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VISIT TO THE UNITED STATES 7-11 MAY

Last week I spent a day and a half in Washington, made a brief visit to New York and for a day and a half attended the Bilderberg Conference. As well as Mac Baldrige (Commerce), Bill Brock (Labor) and Ed Meese (Attorney-General), I saw senior people from the Treasury, State and the US Trade Representative's Office and talked to a number of Senators and Congressmen. In New York I met people from the financial community and opened the new premises of the British Trade Development Office.

2 My general impression is that in trade and the related financial policies the Administration is developing clearer ideas of where it wants to go, but is unsure how to get there. There is a certain similarity with Nakasone's position in Japan. He probably knows what he wants, but not how to get it.

3 The need to get the budget deficit down is very widely accepted, and I gave it every encouragement. Proposals for reducing the deficit are now through the Senate but still have to be passed by the House. Many of those to whom I spoke saw a reduction in the deficit as the key to lower interest rates, a realignment of currencies and in due course a better trade balance. But precisely how and when this virtuous circle of events can be achieved remains unclear.

4 Pressures for protectionism are rather stronger than when I was last in Washington a year ago. I was concerned that

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the influential Senator Danforth does not regard as protectionist retaliatory action against imports which the US chooses to regard as subsidised. The lower growth rate expected this year in the US will not help: their growth seems likely to be at around the same level as ours, and the pessimists, including some New York bankers, would say lower. But the Administration's heart is in the right place. Apart from Japan and steel (see below) I believe that they will work hard to resist protectionist proposals from the Congress. There is general agreement that the idea of an import surcharge is dead.

5 As to specific issues:

The GATT Round More thoughtful members of the Administration acknowledge that the US was at least partly responsible for the disagreement at the Bonn Summit by making an unnecessarily big issue of the start of the GATT Round. They now intend - sensibly - to play it down and to concentrate on the preparatory work due to be launched in the second half of July. But while they have Congressional authority to negotiate on non-tariff matters and want to concentrate on these, they do not have authority to agree on tariff reductions, and the Congress would not at present give it. Since there are still some high peaks in the US tariff, this will weaken their bargaining position against countries like Brazil and India who do not share the US objectives in GATT.

Japan There is still extensive criticism of Japan, even if feelings in the Congress are not running quite so high as a couple of months ago. The negotiations on

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opening up specific areas of the Japanese market have made some progress, but if that progress is not maintained the Administration may well act selectively against imports from Japan, under powers of doubtful compatibility with GATT.

I floated the idea of targets for global imports of manufacturers into Japan. I was told that this had been advocated in the US Cabinet early this year by Baker, Brock and Baldrige, but rejected by the majority, partly on grounds of inconsistency with free market principles. I got a positive response to my proposal that both through the Community and bilaterally we should keep in closer touch with the US over Japan without leaving the Japanese with the impression that we are ganging up against them. I am asking our Embassy in Washington to follow this up.

Extraterritoriality Although a wide difference remains over the principle, we are, in practice, now able to sort out satisfactorily most of the individual cases. The agreement for consultation over foreign policy controls on exports, which Mac Baldrige and I signed last November, set the right tone. It is reassuring that the Administration are not seeking to apply extraterritoriality to their new controls on trade with Nicaragua.

Steel The US wish for still more protection for their steel industry is our most difficult specific trade problem. The US emphasised their willingness to negotiate, but their present demands and the timescale they want to see are unlikely to be acceptable to the

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Community or ourselves. Mac Baldrige made the worrying comment that, while the Community have raised the issue to the political level, the Commissioners now dealing with the subject are not (unlike Davignon) masters of the detail. Steel remains a priority for us, both in Brussels and Washington, over the next few months. Against the background of fiercely protectionist demands from the US industry, the prospects for an early resoution seems remote even though the Commission are giving the Administration some misleading signals that progress may be more speedy.

South Africa It looks highly likely that some form of legislation affecting trade and investment in South Africa will be passed this year, and that the President will feel unable to veto it. The objective of the Administration, and of Mac Baldrige in particular, is to limit the damage. The risk for us is increased pressure, here and in the Community, to follow suit, which I would certainly want to resist.

Privatisation There was considerable interest in New York in our plans, especially for British Gas and British Airways. This should be reflected in the market when the time comes.

Financial Services As Alex Fletcher found during his recent trip, our City reforms continue to attract the most favourable comments.

6 I am grateful to our Ambassador in Washington and our Consul-General in New York for their hospitality and for enabling me to pack a good deal into a short visit. Their

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wide contacts with the Administration on the Hill and with US business are of enormous value to a visiting Minister.

7 I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Energy, Sir Robert Armstrong, our Ambassadors in Washington and Tokyo, the Consul-General in New York and the UK Permanent Representative to the European Communities.

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