



Letter to RR (DoI) Confidential
 headed as below
 "The PM - was grateful for
 your S - of S - report of 7/4 on
 his visit to the USA, she read this
 with great interest."

Prime Minister 4

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7/4

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PRIME MINISTER

US VISIT - MARCH 22 - APRIL 2, 1982

This 10-day visit was primarily to promote inward investment by US companies. I also took the opportunity to have a day in Washington when I met members of the Administration, and of Congress, the Chairman of the Council of Economic Advisers and members of the Federal Communications Commission. As well as Washington, the tour covered the New York area, Pittsburgh, Boston and the San Francisco Bay area. I visited 14 companies, had 8 speaking engagements and had 6 sessions with the media, including an interview on CBS radio which was carried coast-to-coast.

Our Economy

2 I found a good awareness of the improvement in our economic prospects; this was particularly strong among firms with successful UK subsidiaries. Many of those with whom I spoke contrasted, a little ruefully, the success of the British Government in bringing the UK budget deficit under control with the difficulties currently being experienced by the Administration in Washington. There was a particular welcome for the improvements in industrial productivity in Britain, for our improving industrial relations record and for our increasing competitiveness. A number of the firms approached are contemplating new investment in Britain or expanding existing operations.

The Washington SceneThe US Economy

3 My main purpose was to form a view of the likely development of the budgetary impasse between the White House and Congress.



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No clear view emerged except that the uncertainty is likely to persist for some little while.

4 Discussions with the Secretary for Commerce (Mr Baldrige) and with the Deputy Special Trade Representative (Mr David Macdonald) showed that the Administration wanted to play down the difficulties. It was suggested that it did not matter too much if Congress took some time to become reconciled to the President's budget proposals, and that anxieties about the Administration's projected budget deficit were misplaced. "I think the Treasury's forecasts are exaggerated and that there is not too much to worry about", said one. On this view, interest rates would tend to fall over the next few months and, hopefully, would not rise in the autumn.

5 In Congress, I met Henry Reuss (Dem) and John Dingell (Dem) who expressed a very different view. They were deeply worried about high interest rates and the prospect that rates could go still higher. They believed that the Administration would have to modify its budget proposals and they also believed that Congress would be prepared to agree to some expenditure cuts (e.g on entitlements) provided the President stretched out his defence programme over a longer timescale, postponed the 1983 tax cut and made other changes. It was ironic but true that a Republican President had put forward proposals involving a budget deficit of nearly \$100 million for the coming year and rising in the years ahead, while Democrats in Congress were arguing for changes to reduce the prospective deficits.

6 I discussed this whole question with bankers, industrialists and others during my tour. They were much closer to the views expressed by the Congressmen, and were unanimous that deficits had to be reduced so that interest rates could be brought down and stay down. I found very few who were optimistic that this in fact would happen. The general thrust of the views given to me were that interest rates would come down in the short term, but



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would rise towards the end of the calendar year. This was, for instance, the view expressed by senior managers at Manufacturers Hanover, by the Chairman and board members of the First National Bank of Boston and by the Chief Economist of the Bank of America.

7 In all these discussions, I made it clear that rising American interest rates towards the end of 1982 would be very bad news indeed for Europe in general and Britain in particular.

The Buckley Mission

8 I discussed the Buckley Mission briefly with Mr Baldrige. He was at great pains to emphasise that the purpose of the Mission had been widely misunderstood in Europe and that it was aimed primarily at securing agreement on reducing or ending concessionary credit to the Soviet Union and other Comecon countries. I suggested that many European governments had seen the Mission as a further attempt by the US Administration to secure support for its measures of 29 December. Mr Baldrige admitted that Mr Buckley had had to explain his precise purpose to each government he saw. Mr Baldrige went on to say that he fully understood the reluctance of European governments to contemplate the abrogation of outstanding commercial contracts. It had not been the purpose of the Buckley Mission to secure this outcome. (I understand that there has since been a telegram from Washington spelling out this point.)

Steel

9 I discussed the steel anti-dumping cases with Mr Baldrige and Mr Macdonald. While sympathetic to the British case, they saw no option but for the suits to run their course at least for the time being. Both spoke highly of the responsibility shown by BSC and of the case which had been made by Ian MacGregor, but they could not prevail on the US industry to narrow their sights on the real culprits. Both, however, believed that later on this



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year the way might be open to some kind of settlement.

Protectionism

10 In response to my anxieties that America might be going down a protectionist road, both members of the Administration made it clear that they were aiming primarily at Japan. Although they talk about "reciprocity", they mean reciprocity with Japan. They appeared to welcome the Community's Article XXIII application but agreed with me that it would be a long hard battle to make any real impact on Japan's imports.

Telecommunications

11 A good discussion was held with the Federal Communications Commission (FCC) on liberalisation, broadband cable, satellites, regulatory mechanisms etc. Two points of interest: first, Congress is attempting to legislate to bring the regulatory agencies under congressional control. Clearly, their free-standing, non-political role has become an embarrassment. Second, the FCC saw Britain as having a unique opportunity to advance cable TV etc., and telecommunications in parallel and perhaps in an integrated way that had not been open to the United States. We agreed that there should be closer official contacts between my Department and the Commission.

The Rest of the Talk

i) US Investment in Britain

12 Although most of the firms contacted acknowledged the improvements taking place in our economy, there were still anxieties about UK industrial relations, about the delays in getting projects off the ground, about public sector strikes and so on. The baggage handlers strike at Heathrow had obviously disrupted one or two key visits to Britain and may actually have lost us one particular investment project which in the event has gone to Holland.



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13 For high technology, high growth companies, the UK is seen as a good location for US subsidiaries - for example the recent decision by Hewlett Packard to make a major new investment in Bristol. On the other hand, the point was strongly made to me that it remains difficult for us to develop our own home grown high technology, high growth companies from scratch, because, despite the improvements that have been made, we do not give enough encouragement to venture capital and we do not offer an attractive regime for stock options. I will be discussing with the Chancellor of the Exchequer what further changes we need to make if we are really to emulate the Silicon Valley phenomenon in this country.

14 On all these company visits I was accompanied by the relevant Consul-General or by a member of their staffs. It is obvious that they have built up admirable relationships with many of the firms in their areas. They did, however, stress very strongly the desirability of the best possible co-ordination between the various UK agencies engaged in promoting inward investment.

ii) Industry and Education

15 My programme included visits to the Massachusetts Institute of Technology and Stanford University. I was briefed by senior academics on the admirable relationships those institutions have established with industry in their areas and was able to recognise how enormously important a strong technological university can be in promoting faster industrial growth in its locality. Though we have made a start on this in Britain, we have a long way to go; and even in the USA, the number of institutions which have successfully emulated MIT and Stanford is evidently quite small.



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Conclusion

16 I would like to thank the Foreign and Commonwealth Office and our Posts in the United States for arranging programmes which were full of interest and value. I was particularly impressed with the calibre of the guest lists for dinner parties arranged by the Ambassador in Washington and the Consuls-General in New York and San Francisco. I warmly appreciate the trouble that was taken to make my tour really worthwhile, and I hope that Francis Pym will pass this on to the Posts concerned.

17 I am copying this minute to Geoffrey Howe, Francis Pym, Keith Joseph, Jim Prior, George Younger, Nicholas Edwards, Peter Rees, and to Mr John Sparrow.

PJ

P J

4 April 1982

Department of Industry
Ashdown House
123 Victoria Street

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13 April 1982

US VISIT - MARCH 22-APRIL 22, 1982

The Prime Minister was grateful for your Secretary of State's report of 7 April on his visit to the USA. She read this with great interest.

W. F. S. RICKETT

Richard Riley, Esq.,
Department of Industry.

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RR BTDO NEW YORK

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Prime Minister

Jan 7, 8 & 12

RR UKREP BRUSSELS

MS

Head NATS
Head TRES
Head ER's
Head News.

ADL 24/3

GR 1350

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FM WASHINGTON 240035Z MAR 82

TO IMMEDIATE F C O

TELEGRAM NO 964 OF 23 MARCH

INFO UKREP BRUSSELS, TDO NEW YORK

INFO SAVING PARIS, BONN, TOKYO

Ps/Es
Ps/d/a Luce
Ps/d/a Head
Ps/TOS
Head Judges
Mr Gubbins
Mr U...
Mr Evans

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VISIT TO WASHINGTON OF THE SECRETARY OF STATE FOR INDUSTRY, 22-23 MARCH

1. MR JENKIN ARRIVED LAST NIGHT AND TODAY COMPLETED A ROUND OF CALLS IN THE ADMINISTRATION AND IN CONGRESS, IN WHICH HE EXCHANGED VIEWS ON INDUSTRIAL POLICY AND RELATED TRADE AND ECONOMIC ISSUES. HE HAS NOW LEFT FOR NEW YORK, PITTSBURGH, BOSTON AND SAN FRANCISCO, WHERE HIS PROGRAMME IS PRIMARILY CONCERNED WITH INWARD INVESTMENT.

2. MR JENKIN CALLED ON CONGRESSMAN DINGELL (CHAIRMAN, HOUSE ENERGY AND COMMERCE COMMITTEE), AMBASSADOR MACDONALD (DEPUTY US TRADE REPRESENTATIVE), CONGRESSMAN REUSS (DEMOCRATIC, CHAIRMAN, JOINT ECONOMIC COMMITTEE), SECRETARY OF COMMERCE BALDRIGE, WEIDENBAUM (CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS), AND FOWLER (CHAIRMAN, FEDERAL COMMUNICATIONS COMMISSION). HE WAS ABLE TO HAVE FURTHER DISCUSSION WITH SOME OF THESE, INCLUDING BALDRIGE, MACDONALD AND WEIDENBAUM, AT A DINNER IN THE RESIDENCE LAST NIGHT.

3. DINGELL (WHO IS OF COURSE A DEMOCRAT) WAS HIGHLY CRITICAL OF THE ADMINISTRATION'S GENERAL COMPETENCE. THEY WERE TRYING TO DISMANTLE THE DEPARTMENT OF ENERGY BY THE BACK DOOR: THEY WERE DEGUTTING IT BY DISMANTLING ITS ENERGY INFORMATION AGENCY, EVEN THOUGH THEY WERE UNLIKELY IN THE END TO GET POLITICAL SUPPORT FOR DISMANTLING THE DEPARTMENT COMPLETELY. THE PRESIDENT'S UNFORTUNATE VETO OF THE STANDBY PETROLEUM ALLOCATION ACT COULD LEAVE A HIATUS IN THE ANTI-TRUST WAIVER ACCORDED TO OIL COMPANIES TO ENABLE THEM TO CO-OPERATE WITH THE IEA. BUT THERE WAS PROBABLY ENOUGH SUPPORT IN CONGRESS TO

WITH THE IEA. BUT THERE WAS PROBABLY ENOUGH SUPPORT IN CONGRESS TO GET A MEASURE THROUGH QUICKLY. DINGELL DEFENDED THE US RECORD ON GAS DEREGULATION. THE RATE OF DEREGULATION HAD INCREASED, AND NEW GAS WAS NOT REGULATED. BUT HE ADMITTED THAT IT WAS UNCLEAR, BY THE END OF THE PROGRAMME IN 1985, HOW MUCH GAS WOULD STILL BE CONTROLLED: IT COULD BE AS MUCH AS 60 PERCENT.

4. MACDONALD WAS ENCOURAGED, AS WERE OTHERS, TO HEAR OF POSITIVE MEASURES TAKEN IN THE BUDGET AGAINST THE BACKGROUND OF A FALL IN UK INFLATION AND INTEREST RATES, THE INCREASE IN PRODUCTIVITY AND EXPORTS, AND THE RISE, ALBEIT SLOW, IN MANUFACTURING PRODUCTION. HE COMMENTED THAT SEEN FROM THE US, THE EUROPEAN COMMUNITY, WITH THE EXCEPTIONS OF THE UK AND GERMANY, WAS IN A BAD WAY WITH A MORE ADVANCED FORM OF THE PROBLEMS AFFLICING THE US ECONOMY.

5. MR JENKIN REFERRED TO BSC'S DETERMINATION TO BREAK EVEN AND ITS RESPONSIBLE BEHAVIOUR IN SELLING TO THE UNITED STATES. RECOVERY COULD BE DASHED IF THE ANTI-DUMPING AND COUNTERVAILING CASES RESULTED IN EXCLUSION FROM THE US MARKET AND DIVERSION OF THIRD COUNTRY SALES TO EUROPE. IN THE PRIVATE SECTOR THERE WAS NO QUESTION OF SUBSIDY (ASSISTANCE BEING FOR CAPACITY REDUCTION) AND THE SECTION 301 CASES WERE MISPLACED. MACDONALD ACKNOWLEDGED BSC'S PERFORMANCE AND HOPED THAT THE UK INDUSTRY WOULD DEPLOY ITS ARGUMENTS FULLY. MR JENKIN NOTED THE CHILLING EFFECT OF THE CASES ON FORWARD CONTRACTS. FOR THE MOMENT HOWEVER THERE WAS NO ALTERNATIVE TO LETTING THEM RUN.

6. MR JENKIN REFERRED TO EUROPEAN CONCERNS THAT RECIPROCITY WAS A PROTECTIONIST CONCEPT. MACDONALD SAID IT MEANT EQUAL ACCESS TO MARKETS WHICH WAS A GATT OBJECTIVE. IT EXPRESSED THE CONCERNS OF THE AMERICAN PEOPLE, AND WAS A SYMPTOM OF THE NEED TO TAKE SERIOUSLY THE GATT MINISTERIAL. HE URGED THE UK TO USE ITS INFLUENCE IN SECURING AGREEMENT AT THE MINISTERIAL ON WORK PROGRAMMES, ESPECIALLY IN SERVICES. MR JENKIN EXPRESSED THE UK'S DETERMINATION TO MOVE FORWARD BUT POINTED ALSO TO THE NEED FOR CONSOLIDATING THE GATT'S APPLICATION TO TRADE IN GOODS.

7. REUSS EXPRESSED CONCERN ABOUT THE EFFECT ON THE ECONOMY OF HIGH INTEREST RATES, WHICH HE BELIEVED WERE CAUSED BY A COMBINATION OF LARGE BUDGET DEFICITS AND AN EXCESSIVELY TIGHT MONETARY POLICY. ON THE BUDGET, HE SAID A NUMBER OF CONGRESSIONAL AND ADMINISTRATION OFFICIALS WERE NOT ATTEMPTING TO ARRANGE A COMPROMISE. HE WAS NOT CERTAIN THAT THESE EFFORTS WOULD BE SUCCESSFUL BY THE 15 MAY DEADLINE FOR THE FIRST BUDGET RESOLUTION BUT "THIS WAS WHAT YOU AND THE FREE WORLD WOULD HAVE TO HOPE FOR". IF THEY WERE NOT SUCCESSFUL THERE WAS REAL TROUBLE AHEAD. THERE WAS ALSO A DISCUSSION

SUCCESSFUL THERE WAS REAL TROUBLE AHEAD. THERE WAS ALSO A DISCUSSION ABOUT POLICIES TOWARDS INDUSTRY, DURING WHICH MR REUSS ADVOCATED FOR THE US A POLICY OF SUPPORT FOR "CATALYST" SECTORS SUCH AS COAL (OF WHICH THE US HAD 400 YEARS SUPPLY), SEMICONDUCTORS AND HIGH SPEED PASSENGER RAIL SYSTEMS. SQUARE BRACKETS BEGIN THE SECRETARY OF STATE TOOK THE OPPORTUNITY TO OUTLINE SOME OF THE DIVIDENDS THAT WERE NOW FLOWING FROM THE UK POLICY OF NON-INTERVENTION IN UK INDUSTRY. SQUARE BRACKETS END

8. SECRETARY BALDRIGE'S LUNCH FOR MR JENKIN WAS FOLLOWED BY FURTHER DISCUSSION. THE US SIDE REFERRED TO TRADE RELATIONS WITH THE EASTERN BLOC AND MR JENKIN REMARKED ON THE IMPORTANCE OF REMOVING CONFUSION OVER OBJECTIVES. UNDER SECRETARY OLMER ACKNOWLEDGED THAT THIS HAD BEEN A PROBLEM DURING THE BUCKLEY MISSION. HE EMPHASISED THAT THE CURRENT US CONCERN WAS WITH THE PROVISION OF CONCESSIONARY CREDIT. IT MADE NO SENSE TO SUBSIDISE THE SOVIET ECONOMY WHILST AT THE SAME TIME SPENDING LARGE SUMS ON ARMS. IT WAS IMPORTANT TO SEE THIS AS SEPARATE FROM SUCH ISSUES AS THE PIPELINE, WHICH BALDRIGE ACKNOWLEDGED WAS IMPOSSIBLE TO STOP. MR JENKIN WELCOMED THIS CLARIFICATION AND SAID THAT THERE COULD BE THE BASIS FOR ACTION ON CREDIT IF ALL COUNTRIES AGREED. TIME WAS NEEDED FOR FACTUAL STUDY AND APPRECIATION OF THE ISSUES. (SEE MY TELEGRAM NO 962).

9 MR JENKIN RAISED THE STEEL CASES, AND BALDRIGE SAID THAT NO-ONE KNEW BETTER THAN HE WHAT BSC HAD ACHIEVED. THERE HAD BEEN NO CHOICE UNDER THE LAW BUT TO BRING THE CASES. A NUMBER OF EUROPEAN SUPPLIERS WERE ADAMANT THAT THEY WERE NOT SUBSIDISING. HE HAD NO BETTER IDEA FOR PROCEEDING BUT WAS WILLING TO LISTEN TO IDEAS. A LONG RANGE SOLUTION WAS REQUIRED WHICH DID NOT SIMPLY PAPER OVER THE CRACKS. OLMER SAID THAT THE EC HAD BEEN THE TRADITIONAL CHANNEL FOR DEALING WITH SUCH PROBLEMS AND HE ASSUMED THAT THIS WAS STILL SO. MR JENKIN EMPHASISED THE DANGERS CREATED BY THE CASES. THE EUROPEAN COMMUNITY WAS THE RIGHT CHANNEL. THE CASES HAD TO RUN THEIR COURSE STILL FURTHER BUT A TIME MIGHT COME LATER IN THE YEAR TO TAKE STOCK.

10. BALDRIGE SOUGHT THE UK'S HELP IN ACHIEVING A SUCCESSFUL GATT MINISTERIAL MEETING AND FOR A WORK PROGRAMME ON THE TRADE IN SERVICES. MR JENKIN REPLIED ON THE SAME LINES AS TO MACDONALD.

11. MR JENKIN REFERRED TO CONCERN IN EUROPE THAT RECIPROCITY CONTAINED THE SEEDS OF PROTECTIONISM. BALDRIGE SAID THAT THE PRESIDENT AND THE CABINET WERE VERY SENSITIVE TO SUCH RISKS AND WOULD ONLY TAKE MEASURES AGAINST UNEQUAL MARKET ACCESS AFTER PAINFUL

WOULD ONLY TAKE MEASURES AGAINST UNEQUAL MARKET ACCESS AFTER PAINFUL CONSIDERATION. THE ADMINISTRATION HAD TO MANAGE AND CONTROL A CONGRESS IN WHICH THERE WERE NUMEROUS BILLS INCORPORATING RECIPROCITY

12. IN A DISCUSSION COVERING MONETARY POLICY, BUDGETARY PROBLEMS AND INVESTMENT INCENTIVES, WEIDENBAUM WAS SURPRISINGLY FORTHCOMING AND CLAIMED THAT PRESIDENT REAGAN'S FY82 AND FY83 BUDGETS DID NOT CONFORM WITH HIS ADVICE. HE THOUGHT THAT THE 1981 ECONOMIC RECOVERY TAX ACT WAS TOO GENEROUS AND HAD ENDED UP WITH THE WRONG STRUCTURE, THAT THE EXPENDITURE CUTS SO FAR HAD BEEN TOO SMALL, THAT THE DEREGULATION EFFORT HAD BEEN INADEQUATE AND THAT - SHORT TERM MOVEMENTS IN THE MONEY SUPPLY APART - THE FEDERAL RESERVE'S MONETARY TECHNIQUES HAD BEEN APPLIED LESS THAN OPTIMALLY. HE COMMENTED THAT THE FY83 BUDGET WAS AT PRESENT THE SUBJECT OF A RITUAL DANCE BETWEEN CONGRESS AND THE ADMINISTRATION, BUT THAT EVENTUALLY A COMPROMISE WOULD HAVE TO BE REACHED BETWEEN THE TWO PARTIES - A SENTIMENT ECHOING WHAT BALDRIGE HAD SAID AT LUNCH. WEIDENBAUM THOUGHT THAT IT HAD BEEN WRONG FOR THE ADMINISTRATION TO HAVE RAISED FALSE HOPES ABOUT EARLY SUPPLY SIDE EFFECTS FROM THE REAGAN ECONOMIC PROGRAMME. THE POSITIVE EFFECTS ON INVESTMENT COULD ONLY BE EXPECTED AFTER A TIME LAG. THE SECRETARY OF STATE DESCRIBED VARIOUS UK INVESTMENT INCENTIVES FOR SMALL FIRMS, INCLUDING THOSE IN ENTERPRISE ZONES, AND HE AND WEIDENBAUM AGREED TO EXCHANGE INFORMATION ABOUT THIS AS EXPERIENCE DEVELOPED IN THE TWO COUNTRIES.

13. AT THE FEDERAL COMMUNICATIONS COMMISSION THERE WAS A WIDE-RANGING REVIEW OF CURRENT ISSUES IN TELECOMMUNICATIONS REGULATION INCLUDING COMMON CARRIER, BROADCASTING AND CABLE. THE CHAIRMAN EMPHASIZED THE COMMITMENT OF THE COMMISSION TO REDUCING REGULATION IN BROADCASTING AND CABLE TO AN ABSOLUTE MINIMUM ON FIRST AMENDMENT GROUNDS, AND TO MAXIMIZING COMPETITION IN COMMON CARRIER SERVICES. THE SPECIFIC ISSUE OF VIDEOTEX AND TELETEX WAS NOT RAISED.

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