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70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Permanent Secretary to the Management and Personnel Office

Sir Robert Armstrong GCB CVO

Ref. A083/1504

24 May 1983

Dear Geoffrey,

Economic Summit: Williamsburg

As you know, there has been no preparatory work on the declaration to be made by President Reagan on behalf of his colleagues at the end of the Economic Summit in Williamsburg on 30 May. It has been agreed that, at the end of the plenary session on the afternoon of 29 May, Heads of State or Government should give their Personal Representatives general guidance on the structure and content of the declaration as a basis for drafting. As the Americans are in the chair, it will be the responsibility of the American Personal Representative to write the first draft; but he has asked me to work with him on that.

I should like to go into that process with some building blocks for a declaration, and with a reasonably clear idea of what we ourselves would want a declaration to say. It seemed to me that the best way of providing myself with this would be in fact to prepare my own draft of a declaration which I could as it were have in my pocket at Williamsburg.

I attach accordingly a draft declaration prepared for this purpose. You will see that, in keeping with the American suggestion to me that there was not likely to be any marked discontinuity between the United States thematic paper and the final declaration, I have drawn heavily on the material in the thematic paper, though I have tried to present it in a form in which it can be read out by the President and in a form which indicates that it is the result of the discussion at Williamsburg. It was drafted before I had seen the latest message from President Reagan to the Prime Minister, but I think that it is consistent with it. I should greatly welcome any comments which you may have on it, and the comments of others to whom I am sending copies of this letter and the draft: Richard Evans (Foreign and Commonwealth Office), Anthony Rawlinson (Department of Trade), Ken Couzens (Department of Energy) and Bill Ryrie (Overseas Development Administration).

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/I am

J G Littler Esq CB

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I am also sending a copy of this letter and the draft to John Coles, since I hope that there may be an opportunity to receive the Prime Minister's comments and suggestions in the aircraft on the way to Williamsburg.

ROBERT ARMSTRONG

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DRAFT DECLARATION

As we have met here at Williamsburg, for the ninth Economic Summit of Heads of State or Government of seven of the largest industrial countries of the world, we recognise that both the industrial countries and the developing countries are confronted with daunting problems.

2. We have had some success at reducing the rate of inflation in the industrialised countries. But the world recession has left us all - developed and developing countries alike - with levels of output and unemployment which none of us can regard as acceptable; it has left many of the developing countries with crippling burdens of debt and without the means to service that debt from their earnings; and it has led to a creeping growth of protectionism in world trade, as each country seeks to use protectionist measures on a national basis with the object of keeping businesses and jobs going at home.

3. These problems are not separate, nor separable. Nor can any one country or group of countries resolve the problems on its own. We can solve them only if we work together, and if we tackle them with a co-ordinated approach which takes account of the ways in which they are linked and interact on each other.

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4. Recovery is now under way in the industrialised countries. That presents us with an opportunity and a challenge, to ensure that this recovery spreads to the rest of the world; that it endures; and that it reverses a decade of cumulative inflation and unemployment. This will require steady, purposeful and co-ordinated action across a range of interrelated policies:

- promoting conditions for growth, employment and the creation of new jobs, for structural adjustment, and for the acceptance of technological development;
- maintaining the fight against inflation, with the object of achieving lower interest rates and more stable exchange rates, and to this end intensifying consultation among us on economic policies and market conditions;
- supporting the international financial system, and strengthening world economic co-operation and institutions;
- maintaining the open multilateral trading system, reversing the trend of protectionism and working to achieve greater trade liberalisation;
- recognising that prosperity is more than material gain, and also reflects our basic shared values of political freedom,

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economic opportunity, cultural creativity and human dignity, and contributes to the defence of these values which also guide our economic and other relations with Eastern countries.

5. The key to all this is a return to sound and sustainable growth: in other words, growth that is not fuelled by and does not generate renewed inflation.

6. Last year at Versailles we instituted a process of consultations to promote convergence of economic conditions in key currency countries, which would among other things contribute to the achievement of greater stability of exchange rates, in the interest of balanced growth and progress of the world economy. This year we note with satisfaction the progress that has been made in this, and endorse proposals for strengthening monetary co-operation for stability and growth which are described in a separate statement which is being issued with the text of this declaration.

7. That statement refers to the need to avoid a rebound in interest rates, and to encourage investment. We would go further. Though interest rates have come down since we met last year, they are still at levels which discourage investment,

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and which considerably increase the burden of servicing the debt of the developing countries. They are at these levels in part because they reflect expectations about future levels of inflation, and in part because of levels of budget deficits, and therefore of governmental borrowing. It is the more important that we should follow policies which lead to growth without reviving inflation, and that we should intensify our efforts to get and keep budget deficits under control.

8. We have discussed suggestions for a high level international monetary conference to agree upon changes to the international monetary system with a view to restoring greater stability of exchange rates and strengthening the role and institutions of the international monetary system. Though we are all agreed that the conditions do not yet exist in which such a conference could be likely to produce a successful outcome, we are in general agreement on the objectives. We have invited our Finance Ministers, in consultation with the Managing Director of the International Monetary Fund, to define the conditions for improving the international monetary system and to consider the part which might in due course be played in this

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process by a high level international monetary conference.

9. In our discussions we have reaffirmed our joint and several commitments to the open multi-lateral trading system, and we have agreed upon the need to halt and reverse the spread of protectionism. The recovery which is under way provides favourable conditions for the progressive relaxation of trade barriers and trade-distorting measures; and opportunities for freer and greater trade are necessary conditions not only of sustained growth in the industrialised countries but also of the progress of economic development and the discharge of the burden of debt service in the developing countries. We have decided to give new impetus to the resolution of current problems in agricultural trade and conflicts of jurisdiction, and to the search for a safeguards agreement as mandated by the GATT Ministerial meeting last November. We hope that the GATT will press forward its programme for the liberalisation of trade in services. We believe that there should be more frequent meetings of the GATT at Ministerial level in future, with a view to improving the open multi-lateral trading system, including trade between developed and developing countries. We shall

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invite our Trade Ministers, and the competent authorities in the European Community, to pursue these matters, in consultation with the Director General of the GATT.

10. We are agreed upon the need to encourage both the development of advanced technology and the public acceptance of its role in promoting growth, employment and trade. We have noted with approval the report of the Working Group on Technology, Growth and Employment which was set up at Versailles last year, and commend the progress made in the eighteen co-operative projects discussed in that report. We look forward to receiving a further progress report at our meeting in the United Kingdom next year. At the same time we will work together to find ways, without discouraging growth and technological development, to protect and preserve natural resources and to reduce the threat of pollution from industrial processes.

11. We have discussed the implications of the recent fall in oil prices both for the international financial system and for energy supply. We are agreed that the fall in oil prices in no way diminishes the importance and urgency of efforts to conserve energy, to develop economic alternative energy resources, and to encourage

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and assist the growth of indigenous energy production in the developing countries.

12. Recovery, and a return to sound and sustainable growth in the industrialised countries, is (we believe) the greatest contribution we can make to the welfare and prosperity of the developing countries, to their economic development and to their ability to service their debts. But more than that is needed.

13. We have agreed to examine ways to improve the effectiveness of the development process and structural adjustment by assuring non-inflationary flows of private and public finance and investment to the developing countries, both bilaterally and through the international institutions. We urge the early ratification of agreements to increase the resources of the International Monetary Fund, through the increases of quotas and of the provisions of the General Arrangements for Borrowing. We reaffirm our commitments to provide agreed funding levels for the International Development Agency and the multilateral development banks. We do not believe that there can be any master-plan for dealing with the debt problems created for certain developing countries by the fall in oil and commodity prices: the problems of each country

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are different, and have to be considered on their own. But we are agreed that our approach to these problems should be based on the following strategy:

- (1) the need for orderly and effective adjustment in the borrowing country;
- (2) the provision of balance of payments financing by the International Monetary Fund, subject to appropriate conditions;
- (3) the readiness of Governments and central banks to act quickly in response to debt emergencies, in advance of negotiations with creditors and the IMF;
- (4) the readiness of commercial banks to roll over or restructure existing debts and to increase their net lending to developing countries, subject to the limits of commercial prudence;
- (5) the achievement of sound and sustainable recovery in the industrialised countries, as a foundation for lower interest rates and increased trade between developed and developing countries.

14. We are agreed that it remains of special importance that official development assistance should be concentrated on the poorer developing countries, and should be related to the greatest

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extent possible to the development of indigenous food and energy production.

15. We welcome the openness to dialogue with the industrialised countries evinced at the recent conferences of the Non-Aligned Movement in New Delhi and the Group of 77 in Buenos Aires. We share their commitment to engage constructively in the forthcoming conference in Belgrade of the United Nations Conference on Trade, Aid and Development (the so-called "UNCTAD VI"). We look forward to strengthening dialogue with the developing countries in this and other appropriate fora.

16. We have agreed to continue the work already in progress in various international bodies and fora to develop an agreed analysis of our economic relations with the countries of the Eastern bloc, with attention to our shared security concerns. On this basis we shall each pursue our own policy actions consistently with the agreed principles and analysis, reflecting the fact that our relations with these countries must be compatible with the basic values and security concerns of our own countries.

17. Finally, we have accepted the invitation of the Prime Minister of the United Kingdom to meet again in London next year.

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DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

01-211 5444



J.R.S. Guinness
DEPUTY SECRETARY

25th May 1983

Sir Robert Armstrong GCB CVO
Cabinet Office
70 Whitehall
London SW1A 2AS

AJC 26/5

Dear Robert,

ECONOMIC SUMMIT: WILLIAMSBURG

will request if required

In Ken Couzen's absence on leave I am writing to thank you for sending us a copy of your letter of 24th May to Geoffrey Littler covering your draft of the declaration.

I would hope that in any reference to the world oil market (paragraph 11) you could record agreement that, after the recent fall in oil prices, a period of oil price stability would be helpful to world economic prospects. My Secretary of State laid considerable stress on this point at the recent IEA Ministerial meeting. A sentence on these lines would flow naturally from the thought expressed at the beginning of the paragraph. The Energy brief provides further background. If, as is possible, the Americans and the Japanese were resistant to such a reference, it would seem better to omit any reference to the question of international oil prices.

We are a little doubtful about the highlighting of action to encourage and assist the growth of indigenous energy production in the developing countries. This might raise unrealistic expectations. In particular the last part of the final sentence of paragraph 11 might be redrafted to read - "and to encourage the growth of indigenous ^{energy} production in developing countries which currently lack such production".

I am sending copies of this letter to the other recipients of your letter.

Yours sincerely,

J.R.S. Guinness

26 MAY 1983

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