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FROM WASHINGTON 200120Z APR 85.

TO IMMEDIATE F C O

TELEGRAM NUMBER 1335 OF 19 APRIL.

CHANCELLOR OF THE EXCHEQUER'S BILATERAL MEETING WITH SECRETARY BAKER.

SUMMARY

1. UNITARY TAXATION AND INTERNATIONAL MONETARY REFORM WERE THE MAIN ISSUES DISCUSSED. SECRETARY BAKER SAID HE WAS AWARE OF EX-SECRETARY'S REGAN'S COMMITMENT TO PROGRESS ON THE UNITARY TAXATION ISSUE BY JULY 31, AND WOULD TRY TO WORK WITH THE AUTHORITIES IN CALIFORNIA TOWARDS AN EARLY SOLUTION. BAKER EXPLAINED THE THINKING BEHIND HIS PROPOSAL FOR A POSSIBLE MEETING ON THE INTERNATIONAL MONETARY SYSTEM.

DETAIL

2. THE CHANCELLOR MET TODAY WITH TREASURY SECRETARY BAKER. THE US SIDE INCLUDED BAKER, DARMAN, SPRINKEL, MULFORD, DALLARA, MCLURE AND MS WALSH, AND THE CHANCELLOR WAS ACCOMPANIED BY LITTLER, WICKS, WALSH, WYNN OWEN AND MYSELF. THE DISCUSSION CENTRED ON TWO MAIN ISSUES: UNITARY TAXATION AND THE HANDLING OF A MEETING ON INTERNATIONAL MONETARY REFORM ISSUES.

3. ON UNITARY TAXATION, BAKER SAID THAT HE WAS AWARE OF THE COMMITMENT MADE BY SECRETARY REGAN THAT FEDERAL ACTION WOULD BE TAKEN AGAINST UNITARY TAXATION UNLESS APPRECIABLE PROGRESS WAS MADE AT STATE LEVEL BY 31 JULY. MCLURE POINTED OUT THAT PROGRESS HAD BEEN MADE IN SEVERAL US STATES, BUT NOT AS YET IN CALIFORNIA. DARMAN CLAIMED THAT THE MAIN PROBLEM THERE WAS THE DISPUTE BETWEEN DOMESTIC AND FOREIGN MULTINATIONALS, BUT WALSH POINTED OUT THAT CALIFORNIA STATE LEGISLATORS, AND MOST RECENTLY THE GOVERNOR AS WELL, WERE MAKING PROGRESS ON UNITARY TAX CONTINGENT ON REMOVING JAPANESE RESTRICTIONS ON IMPORTS OF CALIFORNIAN PRODUCTS. THE CHANCELLOR MADE IT CLEAR THAT CALIFORNIA WAS THE KEY, THAT LEGISLATION WAS REQUIRED THIS YEAR, AND THAT HE WOULD BE HARD PUT TO RESIST PARLIAMENTARY PRESSURE IF THE TRICK WAS NOT TURNED THIS YEAR IN CALIFORNIA.

4. THE UPSHOT WAS THAT SECRETARY BAKER, WHILE FALLING SHORT OF UNDERTAKING PUBLICALLY TO RENEW THE REGAN COMMITMENT, SAID THAT THE ADMINISTRATION WOULD WORK WITH THE CALIFORNIAN AUTHORITIES TOWARDS THE EARLY RESOLUTION OF THE PROBLEM, AND WOULD MEET WITH THEM FOR THIS PURPOSE.

MEETING ON INTERNATIONAL MONETARY REFORM.

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5. BAKER DARMAN EXPLAINED THAT THE US INITIATIVE FOR A POSSIBLE MEETING HAD BEEN DESIGNED TO FORESTALL ANY FRENCH PROPOSAL FOR A SPECIAL MEETING UNDER FRENCH CHAIRMANSHIP TO CONSIDER THE G10 MINISTERS REPORT. IT WOULD ALSO BE HELPFUL DOMESTICALLY IN MEETING PRESSURES FOR PROTECTIONISM AND FIXED EXCHANGE RATES IF THE ADMINISTRATION COULD DEMONSTRATE, THROUGH A MEETING UNDER US CHAIRMANSHIP, THAT ALL OPTIONS HAD BEEN CONSIDERED AND THAT THE EXISTING SYSTEM OF FLOATING EXCHANGE RATES WAS THE ONLY ONE WITH INTERNATIONAL APPROVAL. THE CHANCELLOR AND BAKER AGREED THAT WIDER DISCUSSION OF G10 REPORT NEEDED TO BE KEPT WITHIN THE INTERIM COMMITTEE. (THIS APPROACH WAS ENDORSED BY THE INTERIM COMMITTEE WHICH AGREED THAT THE COMMITTEE WOULD REVIEW AT ITS NEXT MEETING IN SEOUL, IMPROVEMENTS OF THE INTERNATIONAL MONETARY SYSTEM CURRENTLY UNDER STUDY.

WORLD BANK

6. BOTH SIDES AGREED THAT A GENERAL CAPITAL INCREASE FOR THE WORLD BANK WAS NOT AS YET JUSTIFIED, AND THAT ANY DIFFERENCES BETWEEN THE US AND UK APPROACH WERE MERELY MATTERS OF PRESENTATION.

7. FCO PLEASE ADVANCE TO HM TREASURY, BANK OF ENGLAND, ODA, CABINET OFFICE, AND INLAND REVENUE.

WRIGHT

(ADVANCED AS REQUESTED)

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