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FROM WASHINGTON

TO IMMEDIATE FCO

TELNO 1060

OF 240410Z APRIL 86

INFO ROUTINE BONN, PARIS, ROME, UKREP BRUSSELS, TOKYO, OTTAWA *ms***TOKYO ECONOMIC SUMMIT**

1. CLEARLY RIGHT AT THE TOP OF THE PRESIDENT'S MIND NOW IS THE PROBLEM OF TERRORISM, ESPECIALLY LIBYA. THE OBJECT IN TOKYO WILL BE TWO-FOLD, FENCE-MENDING: AND TRYING TO CONSOLIDATE WESTERN SUPPORT FOR FURTHER FIRM ACTION AGAINST LIBYA. (THE RISK THAT FIRM ACTION MIGHT AGAIN INCLUDE MILITARY ACTION WAS DISCUSSED IN MY TELNO 1050.) ON THE STANDARD SUMMIT TOPICS, THE PRESIDENT IS HOLDING HIS MAIN BRIEFING MEETING FOR THE SUMMIT TOMORROW (24 APRIL) BEFORE LEAVING WASHINGTON ON 26 APRIL. WE WILL REPORT THEREAFTER ANYTHING OF INTEREST WE ARE ABLE TO PICK UP. MEANWHILE WE ARE TOLD THAT THERE HAS BEEN LITTLE CHANGE IN AMERICAN THINKING ON THE SUMMIT SINCE THE STATE DEPARTMENT BRIEFING ON 3 APRIL (MY TELNO 831) NOW EXEMPLIFIED IN PUBLIC BRIEFINGS GIVEN TODAY BY THE PRESIDENT, BAKER AND SHULTZ (SEE MIFTS). THE AMERICANS SEE THE SUMMIT LARGELY AS ONE WHICH CONSOLIDATES EXISTING PROGRESS IN THE INTERNATIONAL ECONOMIC AND FINANCIAL AREAS, INCLUDING A CALL FOR THE NEW GATT ROUND IN SEPTEMBER, BUT WITH NO SURPRISES OR NEW INITIATIVES (OR EVEN CLARIFICATION, IN THE CONTEXT OF A POSSIBLE INTERNATIONAL MONETARY CONFERENCE, OF EXISTING ONES). THE THEME THEY NO DOUBT WISH TO SEE EMERGE IS VERY MUCH STEADY AS WE GO. THE RECENT SLIDE IN OIL PRICES AND THE DOLLAR HAVE NOT AFFECTED THIS. THERE IS INCREASING WILLINGNESS TO HELP THE HARD-PRESSED US OIL INDUSTRY (BY EG REPEALING THE WINDFALL PROFITS TAX AND/OR INCREASES IN EXCISE DUTIES AS PART OF TAX REFORM, BUT NOT REPEAT NOT AN IMPORT LEVY) AND EVEN OF A BELIEF THAT THERE IS A PRICE BELOW WHICH A SUSTAINED OIL PRICE FALL COULD BE MORE DAMAGING THAN HELPFUL, BUT THERE IS NO SIGN FOR THE PRESENT THAT THE ADMINISTRATION IS CHANGING ITS MIND ABOUT LETTING THE MARKET DECIDE THE LEVEL OF OIL PRICES OR THE LEVEL OF THE DOLLAR.
2. THUS I WOULD EXPECT THE PRESIDENT TO USE THE SUMMIT, IN AN ELECTION YEAR, TO CAPITALISE ON WHAT THE AMERICANS SEE AS AN UNUSUAL DEGREE OF INTERNATIONAL CONSENSUS ON ECONOMIC ISSUES AMONG THE PARTICIPANTS IN ORDER TO CONVEY THE IMPRESSION OF A PRESIDENT IN CONTROL OF EVENTS AS A RESULT OF HIS OWN POLICIES. AGAINST THIS BACKGROUND HE WILL BE READY FOR DISCUSSION OF SOME IMMEDIATE PROBLEMS, NOTABLY A MARSHAL PLAN FOR THE MIDDLE EAST AND (WE ARE TOLD HE HAS JUST DECIDED) MIXED TIED CREDITS AS WELL AS TERRORISM, AND ANXIOUS TO GET SOME CREDIT FOR STARTING NEW THINKING ON THEMES OF FUTURE CONCERN.
3. ACCORDING TO OUR CONTACTS, THE PRESIDENT HAS NOT YET DECIDED, *for.*

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OR AT LEAST HAS NOT SAID, EXACTLY HOW HE WISHES TO APPROACH SUCH THEMES. BUT HE WILL NOW CERTAINLY WISH TO RAISE AGRICULTURE IN THE MEDIUM TERM. THE AMERICANS FOUND THAT THEIR CONCERNS RECEIVED ENCOURAGING RESONANCE AT THE OECD MEETING AND THE VIEW HERE IS THAT THE TIME HAS COME TO TRY AND LAUNCH SOME THINKING AT THE TOP LEVEL VERY MUCH ON THE LINES OF YOUR REMARKS, WHICH WERE VERY WELCOME HERE. THIS WOULD COVER, AS ONE INTERLOCUTOR PUT IT, THE COMMON MISDEEDS OF THE AGRICULTURE-PRODUCING NATIONS EXCESSIVE SUBSIDIES, OVER-LARGE AGRICULTURAL SECTORS AND THEIR EFFECTS ON NATIONAL ECONOMIC GROWTH, NATIONAL BUDGETS, INTERNATIONAL TRADE IN AGRICULTURE, THE ECONOMIES OF OTHER COUNTRIES AND THE BILATERAL RELATIONS OF THE EXPORTING COUNTRIES. IT IS NOT HOWEVER EXPECTED THAT CURRENT EC/US AGRICULTURAL DISPUTES, INCLUDING ENLARGEMENT, SHOULD COME UP AT THE SUMMIT, ALTHOUGH IT IS EXPECTED THAT THE EC PARTICIPANTS MAY RAISE THEM IN BILATERALS. SHULTZ AND BAKER MAY WELL ALSO RAISE THE WIDER AGRICULTURAL THEME IN BILATERALS.

4. THE PRESIDENT MAY ALSO WISH TO RAISE HOW THE WESTERN INDUSTRIALISED COUNTRIES SHOULD DEAL WITH AN ECONOMICALLY-WEAK SOVIET UNION. WE UNDERSTAND THAT HE GENUINELY WANTS AN EXCHANGE ON HOW BEST TO HANDLE GORBACHEV.

5. WITH REGARD TO OTHER THEMES, THE AMERICANS WOULD NOT REFUSE TO DISCUSS EDUCATION IF THE JAPANESE RAISE IT. THEY DO NOT EXPECT US OR WIDER FUSION COLLABORATION WITH THE SOVIET UNION TO BE RAISED (THE AMERICANS ARE NOW INSTEAD SEEKING PARTNERS' VIEWS BY BILATERAL APPROACHES IN CAPITALS). WITH REGARD TO THE HUMAN FRONTIER, THE JAPANESE HAVE SAID, RATHER AMBIGUOUSLY, THAT THEY WOULD PROBABLY RAISE IT, BUT ONLY INFORMALLY. IF THEY DID, THE AMERICAN RESPONSE WILL PROBABLY BE THAT THEY MIGHT BE INTERESTED, BUT WOULD NEED TO SEE THE IDEAS FLESHED OUT MUCH MORE BEFORE ACCEPTING THEM: THEY WOULD BE HAPPY TO GO ALONG WITH DISCUSSION OF THE CONCEPT AT A SCIENTIFIC LEVEL.

6. WITH REGARD TO JAPAN AND THE MAEKAWA REPORT, THE AMERICANS SEE THE REPORT AND NAKASONE'S COMMITMENT TO IT AS IMPORTANT EVIDENCE OF AN EVOLUTION IN JAPANESE ATTITUDES AND OF JAPANESE RECOGNITION OF THE NEED FOR STRUCTURAL CHANGES IN THEIR ECONOMY, BUT ARE LOOKING FOR EARLY STEPS TO IMPLEMENT IT. THEY HAVE NEITHER TOLD THE JAPANESE THAT IT IS GOOD ENOUGH NOR THAT IT IS INADEQUATE AND HAVE EXPRESSED WILLINGNESS TO EXCHANGE VIEWS ON ITS IMPLEMENTATION. BUT AS ONE INTERLOCUTOR PUT IT, THEY SEE SENSE IN BEARING WITH NAKASONE TO MAKE SURE THAT HE (OR SOMEBODY LIKE-MINDED) REMAINS IN THE SADDLE AFTER THE NEXT JAPANESE ELECTIONS. THEY WOULD NOT THEREFORE WANT THE MAEKAWA REPORT OR THE JAPANESE ECONOMY TO BE AN ISSUE AT THE SUMMIT, BUT RATHER SEE THE REPORT AS PROVIDING A CONTEXTUAL BACKGROUND AND PERHAPS COMING UP IN BILATERALS.

7. OUR CONTACTS AT THE TREASURY CONFIRM THAT NEITHER THE PRESIDENT NOR BAKER ARE GOING TO SPRING ANY SURPRISES ON THE INTERNATIONAL MONETARY REFORM FRONT. THEY WILL BE LOOKING FOR A POLITICAL COMMITMENT TO IMPROVE POLICY COORDINATION AS A MEANS OF AVOIDING THE CURRENCY MISALIGNMENT OF RECENT YEARS, BUT THEY /ARE

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ARE UNLIKELY TO WANT TO DISCUSS THE MODALITIES (EG STEPPED UP IMF SURVEILLANCE AND USE OF OBJECTIVE INDICATORS) OF HOW THIS SHOULD BE ACHIEVED. ON SPECIFIC PROPOSALS FOR REDUCING EXCHANGE RATE INSTABILITY (EG TARGET ZONES), WE DOUBT WHETHER THE AMERICANS WILL HAVE ANYTHING NEW TO SAY.

8. WE UNDERSTAND THAT BAKER IS RELATIVELY RELAXED ABOUT THE LATEST FALL OF THE DOLLAR AGAINST THE YEN AND OTHER CURRENCIES - INDEED HE WAS PLEASED WITH THE EFFECT OF THE CHANCELLOR'S REMARKS ABOUT THE YEN AT THE SPRING MEETINGS - AND HE STILL FEELS THAT THE DOLLAR HAS FURTHER TO GO. ALTHOUGH HE RECOGNISES THE JAPANESE POLITICAL DIMENSION, HE IS NONE TOO PLEASED WITH TAKESHITA'S ATTEMPTS TO TALK THE YEN DOWN AND EVEN LESS SO WITH THE RECENT LARGE SCALE, ALBEIT INEFFECTUAL, JAPANESE INTERVENTION IN THE EXCHANGE MARKET (APPARENTLY DOLLARS 1.5 BILLION YESTERDAY) WITHOUT ANY CONSULTATION WITH THE AMERICAN SIDE. BUT BAKER SEEMS UNLIKELY TO RAISE THIS AT THE SUMMIT ITSELF. THE AMERICANS DO NOT INTEND TO RAISE THE QUESTION OF JAPAN'S SHARE IN IDAB REPLENISHMENT.

9. PLEASE SEE MY THREE LISTS ON PUBLIC BRIEFING BY THE PRESIDENT, BAKER AND SHULTZ AND ON THE EC/US ENLARGEMENT ISSUE.

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