

From Munich
you may wish to read this
before your meeting with
George Schultz tomorrow.

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0/057/8 the legs
Duty Clerk

PRIME MINISTER FROM DUTY CLERK

KONFO 002/108

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George Schultz tomorrow.

8.5.82

OO F C O (DESKBY 080900Z)

RR PARIS

RR UKDEL OECD

RR UKREP BRUSSELS

RR BONN

RR TOKYO

RR ROME

GR 1100

CONFIDENTIAL

DESKBY 080900Z

FM WASHINGTON 072040Z MAY 82

TO IMMEDIATE F C O

TELEGRAM NO 1668 OF 7 MAY

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

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

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

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

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

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

ECONOMIC POLICY CO-ORDINATION

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

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

TRADE

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

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

EAST/WEST TRADE

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

OTHER ISSUES

B. (A) GLOBAL NEGOTIATIONS

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

(B) HIGH TECHNOLOGY

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

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

(C) YOUTH EXCHANGES

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

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

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

HENDERSON

NNNN