INTERNATIONAL FINANCIAL SYSTEM WHILE TAKING SPECIFIC STEPS TO REVERSE PROTECTIONISM AND ANTICIPATE NEW EFFORTS TO FURTHER LIBERALIZE TRADE.

-- STRENGTHENING WORLD ECONOMIC COOPERATION AND INSTITUTIONS WHILE PROMOTING ;STRUCTURAL ADJUSTMENT IN BOTH INDUSTRIAL AND DEVELOPING COUNTRIES.

-- RECOGNIZING THAT PROSPERITY IS MORE THAN MATERIAL GAIN, BUT ALSO REFLECTS OUR BASIC SHARED VALUES OF POLITICAL

FREEDOM, ECONOMIC OPPORTUNITY AND HUMAN DIGNITY, AND CONTRIBUTES TO THE DEFENSE OF THESE VALUES WHICH ALSO GUIDE OUR ECONOMIC AND OTHER RELATIONS WITH EASTERN COUNTRIES.

II. ASSESSMENT: REALISTIC OPTIMISM

IMPROVEMENTS IN SOME COUNTRIES ARE UNDENIABLE:

-- MAJOR SUCCESSES HAVE BEEN ACHIEVED IN REDUCING INFLATION.

-- NOMINAL INTEREST RATES HAVE BEEN SIGNIFICANTLY REDUCED.

-- OIL PRICES HAVE DECLINED.

-- PRODUCTIVITY INCREASES HAVE BEEN REGISTERED.

-- SOME SUCCESSES IN CONTROLLING BUDGET EXPENDITURES HAVE BEEN ACHIEVED.

-- CONSENSUS EXISTS TO REDUCE INFLATION AND CREATE THE BASIS FOR SUSTAINABLE GROWTH PROMOTING POLICY CONVERGENCE

AND GREATER STABILITY OF EXCHANGE RATES.

— RECOVERY IN SOME COUNTRIES SPREADING TO OTHERS WILL HELP ENSURE THE REVIVAL OF WORLD TRADE AND EASING OF THE DEBT BURDEN OF MANY DEVELOPING COUNTRIES.

HOWEVER, SERIOUS PROBLEMS REMAIN, ENDANGERING THE PROSPECTS OF AN ENDURING RECOVERY.

— UNEMPLOYMENT, ESPECIALLY AMONG YOUNG PEOPLE, REMAINS INTOLERABLY HIGH AND CONTINUES TO INCREASE IN SOME COUNTRIES.

-- DIFFERENCES IN INFLATION AMONG COUNTRIES REMAIN TOO GREAT.

— INFLATIONARY EXPECTATIONS, FED BY UNACCEPTABLY HIGH FUTURE BUDGET DEFICITS AND THE POSSIBILITY OF EXCESSIVE AND VOLATILE MONEY GROWTH, HAVE KEPT INTEREST RATES TOO HIGH, THREATENING TO CHOKE OFF RECOVERY AND PRODUCING DISTORTIONS IN EXCHANGE RATES.

-- PROTECTIONIST PRESSURES THREATEN OUR OPEN TRADE AND FINANCIAL SYSTEM AND PROSPECTS FOR RECOVERY IN BOTH INDUSTRIAL AND DEVELOPING COUNTRIES.

-- UNPRECEDENTED DEBT BURDENS EXACERBATED BY HIGH INTEREST RATES CONTINUE TO CONSTRAIN TRADE AND THREATEN FINANCIAL AND RELATED POLITICAL INSTABILITY IN SOME COUNTRIES.

III. COMMON APPROACH TO A SUSTAINED RECOVERY

NO SINGLE COUNTRY, POLICY OR IMMEDIATE ACTION CAN ENSURE A QUICK OR SUSTAINED RECOVERY. SUCCESS ;REQUIRES A COMMON APPROACH INVOLVING ACTIONS TAKEN NOW ACROSS A BROAD RANGE OF POLICY AREAS, ANCHORED WITHIN A FRAMEWORK OF LONGER-TERM POLICY GOALS AND DECISIONS.

ACTIONS NOW:

-- ENHANCE THE INTENSIVE CONSULTATION PROCESS INITIATED AT VERSAILLES TO PROMOTE CONVERGENCE OF ECONOMIC CONDITIONS IN KEY CURRENCY COUNTRIES AND THEREBY CONTRIBUTE TO GREATER EXCHANGE RATE STABILITY.

-- DEVELOP COOPERATIVE CONSULTATIONS ON POLICIES AND EXCHANGE MARKET CONDITIONS AND, WHILE RETAINING THE FREEDOM TO OPERATE INDEPENDENTLY, BE WILLING TO INTERVENE IN EXCHANGE MARKETS IN A COORDINATED MANNER IN INSTANCES WHERE WE AGREE SUCH INTERVENTION WOULD BE HELPFUL.

-- ENCOURAGE GOVERNMENTS TO REDUCE PROJECTED FUTURE BUDGET DEFICITS, THEREBY LOWERING INFLATIONARY EXPECTATIONS AND HIGH LONG-TERM INTEREST RATES.

-- PURSUE APPROPRIATE NON-INFLATIONARY GROWTH OF MONETARY AGGREGATES TO ACHIEVE AND MAINTAIN LOW INFLATION AND

INTEREST RATES.

-- REVERSE PROTECTIONISM AND PROGRESSIVELY DISMANTLE TRADE BARRIERS AND MARKET-DISTORTING DOMESTIC MEASURES.

-- GIVE NEW IMPETUS TO RESOLVE CURRENT TRADE DISPUTES, WITH SPECIAL ATTENTION TO PROBLEMS IN AGRICULTURAL TRADE, CONFLICTS OF JURISDICTION AND THE NEED TO ACHIEVE A SAFEGUARD AGREEMENT BY OCTOBER 1983 AS MANDATED BY THE GATT MINISTERIAL.

-- AGREE TO PRESS FORWARD WITH THE GATT WORK PROGRAM ON TRADE IN SERVICES AND TO INITIATE A STUDY ON LIBERALIZATION OF TRADE IN HIGH TECHNOLOGY PRODUCTS.

-- BEGIN WORK NOW TO ANTICIPATE FURTHER TRADE LIBERALIZATION IN THE GATT, FOCUSING PARTICULARLY ON TRADE WITH THE DEVELOPING COUNTRIES AND THE CRUCIAL LINK BETWEEN THE ABILITY OF THESE COUNTRIES TO EXPORT AND THEIR ABILITY TO SERVICE DEBT WITHOUT IMPEDING GROWTH.

-- SECURE EARLY RATIFICATION OF THE INCREASES IN IMF AND GAB RESOURCES.

-- REAFFIRM COMMITMENTS TO PROVIDE AGREED FUNDING LEVELS FOR IDA AND THE OTHER MULTILATERAL DEVELOPMENT BANKS.

-- CONTINUE WITH AGREED STRATEGY FOR MANAGING CURRENT DEBT PROBLEMS, INCLUDING EFFECTIVE ADJUSTMENT, ADEQUATE PRIVATE AND OFFICIAL FINANCING, AND SUSTAINED, NON-INFLATIONARY

RECOVERY IN INDUSTRIAL COUNTRIES.

-- WELCOME OPENNESS TO DIALOGUE EXPRESSED BY DEVELOPING COUNTRIES AND ENGAGE CONSTRUCTIVELY IN UNCTAD VI, EMPHASIZING OUR PROGRAM FOR A DURABLE RECOVERY AND PRACTICAL PROPOSALS TO MANAGE DEBT PROBLEMS, FACILITATE ADJUSTMENT, PROMOTE TRADE, REVIVE COMMODITY MARKETS, ENCOURAGE MORE PRIVATE AND PUBLIC INVESTMENT IN DEVELOPING COUNTRIES AND STRENGTHEN THE DIALOGUE WITH DEVELOPING COUNTRIES IN APPROPRIATE FORUMS.

-- AGREE TO CONSULT AMONG EACH OTHER AND WITH OTHER COUNTRIES TO ADDRESS INTERRELATIONSHIPS AMONG TRADE AND FINANCE IN THE WORLD ECONOMY AND TO ENCOURAGE BETTER COORDINATION AMONG INTERNATIONAL ECONOMIC INSTITUTIONS.

-- IMPLEMENT AGREED CONCLUSIONS FOR EARLY ACTION REFLECTED IN THE RESULTS OF WORK PROGRAMS ON EAST-WEST ECONOMIC RELATIONS. (IDENTIFY SIGNIFICANT RESULTS OF PRE-SUMMIT MEETINGS.)

IV. LONGER-TERM POLICY GOALS AND DECISIONS

-- SUSTAIN FIGHT AGAINST INFLATION AND STRUCTURAL BUDGET DEFICITS TO ENCOURAGE A HIGHER LEVEL OF INVESTMENT AND NEW JOB CREATION.

-- PURSUE THE CONSULTATIVE ARRANGEMENT AGREED AT VERSAILLES TO PROMOTE ECONOMIC CONVERGENCE TOWARD LOW INFLATION AND SUSTAINED GROWTH AND THEREBY ACHIEVE GREATER EXCHANGE RATE STABILITY IN THE CONTEXT OF AN OPEN TRADING, INVESTMENT AND FINANCIAL SYSTEM.

-- PROMOTE STRUCTURAL ADJUSTMENT, IN PARTICULAR BY STRENGTHENING TECHNOLOGICAL DEVELOPMENT AND THE PROGRAM FOR COOPERATION INITIATED AT VERSAILLES, TAKING INTO ACCOUNT IMPORTANT SOCIAL AND ENVIRONMENTAL GOALS, AND BY

REVITALIZING RETRAINING AND PUBLIC EDUCATION EFFORTS TO WIN PUBLIC ACCEPTANCE OF SOCIALLY PRODUCTIVE CHANGE AND MOBILITY.

-- BASED ON WORK INITIATED NOW, STATE INTENTION TO CALL FOR A GATT MINISTERIAL IN ABOUT TWO YEARS TIME TO CONSIDER LAUNCHING A NEW ROUND OF TRADE NEGOTIATIONS, WITH SPECIAL EMPHASIS ON TRADE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES, AND TRADE IN SERVICES AND HIGH TECHNOLOGY PRODUCTS.

-- EXAMINE WAYS TO IMPROVE THE EFFECTIVENESS OF THE DEVELOPMENT PROCESS AND STRUCTURAL ADJUSTMENT BY ASSURING NON-INFLATIONARY FLOWS OF PUBLIC AND PRIVATE FINANCE AND INVESTMENT TO THE DEVELOPING COUNTRIES, WITH SPECIAL ATTENTION TO AN ADEQUATE FLOW OF RESOURCES TO THE POOREST COUNTRIES THROUGH IDA, THE IBRD AND SIMILAR INSTITUTIONS.

-- CONTINUE EFFORTS TO CONSERVE ENERGY AND DEVELOP ECONOMICAL ALTERNATIVE ENERGY RESOURCES SO AS TO ENSURE

WESTERN ENERGY SECURITY AND ENHANCE ENERGY PRODUCTION IN DEVELOPING COUNTRIES.

— FIND PRACTICAL WAYS TO PROMOTE INCREASED FOOD PRODUCTION IN DEVELOPING COUNTRIES.

-- CONTINUE WORK IN APPROPRIATE EXISTING FORA TO DEVELOP AGREED ANALYSIS OF OUR ECONOMIC RELATIONS WITH THE EAST, WITH ATTENTION TO OUR SHARED SECURITY CONCERNS, AND ON THIS BASIS PURSUE INDEPENDENT POLICY ACTIONS CONSISTENT WITH AGREED PRINCIPLES AND COMMON ANALYSIS REFLECTING THE FACT THAT THESE RELATIONS SHOULD BE COMPATIBLE WITH THE BASIC VALUES AND SECURITY CONCERNS OF WESTERN COUNTRIES.

END TEXT.

CONFIDENTIAL

FILE

RW

10 DOWNING STREET

fc MCS
AW

From the Private Secretary

SIR ROBERT ARMSTRONG

WILLIAMSBURG: MEETING ARRANGED BY HELMUT SCHMIDT

The Prime Minister has received a letter from Lord Lever and Lord Roll bringing to her attention a memorandum agreed at a meeting convened by Mr. Helmut Schmidt in Germany in April to discuss recommendations for action at the Williamsburg Summit. I understand that copies of the letter and the memorandum have been sent to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and you yourself.

B/F.

I should be grateful if you could suggest a draft reply to the letter, for signature by the Prime Minister.

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

A. J. COLES

5 May, 1983

NR

CONFIDENTIAL

OVERSEAS DEVELOPMENT COUNCIL
1717 Massachusetts Ave., N.W. / Washington, D.C. 20036 / (202) 234-8701

May 4, 1983

R10

The Honorable Margaret Thatcher
The Prime Minister of Great Britian
London, ENGLAND

Dear Madam Prime Minister:

The ninth annual economic summit of the major industrial countries meets at a time when relations among the industrial countries and among the countries of the North and South are entering a new, precarious phase. The summit, therefore, provides a major opportunity for correcting the severe trade and financial difficulties currently faced by both industrial and developing countries. It also offers the opportunity for bold leadership on these urgent issues.

Robert S. McNamara, Chairman of the Overseas Development Council, has asked me to send you the enclosed statement, approved by the Council's Board of Directors, urging that you and the other industrial-country leaders agree on a series of measures that directly address the serious condition of the global economy. These recommendations are offered in full awareness of the budgetary and political constraints that you face, and with deep concern that the global financial and trading systems will unravel if such actions are not taken.

I hope you find the statement of help in the difficult task ahead.

Respectfully yours,

John W. Sewell

John W. Sewell
President

overseas development council

1717 Massachusetts Avenue, N.W. / Washington, D.C. 20036 / Telephone (202) 234-8701

GLOBAL RECOVERY: THE CONTRIBUTION OF THE DEVELOPING COUNTRY

Statement of the Overseas Development Council
for the Williamsburg Summit*

*Not for Release Until May 9, 1983

Statement of the Overseas Development Council for the
Williamsburg Summit, May 28-30, 1983

The ninth annual economic summit of major industrial countries meets at a time when relations among the industrial countries and between the countries of the North and South are entering a new, precarious phase. The world economy is stagnating. Although the prospects for recovery in the United States have improved, near-term growth is not likely to be strong in Western Europe, Japan, or the developing countries. The resources of the international financial institutions are stretched to their limits as they seek to stabilize the financial system while meeting the needs of developing countries. These difficulties are compounded by a new wave of protectionist pressure and government intervention in trade that threaten to undermine the multilateral trading system. The world's financial and trading systems are in grave danger of unravelling.

Because the stakes are so great for both the industrial and developing nations, the Board of Directors of the Overseas Development Council is taking the unusual step of issuing a formal call to the West's leaders to act boldly to prevent continuing global economic stagnation. Our recommendations are addressed to the seven leaders in general and, as the Council is an American institution, particularly to the government of the United States. There is a consensus among the Council's Board regarding the analysis and recommendations, although not every member is necessarily in full agreement with every point in this statement.

In summary, our recommendations for the Williamsburg Summit are:

Industrial countries with relatively strong payments positions should agree to adopt fiscal and monetary policies that lead to sustained, non-inflationary growth (Recommendation 1).

To bring greater order to the international financial system and to create an environment for future economic growth, countries should strengthen the International Monetary Fund and encourage commercial banks to expand their net credit outstanding in the developing countries (Recommendations 2, 3, and 4).

The dim prospects now facing many low-income countries can improve only if there is a significant increase in concessional assistance. The industrial nations should reaffirm their commitment to the International Development Association, the soft-loan window of the World Bank. In addition, the United States, among other countries, should announce its intention to devote a higher proportion of its bilateral development assistance to the low-income countries (Recommendations 5 and 6).

Developed and developing countries have an urgent interest in revitalizing the international trading system. Industrial nations should pledge not to restrict trade further, and invite the General Agreement on Tariffs and Trade (GATT) to monitor the effects of restrictive trade agreements that adversely affect developing countries. The GATT should be strengthened by creating systems to monitor and reduce the distortions resulting from some "industrial policies," by increasing the participation of developing countries, and by identifying ways to facilitate the domestic adjustment of firms and labor to international competition (Recommendations 7, 8, and 9).

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GLOBAL RECOVERY: THE CONTRIBUTIONS OF THE DEVELOPING COUNTRIES

While developing countries will not be represented at Williamsburg, their economic performance is inextricably woven into the fabric of the international financial and trading systems. As a result of their impressive growth during the 1960s and even during the troubled 1970s, developing countries now account for over 20 per cent of total world production. Developing countries absorb over 40 per cent of all U.S. exports, providing many U.S. firms with their most dynamic markets, and they are major clients of U.S. commercial banks. But sluggish export markets, adverse terms of trade, and unexpectedly high real interest rates have darkened the economic prospects of the developing countries. A 3 per cent loss in output in the developing countries could lead to a 1 per cent loss in the output of the OECD countries, according to an estimate by the Morgan Guaranty Trust Company.

Developing countries have become the strategic link through which a deteriorating trade situation further weakens a financial system already under stress. To service their debt, developing countries must expand their exports, but they cannot do so if other countries raise restrictive trade barriers. The crises confronting the international trading and financial regimes are therefore intimately linked.

Just as the liquidity crises and import constraints in the South are creating severe problems for the economies of the North, so could renewed financial stability and economic growth in the South be an important component of a sustained recovery in the North. The developing countries are both part of the problem and part of the solution. Renewed growth in the Third World can contri-

bute to a surge forward in the North.

The world is at a moment of choice. Individual countries can, of course, undertake independent actions which are meant to protect their own welfare, but which, in the end, are destructive for all; they can erect new trade barriers, impede capital flows, and seek security in isolationism. Alternatively, a renewed effort can be made to reaffirm the commitment to an open, growing economy, and to correct the managerial and structural flaws that have led to the current crisis.

The Williamsburg Summit will be brief. We therefore limit ourselves to those issues of finance and trade that are the most urgent for both the industrial and developing countries. We make our recommendations in full awareness of budgetary constraints and competing priorities. We are convinced that a policy that allowed the global financial and trading systems to unravel would be the worst of economies.

I. The Need for Global Expansion

The Reagan administration is correct to assert that the single greatest contribution that the United States can make to global prosperity is the renewal of growth at home. But no nation--not even the United States--can sustain growth in a stagnant global environment. It is imperative that other industrial countries with relatively strong payments positions--including Japan, West Germany, and Great Britain--join the United States in deliberately adopting a mix of monetary and fiscal policies that promote domestic growth. This should in turn allow the developing countries to add their renewed dynamism to a global expansion.

Global growth can be sustained only if real interest rates come down. Inflationary expectations responding in part to the projected deficits in the U.S. budget have kept real interest rates very high. The United States must act to reduce out-year fiscal deficits. A more prudent fiscal policy will facilitate the maintenance of a moderately expansionary monetary policy by the Federal Reserve Board. The resulting lower interest rates in the United States will permit other nations to relax their own monetary policies in the pursuit of growth.

We therefore recommend that the Summit:

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1. Agree to adopt fiscal and monetary policies that lead to sustained, non-inflationary growth.

II. Financing Renewed Growth

Growth in the industrial nations is a necessary--but not sufficient--condition for the establishment of a framework for sustained global prosperity. The maintenance of open and expanding financial and trading systems also requires the strengthening of key existing international institutions. The International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade (GATT) have served us well in the past and can do so now.

During the 1970s, the nature of financial transactions between the industrial world and the developing countries changed radically. The ratio of private to official capital flows to the developing world rose rapidly as commercial banks undertook to recycle capital from surplus to deficit countries. In retrospect, it is now clear that the failure of official institutions to keep pace has resulted in a less stable international system. In the 1980s, a more

balanced mix between official and private lending is required, both to manage the immediate liquidity crises and to finance future growth.

Assuring Liquidity for the Middle-Income Countries

An international financial breakdown is not inevitable. It can be avoided, providing that: global growth is renewed; the International Monetary Fund has sufficient resources and authority; and commerical banks continue to expand the net credit outstanding to developing countries.

The Federal Reserve Board and the central banks of other industrial nations have reacted with impressive decisiveness and creativity to the liquidity crises facing several major debtors by opening short-term lines of credit. Under the leadership of Jacques de Larosiere, the IMF has been instrumental in persuading the commerical banks that their own best interests lie not in a sudden contraction of exposure but in a continuing expansion of their lending, albeit at slower rates than in past years.

The IMF has played the leading role in managing the recent liquidity crises, but its resources could be severely stretched in the period ahead. IMF resources have shrunk drastically over the last two decades, falling from over 12 per cent of world trade in 1960 to under 4 per cent today. The IMF badly needs more resources if it is to continue to assist countries in meeting short-term liquidity crises. The IMF must also be able to provide countries with sufficient credits to support adjustment programs that are flexible enough to be economically effective as well as politically and socially sustainable.

The Interim Committee of the IMF has recommended that member quotas be expanded by 47.5 per cent, to approximately $99 billion (or 90 billion

SDRs--Special Drawing Rights). The parallel expansion of the General Arrangements to Borrow (GAB)--both with respect to resources and to their use by developing countries--will provide an essential backstop to the IMF's own efforts to facilitate orderly adjustment processes.

But this enlargement of IMF quotas and the GAB may not come soon enough or be sufficient to meet the financing needs of the many potential developing- and industrial-country borrowers over the next several years. The IMF's Articles of Agreement permit it to borrow from member governments and private capital markets, provided that the Board of Governors so authorizes. Governments should support such borrowing as required.

The large current-account imbalances still facing some countries, despite their adoption of severe austerity measures, suggest that the Fund may want to provide funding in excess of current country-specific ceilings (450 per cent of quota over three years). The Fund will need the necessary flexibility to expand its country lending levels if the liquidity crises extend into 1984.

At the same time, the commercial banks must expand their net credit outstanding in the developing countries (at rates of perhaps 3-5 per cent per year in real terms) if their economies are to grow. Yet, in 1982, net credit outstanding appears to have actually declined slightly in real terms. While this withdrawal may appear rational to individual banks, its continuation will be disastrous for the banking community as a whole, as well as for the debtor countries.

The public sectors in the industrial and developing countries must create a reliable environment that encourages the commerical banks to resume real rates of growth in lending. A renewal of global growth, a stronger IMF, and the adop-

tion of adjustment programs by the debtor countries are all crucial steps. In addition, there is a need for the more timely provision of information on developing-country economies, especially with regard to the quantity and structure of their foreign debt. The newly created Institute for International Finance can play a role in constructing an "early warning system" to signal an impending unhealthy balance-of-payments situation. National regulatory authorities can assist in the collection and dissemination of information on international lending. They can also seek to devise criteria that inhibit imprudent expansions of exposure or destabilizing, sudden retrenchments. Reforms in the regulatory systems should not inadvertently discourage lending to creditworthy countries. But more work is necessary in order to determine how best to gather and process credit data in ways that can best reduce market uncertainty and stabilize the international financial system.

To bring greater order to the international financial system and to create and environment for future economic growth, we recommend that the Summit:

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2. Strengthen the International Monetary Fund by: a) reaffirming the importance of the prompt ratification of member quotas and the GAB; b) agreeing to support IMF borrowing from member governments and international capital markets if needed; and c) deciding to permit the IMF to expand its ceiling on loans to individual governments.

3. Encourage future incremental lending by commercial banks to developing countries by committing themselves to provide an environment of global growth and a fortified IMF; and

4. Agree, furthermore, to sustain this pattern of incremental lending a process of consultations among the IMF, World Bank, the commercial banks, and the national regulatory agencies and governments of the OECD countries--to search for better ways to a) collect and disseminate information regarding external debt, and b) more generally, to bring greater stability to international capital markets. The findings of this consultation process should be reported to the next Summit.

Financing Development in Low-Income Countries

The U.S. government has demonstrated strong leadership in responding to the financial crises in the middle-income developing countries, although more remains to be done. The United States has shown less vision and commitment, however, in responding to the needs of the low-income countries, whose external capital inflows consist primarily of official concessional assistance.

The United States traditionally has been a strong leader in the international effort to provide concessional assistance. More recently, the U.S. record has been deteriorating, both with respect to its past performance and to that of its Western allies. In the early 1970s, the United States contributed 0.30 per cent of its GNP to official assistance; by 1982, the figure had fallen to 0.20 per cent. While U.S. aid did increase slowly in real terms over the last decade, its performance was surpassed by most other Western donors. Fourteen of the seventeen OECD countries significantly increased their aid program as a percentage of GNP. As a result, the United States has fallen to next to last place; Italy, which is now last, is stepping up its contributions at a rate which is soon likely to leave the United States at the bottom.

Prospects for the low-income countries will not improve without a significant increase in concessional aid. Many of these countries, especially those in Africa, face chronically declining living standards. Yet in 1981 only 19 per cent of U.S. bilateral concessional aid was earmarked for low-income countries.

Most disheartening has been the failure of the United States to meet its pledge to the sixth replenishment of the International Development Association (IDA). This action undermines the sense of trust and continuity that multilateral economic institutions require, and undercuts the U.S. claim to inter-

national leadership. As a result of the shortfalls in U.S. contributions, it is likely that IDA-VI will have to authorize its $12 billion in resources over five years instead of the originally planned three-year period--a reduction of 35-40 per cent. Moreover, the delays in IDA-VI have created great uncertainty regarding the timing and scale of the next replenishment (IDA-VII). The United States sought a reduction in IDA activity--despite the findings of its own study which gave the multilateral development banks in general and the World Bank in particular high marks for serving a wide range of U.S. interests.

The industrial nations have an important stake in the economic development, social cohesion, and political stability of the low-income countries. The industrial countries and the United States in particular must renew their commitment to development assistance. In the United States, this will require a joint Executive/Congressional effort. We recommend that the Summit:

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5. Agree that all countries complete the sixth replenishment of IDA by the end of fiscal year 1984, and commit themselves to timely negotiations on a seventh replenishment that would permit IDA to at least maintain its lending levels in real terms as originally scheduled in IDA-VI. If the United States will not, or cannot, join in such a program, the other six countries should proceed without it.

In addition, we recommend that, in the context of the Summit,

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6. The United States, among other countries, announce that it will devote a higher proportion of its bilateral development assistance to the low-income countries.

III. Revitalizing the International Trading System

For most of the post-war period, the GATT process of non-discriminatory tariff cuts and multilateral rules facilitated the growth of international

trade. But trade is no longer growing. From 1963 to 1973, the volume of world trade increased by 8.5 per cent annually. During the 1974-80 period, it increased at only half that rate. In 1981, trade volume fell by 1 per cent, and in 1982 it shrank by another 2 per cent. The fall-off in trade is an effect as well as a cause of the decline in business activity during the period, but the decline also reflects alarming new trends.

Traditional principles of non-discrimination, transparency, and multilateral reductions in tariff barriers have been increasingly supplanted by unilateral or bilateral applications of non-tariff barriers, including voluntary export restraints, orderly marketing agreements, and quota systems. The European countries are increasingly resorting to the GATT's "safeguards clause" to shield domestic industry from the trade of particular countries.

Use of non-tariff barriers is not, however, limited to OECD countries. Under severe pressure to reduce their current account deficits and control domestic inflation developing countries too, have frequently opted for multiple exchange rates, direct allocation of foreign exchange, performance requirements, and licensing of imports. Too frequently, they, like many developed countries, subsidized their exports.

A driving cause of these new protectionist measures has been the stagnation in the world economy, particularly since 1979. But renewed growth alone will not be sufficient to prevent the further deterioration of the multilateral framework. Strong centrifugal forces of disintegration emanate from at least three, often interacting, sources.

First, many OECD countries are experiencing secular increases in unemployment that are independent of short-term swings in the business cycle.

Demographic trends and rapid changes in technology create enormous problems of dislocation for domestic work forces. Labor markets permit only slow adjustment. Moreover, the new competition from international trade forces certain firms and social groups to accept lower prices and wages. While this process almost always produces net gains in national income, some businesses and labor groups inevitably are hurt. The dislocated groups will pressure governments for protection.

Second, governments have more actively engaged in promoting their domestic industries. These measures commonly take the form of "industrial policies" that involve production subsidies, subsidies to technology development, use of public enterprises, and greater government coordination of investment and industrial development, as well as selective protection. According to one recent study for the major OECD countries, subsidies as a share of national income have doubled since 1955. The GATT has mechanisms to deal with subsidies to exports, but industrial policies that affect trade more indirectly are difficult to measure. The multilateral rules governing indirect subsidies and industrial policies are vague and imprecise.

Finally, developing countries--especially the newly industrialized countries--are inadequately incorporated into the multilateral system. Even though developing countries have increased their share of world trade, only a few of them have subscribed to the key GATT codes. Many developing countries have historically felt, rightly or wrongly, that their national development objectives require even greater flexibility to use tariffs and other policies than is permitted in the special treatment of developing countries under the GATT. From the point of view of these countries, the inducements for them to

submit to the discipline of multilateral rules have been insufficient; the sectors of greatest interest to them--agricultural and textile products--are not effectively covered by GATT and are highly protected in most industrialized countries. This perception may now be changing. As weaker members of the international economy, developing countries have the most to lose from the slow evolution toward a discriminatory trading system. Multilateral rules truly based on principles of non-discrimination and equal access to markets offer the best hope for stemming protectionist pressures within the industrialized countries.

Therefore, both developed and developing countries have an urgent interest in strengthening and revitalizing the international trading system. To this end, we recommend that the Summit:

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7. Pledge to undertake no new actions that restrict trade or increase subsidies, and that they call upon the other industrial and developing countries to follow suit.

8. Take note of restrictive agreements among industrial states that have an adverse impact upon the trading opportunities open to developing countries. The conferees should invite GATT to monitor and report on these agreements and their effects on developing countries.

9. Determine to strengthen the GATT by: a) creating systems to monitor and eventually reduce the distortions resulting from some "industrial policies"; b) exploring ways of bringing more developing countries into the multilateral system; and c) identifying ways to facilitate the domestic adjustment of firms and labor to international competition in ways that do not distort trade.

The Summit can mark a renewed commitment to an open, international economy and to the system's key coordinating mechanisms. We urge the leaders of the industrial states to ignite a new "Spirit of Williamsburg" on behalf of international cooperation, and to instruct their representatives to pursue the

results of their deliberations. Speedy and determined action in the appropriate international institutions can help to restore confidence in the international financial and economic systems and to inaugurate a new era of prosperity.

The Lord Lever of Manchester, PC.
86 Eaton Square,
London.
SW1

The Lord Roll of Ipsden, KCMG, CB.
30 Gresham Street,
London.
EC2P 2EB

4th May, 1983

Dear Prime Minister,

We have just attended a private meeting chaired by Helmut Schmidt to discuss the economic issues likely to arise at the Williamsburg 'summit'. Our conclusions are set out in the enclosed memorandum which each of those of us from countries represented at the summit has agreed to send to the head of our government. The document as a whole has been agreed by all of us, although each of us would, no doubt, have preferred a different emphasis here and there.

For convenience sake we are sending copies of this letter and enclosure to Geoffrey Howe, Francis Pym and Robert Armstrong.

Yours sincerely,

Harold Lever

Lever

Eric Roll

Roll

The Rt. Hon. Mrs. Margaret Thatcher, PC, MP,
Prime Minister,
10 Downing Street,
London SW1.

R/dl

CONFIDENTIAL

April 30, 1983

The Williamsburg Economic Summit: What can it do for us?

1. The Williamsburg Economic Summit takes place at a crucial point in time. The safety of the free world is at risk in two ways: from the increase in tension and the arms race between East and West and from the danger of a protracted world economic crisis. If our governments do not create confidence by demonstrating their ability to cope with this double crisis, there might be political destabilization. The most pressing task is to ensure a sustained worldwide recovery, and not merely occasional, regionally limited, spurts of economic activity.

2. The world economy is in bad shape. In the Western industrial countries more than 32 million people are out of work. Even if these countries were to get back to an average growth rate of 3 per cent, unemployment would not be reduced in the next few years. Real interest rates continue to be extremely high. The exchange rates of key currencies are seriously misaligned. Short-sighted national egoism prevails in international trade. Banking is under strain, domestically as well as internationally. Many developing countries are in dire straits. On the positive side is the fact that inflation in the industrial countries is at its lowest level for many years and that at least a

part of the excessive oil price increase of 1979/80 is in the process of being reversed.

3. Recovery is the key to a lasting solution of many of our current problems. There are increasing signs of an economic upturn in the United States and in a few other industrial countries. It is doubtful, however, whether this spontaneous recovery will be strong enough and last long enough in the face of serious distortions in the world economy. These distortions will not disappear without a concerted effort of the major industrial countries, led by the United States. If the recovery should falter, confidence in Western leadership would be seriously eroded and the risk of political destabilization would be greatly enhanced.

4. There will be no lasting recovery in the world economy as long as real interest rates remain extremely high. Current and expected structural budget deficits are a major cause of high interest rates. Because of its relative weight, the United States must take the lead in bringing down world interest rates. Even a lower long-term real interest rate than the actual rate of 5 - 7 % would - by historical comparison - still be very high for the United States.

The Federal Reserve System last year has courageously revised its strict monetarist course. It will not be able to continue the more accommodative course without rekindling inflationary expectations unless there is a firm prospect

that the full employment deficit in the U.S. budget will be decreased[1]. The deficits expected for FY 1985 and beyond are largely structural. Continuing structural deficits of the order of 4 to 5 per cent of GNP would absorb an unprecedentedly high proportion of net savings, strain the capital markets, keep real interest rates high, draw in funds from abroad and thereby tend toward overvaluation of the U.S. dollar. A reversal in U.S. fiscal policy is therefore a matter of great urgency.

5. A further decline in U.S. interest rates is highly desirable not only from the point of view of the United States but also for the sake of the world economy. It would restore the attractiveness of physical investment over financial investment. It would help other countries bring down their interest rates. It would substantially alleviate the debt servicing burden of developing countries. It would help bring about an exchange rate structure that is more in line with economic fundamentals, thereby reducing protectionist pressures. And it would make it easier for countries like Britain, Japan and West Germany, which have brought their inflation rates under control and whose current account is in good shape, to take the action which is now possible for them that would lead to expansion and which, in turn, would put the U.S. recovery on a broader basis. Countries like France and Italy should persevere in their efforts to fight inflation and to reduce fiscal and

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1) The full employment deficit/surplus is defined as the deficit/surplus that would currently result if 94 per cent of the labor force is employed.

payments imbalances. Canada will be a main beneficiary from a recovery in the U.S. which will contribute to a reduction of very high levels of unemployment and budget deficits.

Such a set of mutually supportive changes in fiscal and monetary policies is essential for balanced world recovery.

6. Equally urgent are, however, joint efforts to stabilize the international monetary system, to preserve the world trading system and to minimize the disruptions in the international financial system. There are important linkages between these areas and between them and the current and future state of the world economy.

7. There is disorder in the international monetary system. Ten years after the breakdown of the Bretton Woods system there is growing disappointment about the way the floating rate system has behaved in practice. Exchange rates have been much more volatile in these years than would have been justified on the basis of economic fundamentals. The alternate overshooting and undershooting of key currencies has had a negative impact on world investment, trade and production.

8. If the free flow of payments and hence free trade in goods and services is not to fall victim to growing bilateralism, closer economic and monetary co-operation between the key currency countries is required. Central banks and governments must make it plain where exchange rate policy is heading. They must make a renewed effort to stabilize exchange rates. Moreover, the multilateral surveillance of and influence on the five key currencies (the dollar, yen, D-mark, sterling and French franc) agreed on in Versailles, under the auspices of the IMF, has to be implemented. There is also a need for smoothing the volatility of exchange rates directly through official intervention. This, however, will not produce lasting stability of exchange rates unless there is greater convergence of policies, particularly leading toward low inflation rates. What is required, while making progress in policy convergence, is an improvement in the working of the current floating system, which lacks calculability and dependability and invites economic nationalism and private speculation.

9. The payments crisis, in which many developing middle-income countries found themselves in 1982, caused understandable but dangerous reduction in international lending. Nothing would be more undesirable at the moment than a contraction of international lending. Credit creates trade, trade secures credit. Short-term reschedulings, as practiced now, are no long-run solution if a solvency crisis is to be avoided.

The burden of reliably servicing the debt will be different in different countries. It is clear, however, that this burden can only continuously and reliably be discharged if the public authorities play a much greater role than in the past in providing the support, funds and disciplines required to maintain and provide this vital lending at the levels required. The IMF and the World Bank must be provided with the necessary funds for this mandate. This will provide a sound basis for new lending by commercial banks which will remain essential if developing countries are to resume their dynamic role in the world economy.

Credit relations between creditor and debtor countries must be transparent, well regulated and stable. The BIS, the IMF and the central banks of creditor countries will need to provide greater information and guidance to commercial banks on the financial position of developing countries. An information and early warning system among commercial banks is also essential.

10. Appropriate adjustments of this economic policies are a prerequisite for establishing the longer-term creditworthiness of sovereign borrowers. The IMF and the World Bank are the only bodies which can negotiate appropriate conditions with their borrowing members. The conditions must be realistic and stop short of endangering the political and social stability of

borrowing countries. The ultimate responsibility for maintaining this long-term debt-service capacity rests with the debtor countries themselves.

Solving the debt problem of the developing countries will take time. Meanwhile the international financial system may come under renewed strain which could cause chain reactions in the system. Adequate contingency planning is therefore essential.

11. The least developed and other low income countries have undoubtedly been hit hardest by the world recession. Their most urgent need is for an increase, in real terms, in official development assistance (ODA), bilateral as well as multilateral. In contrast to the needed increases, ODA - and hence the level of financial transfers - has been declining in real terms. We are particularly concerned about the continuing failure to solve the funding problems of the International Development Association. If the present stalemate continues there is danger that IDA commitments for the years 1981 through 1985 will fall 40 per cent below what was contemplated when the financing plan for these years was agreed upon in 1981. It is therefore important that this problem is soon satisfactorily solved.

Our foreign policy interests require that we assist in maintaining economic growth in the developing countries.

The developing countries themselves do hold some of the keys for revitalization, but the present world economic situation may undo even their best efforts. The help they need must include private direct investment and joint ventures which their governments ought to invite and assist steadily. The "private sector", however, will not be able to solve all the problems alone.

The decline in raw material prices, due to the world recession, is one of the main causes of the current economic difficulties of developing countries. These difficulties would be eased if there is recovery of the world economy as a whole. In the long run there is also need for a worldwide system to stabilize export earnings along the lines of the Stabex system which the EEC has agreed on with a number of developing countries in Africa, the Caribbean and the Pacific.

12. The recent GATT ministerial meeting did not stop the worldwide danger of protectionism. There is an increasing risk that the virtuous circle of economic growth, increasing trade and adequate credit is turning into a vicious circle of stagnation, misaligned exchange rates, debt crisis and protectionism.

A particular danger is the manifest tendency toward bilateralization of trade policy, for instance by making the trade balance between two countries the criterion of whether free trade between these two countries is useful or damaging.

Protectionism is also lethal to the international financial system. There is only one real basis for servicing a country's external debt: its exports of commodities, manufactured goods and services. Protectionism in industrial countries erodes this basis, and through the financial system the effects of increased protection would be immediately transmitted to other countries. The eventual destruction of the open, multilateral world trading system would lead to bilateralism and barter trade and block investment, growth and employment.

13. This year 1983 must bring some first successes in the fight against protectionism. Free-trade rhetoric must be backed by action. At the very least the Seven must enter into binding commitments not to introduce any further obstacles to, and distortions of, trade with each other or with third countries in the next two years. A credible move toward trade liberalization is needed as soon as possible to restore the lost momentum.

There also is a pressing need to defuse the imminent conflict between the United States and the EEC over agricultural trade. We are deeply worried about the prospect of a mutually ruinous subsidy race. It would set a very bad example for the rest of the world. Constructive solutions are needed, both in the United States and in the EEC.

14. While the drop in world oil prices obviously has some favourable aspects, it has to be remembered that the more drastically oil prices fall today, the greater the likelihood that they will rise even higher again later. Both oil-producing and oil-consuming countries have to face the fact that violent fluctuations in oil prices help nobody in the longer run. Since investment in energy takes a particularly long time to bear fruit, short-term price gyrations bring confusion rather than clarification.

We must not become complacent but on the contrary increase our efforts to save energy and to develop alternative sources of energy, and thereby reduce our long-term dependence on oil. In order to achieve this, governments need to give more of a lead in the energy sector.

Oil is a non-renewable commodity. Given current consumption levels, given the increase of the oil-consuming world population, and assuming an economic recovery in the world during the eighties, it is likely that in the long run oil prices will again rise from present, or intermediately even lower, price levels. Therefore both investors and consumers must gear themselves to long-term prospects and long-term developments.

Governments would be wise to provide incentives to consumers and industry to take the necessary steps in order to meet future situations without new dramatic crises.

Cooperation between oil-producing and oil-consuming countries as well as steps to assist energy production in non-oil developing countries are essential elements of a global energy policy.

Another important area of international energy policy co-operation is the further development of nuclear energy as a source of electric power. Today, achievement of that objective is limited by problems associated with the disposal of nuclear waste. Few if any countries, and none of those that do not produce nuclear weapons, have yet found a proper solution. Many countries have little scope for storing nuclear waste on their own territory. An international energy policy must include an international agreement on nuclear waste disposal.

15. Cooperation between North America, Japan and the EEC is essential for a healthy world economy. If cooperation does not work in this triangle, then it will certainly not work in the very much more difficult context of the world economy which includes the other OECD countries, the OPEC countries,

the COMECON countries, the threshold countries and the other non-oil developing countries. Trilateral cooperation must set an example to all.

If we have referred more often in this memorandum to the United States than to other countries, it is because of the fact that neither trilateral cooperation nor worldwide co-operation is imaginable at present without American leadership, based as it is on its world position and its responsibilities.

16. Our record of economic crisis management is in the main a good one, as evidenced most recently by our successful common effort to forestall an international banking crisis. We have failed, however, to anticipate problems early enough and to provide solutions in time. This failure will become ever more critical as our economic interdependence continues to grow. It is not too late to shift from crisis management to crisis prevention. In this light, the above ideas represent an attempt to identify the issues which will have to be tackled in Williamsburg.

This report was prepared during a meeting which took place at the Schloßhotel Tremsbüttel on April 29 - 30, 1983. The meeting was chaired by Helmut Schmidt. The Körber Foundation generously provided financial support for the meeting. Participants included:

Abdul Aziz Alquaraishi (Saudi Arabia)

Guido Carli (Italy)

Herbert Grünewald (Federal Republic of Germany)

Takashi Hosomi (Japan)

Milton W. Hudson[1] (United States)

Manfred Lahnstein (Federal Republic of Germany)

Harold Lever (United Kingdom)

Donald S. Macdonald (Canada)

Robert Marjolin (France)

Robert S. McNamara (United States)

I.G. Patel (India)

Eric Roll (United Kingdom)

Helmut Schmidt (Federal Republic of Germany)

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1) For Alan S. Greenspan

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

PRIME MINISTER

MEETINGS IN WASHINGTON

The discussions I attended in Washington last week were on the whole successful, and produced some pointers for Williamsburg.

Development Committee

2. The joint IMF/IBRD Development Committee meeting, primarily on North/South and Aid issues, was fairly low key, reflecting the tone of recent statements from meetings of developing countries in New Delhi and Buenos Aires. Developing countries have not moderated their demands, but they do seem to be advancing them less stridently than in the past.

3. The key issue was, of course, whether the US will honour its financial commitment to IDA. This depends on Congress, and the meeting recognised that the Administration (Shultz and Regan) have now started to pitch in on the Hill. But delivering the IDA VI appropriation may require pressure from the President, and it might well be right to raise this with him at Williamsburg.

G.7 Meeting

4. Finance Ministers and Central Bank Governors of Summit countries plus the Commission met to approve publication of the "Jurgensen Report" on exchange rate intervention, and contrived to avoid a Franco-American row. The agreed covering statement is constructive and should, I think, be welcomed at Williamsburg. It accepts that intervention can have a legitimate, though modest, role, but recognises the importance of trying to achieve greater exchange rate stability through better-matched policies, and contains the statement: "In the formulation of our domestic economic and financial policies, our countries should have regard to the behaviour of our exchange rates, as one possible indication of need for policy adjustment."

5. This goes further than the Americans have previously, and it is valuable to have their acceptance of it. But what is needed now, if this step towards agreement is to have the desired effect on business confidence around the world, is stronger evidence that they accept some of its implications.

G.5 Meeting

6. The main G.5 business, for which the IMF Managing Director was present, was "surveillance" of progress in our several economies. Larosiere did an excellent job of analysis and criticism, and attention quickly focussed on the United States position: very high real interest rates (unless one assumes an early move back to much higher inflation), closely associated - in the view of all but the Americans - with the high $ exchange rate against the yen and deutschemark, which is one cause of poor US international trade performance and resulting pressures for protectionism, the whole deriving from an excessive public sector deficit imposing too heavy a burden on interest rates to maintain discipline over monetary growth. One other disturbing consequence of the high deficit is the fact that the US - the richest country in the world - is now a substantial importer of capital.

7. The US reaction was unimpressive. Don Regan tried to deny the causal relationship between high interest rates, a strong dollar and high deficits. He did acknowledge that the deficit must be reduced: but he spoke without conviction about how this might be done, and was inclined to blame Congress.

8. I am convinced that it would be valuable if you would tackle the President about the deficit - on the lines of your previous talks with Shultz and Volcker. The right time to do it would be in Washington on 27 May, rather than more publicly at Williamsburg. As Feldstein suggested to me the other day, the key may be to point out to the President the gains - economic and political - which have accrued to us from our demonstration, in the 1981 Budget, of our commitment to reduced borrowing. We might have a word about this.

Trade

9. The US took the opportunity in the G.5 meetings to urge again the importance of resisting and reducing protectionism. This will be discussed further at the OECD Ministerial meeting in Paris next week.

10. I also took the opportunity of pointing out to Don Regan the damage which could be done to relations in the Western Alliance by the measures proposed in the draft Export Administration Act. Subsequently, in the G.5 meeting, Regan mentioned this legislation, said that there was some possibility of fairly rapid passage through Congress, and suggested that countries which disliked it should "speak loudly in the Paris meetings next week." I am sure that we should take the hint.

Williamsburg

11. The key pointers for Williamsburg perhaps are:-

i. general agreement that the recovery is in train. This is tempered with caution, and insistence that the objective must remain sustainable, and therefore non-inflationary, growth, not "concerted reflation."

ii. on debt, agreement that, while we can take credit for speedy and effective action already taken, there remains a need for continuous monitoring, on a case-by-case basis, with financial help available conditional on appropriate adjustment policies. (Incidentally, US representatives hoped that the GAB and IMF Quota increases might be approved by Congress just before Williamsburg.);

iii. agreement that the slightly more moderate tone of recent ldc meetings (contrasting with earlier years) deserves a sympathetic response, eg. at UNCTAD; that IDA and IBRD must not be starved of resources; but also that the best way to help the developing countries is for industrial countries to promote sound and sustainable recovery;

iv. widespread concern that high interest rates could weaken or abort recovery, while a strong dollar feeds protectionist tendencies. The prospect of future US public sector deficits equalling or exceeding total US private sector savings is one that causes universal concern, but has as yet produced no convincing counter-action from the Administration. It would be wrong to envisage public criticism of the President at Williamsburg - as the French may -but equally wrong to imagine that the subject of the deficit will not be discussed there. The best way of helping to defuse the issue might, as I say, be for you to take it up with him in advance.

12. I am copying this minute to the Foreign Secretary, the Secretary of State for Trade and Sir Robert Armstrong.

(G.H.)

4 May 1983

CONFIDENTIAL

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10 DOWNING STREET

From the Private Secretary

4 May 1983

Williamsburg : Bilateral Meetings

Thank you for your letter of 29 April.

In principle, the Prime Minister would like to have bilateral meetings with President Mitterrand and Mr. Nakasone during the Williamsburg Summit. At this stage she does not want any other bilateral meetings to be arranged.

I should be grateful if you could take soundings about the possibility of meetings with the French President and the Japanese Prime Minister. Could we keep in touch about timing? If possible, we should try to arrange for the meetings to take place before the end of the morning session on Monday, 30 May.

I am copying this letter to Richard Hatfield (Cabinet Office).

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

RR PARIS

RR UKREP BRUSSELS

GR 550

ADVANCE COPY

Mr Evans
Mr Thomas
Hd (ERD)
Hd (News D)
Mr Goulden News D
Mr Ingham No 10 DS
PS/Sir R Armstrong Cabinet O
Mr Littler HM Treasury
RC
FP

CONFIDENTIAL
FM WASHINGTON 292116Z APR 83
TO PRIORITY FCO
TELEGRAM NUMBER 1172 OF 29 APRIL
INFO BONN, ROME, PARIS, UKREP BRUSSELS.

WILLIAMSBURG SUMMIT: PRESS HANDLING

1. RENTSCHLER, THE US AMBASSADOR TO MALTA, HAS BEEN RECALLED FOR ATTACHMENT TO THE WHITE HOUSE IN ORDER TO HANDLE PUBLIC RELATIONS UNTIL AFTER THE WILLIAMSBURG SUMMIT. HE IS CO-ORDINATING THE PUBLIC LINE FOR ALL THE AGENCIES INVOLVED, AND IS A MEMBER OF THE SUMMIT DIRECTING COMMITTEE CHAIRED BY JUDGE CLARK AND DEAVER.

2. RENTSCHLER HAS TOLD THE COMMERCIAL MINISTER THAT THE AMERICANS ARE ONLY NOW DEVELOPING THEIR BASIC PUBLIC THEMES FOR THE SUMMIT. THE CENTRAL MESSAGE TO GET ACROSS IS THAT THIS IS THE ''RECOVERY SUMMIT'', AND (AT LEAST FOR DOMESTIC CONSUMPTION) THAT THIS IS AT LEAST IN PART DUE TO THE PRESIDENT'S ECONOMIC POLICIES, THOUGH THE AMERICANS ARE ANXIOUS NOT TO PROJECT THE IMAGE OF AN ECONOMIC SUPER POWER URGING ITS ALLIES TO FOLLOW EXACTLY IN ITS ECONOMIC TRACKS. THE AMERICANS WANT TO EMPHASIZE THAT THE THINGS THAT UNITE THE SEVEN FAR OUTWEIGH THOSE THAT DIVIDE THEM. IN PARTICULAR THEY SEE NO REASON FOR TROUBLE ON EAST-WEST TRADE MATTERS (ROBINSON, NSC, FORMERLY AN ENTHUSIAST FOR THE PIPELINE SANCTIONS, TELLS US THAT THE WHITE HOUSE IS SATISFIED WITH THE WAY THE STUDIES ARE GOING, WHICH IS A GOOD SIGN AS FAR AS IT GOES).

3. RENTSCHLER WAS VAGUE ON HOW THE AMERICANS PROPOSED TO HANDLE THE ECONOMIC ISSUES (TRADE, EXCHANGE RATES AND INTEREST RATES), THOUGH HE FELT THAT THINKING IN THE WHITE HOUSE ON NORTH-SOUTH RELATIONS ESPECIALLY DEBT WAS NOW MOVING CLOSER TO THAT OF THE EUROPEANS. HE FEARED HOWEVER THAT THE PRESS WERE BAFFLED BY THE ABSENCE OF DETAILED ADVANCE PREPARATION FOR THIS SUMMIT BY THE SHERPAS, AND THAT THERE WAS A RISK OF THEM PERCEIVING A CERTAIN VOID AT THE CENTRE OF THE AMERICAN APPROACH IN CONSEQUENCE.

4. RENTSCHLER (ACCOMPANIED BY SCHELLENBERGER, USIA, AND SLOANE,

~~SHERPAS, AND THAT THERE WAS A RISK OF THEM PERCEIVING A CERTAIN VOID AT THE CENTRE OF THE AMERICAN APPROACH IN CONSEQUENCE.~~

4. RENTSCHLER (ACCOMPANIED BY SCHELLENBERGER, USIA, AND SLOANE, STATE DEPARTMENT) IS SHORTLY PLANNING TO VISIT EUROPE TO DISCUSS WITH US EMBASSIES THERE HOW BEST TO HANDLE THE PUBLIC RELATIONS ISSUES IN THE EYES OF EUROPEAN OPINION. HE WILL BE IN LONDON ON 9 MAY, AND THEREAFTER IN PARIS, BRUSSELS, BONN AND ROME. THOUGH HIS MAIN BUSINESS IS WITH THE US EMBASSY IN LONDON (WHERE STREATOR IS LOOKING AFTER HIM) HE WELCOMED THE SUGGESTION THAT HE MIGHT TAKE THE OPPORTUNITY OF A WORD WITH BERNARD INGHAM AND JOHN GOULDEN, IN ORDER TO GET A FEEL FOR THE WAY THE BRITISH GOVERNMENT (AS WELL AS BRITISH OPINION) VIEW THE ECONOMIC AND EAST-WEST ISSUES LIKELY TO ARISE AT WILLIAMSBURG.

5. WE AGREED TO PASS THE IDEA ON TO LONDON, WHILE SUGGESTING THAT ARRANGEMENTS FOR ANY MEETINGS SHOULD BE MADE THROUGH STREATOR.

6. RENTSCHLER'S VISIT WILL BE A USEFUL OPPORTUNITY TO GET ACROSS TO THE WHITE HOUSE OUR CONCERNS ON MATTERS OF SUBSTANCE AS WELL AS ON PUBLIC RELATIONS. WE THEREFORE HOPE THAT IT WILL BE POSSIBLE TO SEE HIM. HE IS WELL-DISPOSED AND WAS HELPFUL TO US ON THE FALKLANDS AND ON MANY OTHER OCCASIONS WHEN HE WAS IN THE NSC BEFORE GOING TO MALTA LAST AUTUMN (HE IS A CAREER FOREIGN SERVICE OFFICER).

ADVANCE COPIES TO: INGHAM NO 10, PS/SIR ROBERT ARMSTRONG, EVANS, GOULDEN, FCO. LITTLER, TREASURY.

WRIGHT

NNNN

Foreign and Commonwealth Office

London SW1A 2AH

29 April 1983

Dear John,

Joint Meeting of Trade and Finance Ministers

You may find it useful to have a note of the latest position on the projected meeting of Trade and Finance Ministers on 10-11 May.

As you know, the invitation to the meeting was jointly issued by the US Treasury Secretary, Mr Regan, and the US Trade Representative, Mr Brock, in a message to participants on 7 April. The initial invitation envisaged a dinner on the evening of 10 May followed by a meeting on 11 May. Mr Brock had issued a separate invitation to a meeting of Trade Ministers only for 29 April. A separate meeting of Finance Ministers of the G7 countries had been arranged for the margins of the Development Committee in Washington.

After discussion in the European Community and the meeting of Personal Representatives on 16-17 April, it was decided that the meeting of Trade Ministers only should be on a quadrilateral basis, that is involving the US, Japan, Canada and the European Community represented by the Commission. We understand that this has been taking place today, as is the meeting of Finance Ministers in Washington. After indicating that the French Finance Minister would not be able to attend the Washington meeting, the French Government subsequently decided that M. Delors would nevertheless attend.

The position on the joint meeting of Trade and Finance Ministers remains unclear. The French Government has said firmly that it will not attend. The European Commission have told us that it would only attend the dinner on certain conditions, namely that it should be informal, should not result in any formal conclusions, should not constitute a preparation for Williamsburg and that the plan to hold a further meeting on 11 May

/should

should be abandoned. The Commission have also told us that the Italians have decided not to attend and that the Germans would be represented at official level only. We have no direct confirmation of this report from Rome or Bonn. The Japanese earlier told us that they would be represented by the Minister of International Trade and Industry and the Vice Minister of Finance. But we have no indication of the Japanese or Canadian intentions in the light of the latest news both from Paris and the EC.

After initial discussions in the Community and the Personal Representatives, the UK told the US that we would be represented at the joint meeting by the Chancellor and the Minister for Trade. Since then we have told the Commission that it is still our intention at present to attend without conditions.

Our objective in all this has been to respond constructively to the US initiative without getting out of step with our Community partners. The balancing act seems to be getting more difficult. At official level, the inclination here is to leave a little time for the situation to clarify before deciding whether our position needs to be reviewed; and I shall be reporting this to Mr Pym on the lines of the above.

I am sending copies of this letter to John Rhodes (Department of Trade), John Coles (No 10), and Richard Hatfield (Cabinet Office).

Yours ever,

(B J P Fall)
Private Secretary

J O Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
H M Treasury
Parliament Street
SW1P 3AG

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Prime Minister

(1) NAKASONE is meeting the other major leaders and clearly wants a meeting with you

(2) A meeting with MITTERRAND would be crucial for the budget prospects at Stuttgart.

Agree that we make provisional arrangements for both? They can always be cancelled later if necessary. A.J.C. 3/5.

Yes

Foreign and Commonwealth Office

London SW1A 2AH

29 April 1983

Dear John,

Prime Minister's Bilateral Meetings at the Williamsburg Summit

The Embassy in Tokyo have reported that the Japanese would clearly like to engineer a bilateral meeting between Mr Nakasone and the Prime Minister in the margins of the Williamsburg Summit.

The Foreign and Commonwealth Secretary sees merit in the idea. Mrs Thatcher did not meet Mr Nakasone in Japan last September. Since he took office in November he has taken a much greater interest than his predecessor in international affairs. A bilateral meeting at Williamsburg would clearly be a useful opportunity for the Prime Minister to build on her earlier visit and to reinforce our general message that we would like Japan to accept greater international responsibilities arising from her economic success.

This also raises the question of whether the Prime Minister would be in favour of any other bilateral meetings at Williamsburg. The Prime Minister has had no bilateral meeting with President Mitterrand since the last Anglo-French Summit on 4-5 November. Williamsburg would be an opportunity to pick up the threads. A wide range of issues could usefully be raised with President Mitterrand in addition to those related to Williamsburg.

The timing of the bilaterals will have to be investigated. It may be possible to fit in a bilateral with Mr Nakasone on the morning of Saturday, 28 May if he will be in Washington by then. The only time apart from breakfasts for bilaterals during the Summit appears to be between the press briefing and the State banquet on Monday, 30 May.

/I should

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I should be grateful to know whether the Prime Minister would agree in principle to bilateral meetings with Mr Nakasone and President Mitterrand and whether she would like any other bilateral meetings to be arranged. We do not at the moment see the need to recommend meetings with Chancellor Kohl, Mr Fanfani or M. Thorn, but this may have to be looked at again nearer the time, given that the Stuttgart European Council will take place only a week after Williamsburg.

I am copying this letter to Richard Hatfield in Sir Robert Armstrong's office.

Yours ever,

Brian

(B J P Fall)
Private Secretary

A J Coles Esq
10 Downing Street

SECRET Prime Minister 2

25 April 1983

ALAN WALTERS

MCS 25/4

PRIME MINISTER

YOUR WASHINGTON AND WILLIAMSBURG CONVERSATIONS WITH THE PRESIDENT OF THE UNITED STATES (27 MAY-1 JUNE)

Martin Feldstein tells me that, in a number of meetings with the President on economic policy, the President is nostalgic for the "good old days" when there was financial stability. (This explains his brief flirtation a year or so ago with a possible return to the gold standard, now thankfully dropped.) But there is a danger that the President may be induced to agree in general terms to some programme involving some degree of fixity in exchange rates. This he might do in an unthinking way and, when the implications were pointed out to him, he would withdraw his support and return to proclaiming the need for free markets in currencies.

The President would agree that exchange rate intervention cannot repel market forces. He abhors the loss, by intervention, of taxpayers' money. The recent case of French intervention, to the tune of $28 billion, with losses of at least $2 billion, is an object lesson.

The United States will welcome the Jurgenson Report as being "useful" - they will interpret the results as showing that there is only a very limited role for intervention in the very short term. So the United States will continue to restrict intervention to "day-to-day-smoothing". Like us, the United States will not entertain any system of international sanctions against any state that does or does not intervene according to some surveillance criteria or to some EMS-type rule.

Above all, the United States and the President believe, with us, that the way to stability is through appropriate monetary and fiscal policies, and not through exchange rate gimmicks. This gives us a basis for our proposal on an MTFS for the Summit countries.

The big shadow is, of course, cast by the Federal deficit. Feldstein believes that the President needs to be reassured that tax increases which would reduce expected deficits would help significantly in reducing long term dollar interest rates. Feldstein has considerable admiration for our 1981 Budget and the way in which we simultaneously increased taxes, brought the interest rates down and promoted recovery.

/According to

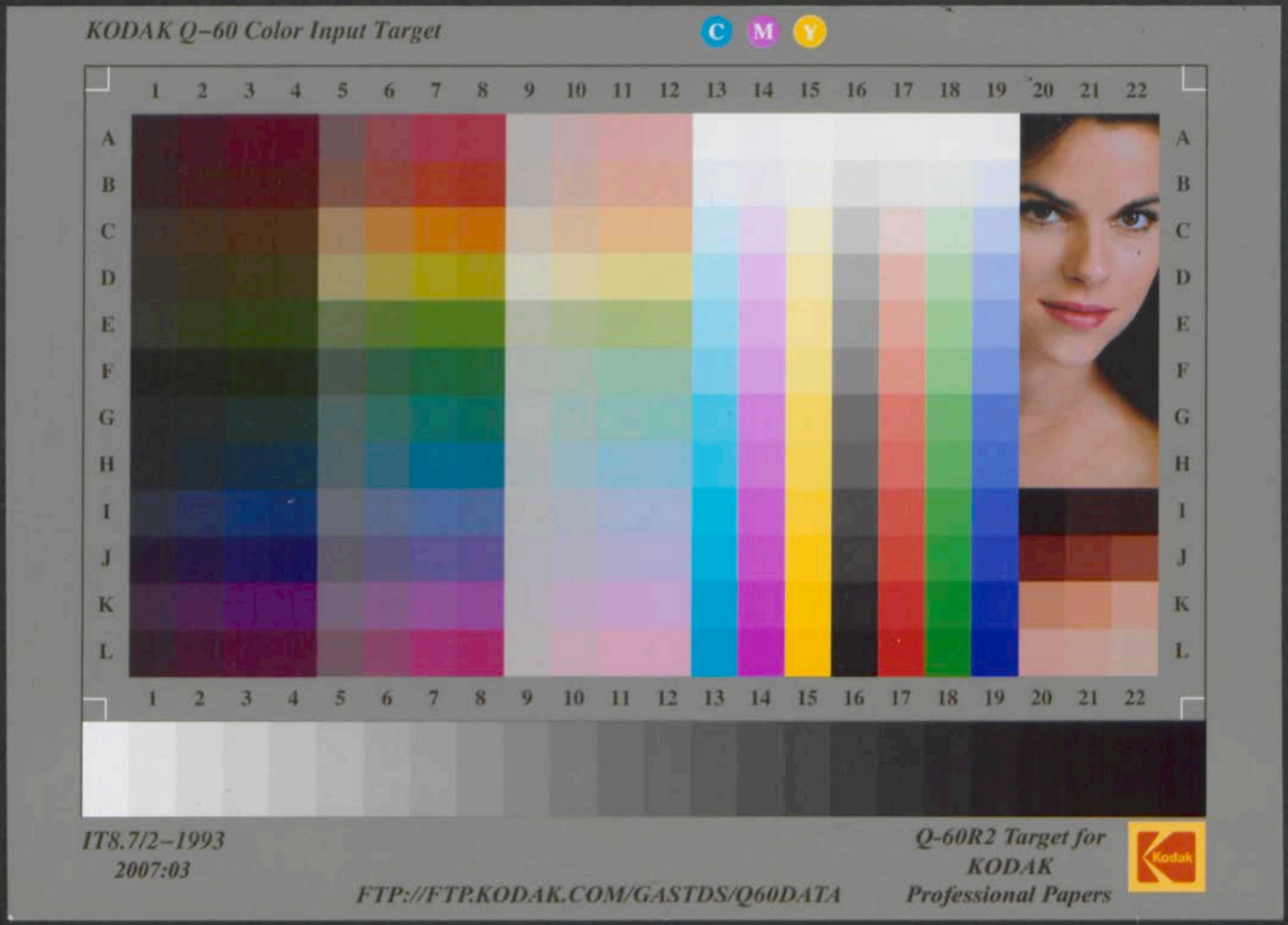
SECRET

According to Feldstein, the President has enormous admiration and respect for you; he would take your advice on this matter very seriously. Indeed Feldstein argued that only you could do it!

The CEA and Treasury plans are to have lagged increases in taxes which will come into operation, after the Election, in October or perhaps early in 1985. They hope this will have an effect on interest rates at a much earlier date. The intention is to get the Federal deficit to about 2% of GDP in the latter part of the 1980s. (In my opinion that is still too high to have zero inflation.)

It is widely reported in the press that George Shultz is in favour of more control over exchange rates. This is incorrect. Shultz has made statements about "how nice it would be if we had more stability", but he certainly did not envisage any EMS-type or Bretton Woods regime. He would, if pressed, say that such stability can be achieved only by stability in monetary-fiscal policies.

ALAN WALTERS
25 April 1983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