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DESKBY 291830Z
FM UKDEL WILLIAMSBURG 291722Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 3 OF 29 MAY.

PLEASE ADVANCE TO FCO NEWS DEPT, OI, NUMBER 10 AND COI.
ITEM: WESTERN UNITY AT ECONOMIC SUMMIT
BY JOHN BARROWS, LPS CHIEF ECONOMICS CORRESPONDENT
WILLIAMSBURG, VIRGINIA (LPS) : CAUTIOUS OPTIMISM ABOUT
RECOVERY OF THE WORLD ECONOMY AND WESTERN UNITY ON ARMS
CONTROL NEGOTIATIONS WITH THE SOVIET UNION EMERGED AS
DOMINANT THEMES AT THE SUMMIT MEETING OF THE WORLD'S
SEVEN LEADING INDUSTRIAL NATIONS HERE TODAY 29 MAY.

SOON AFTER HER ARRIVAL BRITAIN'S PRIME MINISTER MRS
MARGARET THATCHER HAD A SERIES OF BILATERAL MEETINGS WITH
JAPANESE PRIME MINISTER MR NAKASONE, FEDERAL GERMAN
CHANCELLOR HERR KOHL AND THE SUMMIT HOST, PRESIDENT
REAGAN OF THE UNITED STATES.

INFORMED SOURCES SAID THAT ALL FOUR LEADERS HAD DISCUSSED
THE PROGRESS OF THEIR OWN NATIONAL ECONOMICS AND HAD AGREED
UPON A NOTE OF CAUTIOUS OPTIMISM ABOUT THE WAY IN WHICH THE
WORLD ECONOMY WAS MOVING.

AT THE FIRST GATHERING OF ALL SEVEN HEADS OF STATE AND
GOVERNMENT - FROM THE USA, UK, FRANCE, ITALY, FEDERAL
GERMANY, CANADA AND JAPAN - THE DISCUSSIONS CENTRED UPON
DEFENCE AND DISARMAMENT NEGOTIATIONS, INCLUDING THE GENEVA
TALKS WITH THE SOVIET UNION ON INTERMEDIATE RANGE NUCLEAR
FORCES (INF) IN EUROPE.

SOURCES SAID THE LEADERS WERE UNANIMOUS THAT THE WEST, WHILE SEEKING BALANCED FORCE REDUCTIONS, MUST CONTINUE TO MAINTAIN A STRONG AND UNITED FRONT. INFORMED OBSERVERS SAID THIS COMMON STAND WAS TIMELY IN THE LIGHT OF THE LATEST SOVIET THREAT TO DEPLOY MEDIUM-RANGE NUCLEAR WEAPONS IN EAST EUROPE. THIS WAS CHARACTERISED BY THE US ADMINISTRATION AS ANOTHER EFFORT TO DIVIDE THE INDUSTRIAL DEMOCRACIES AND PUT PRESSURE ON THE WEST TO DELAY PLANS TO DEPLOY PERSHING-TWO AND CRUISE MISSILES IN BRITAIN, FEDERAL GERMANY AND ITALY LATER THIS YEAR AS A RESPONSE TO THE SITING OF MORE THAN 300 SOVIET SS-20 MISSILES AIMED CHIEFLY AT WEST EUROPEAN TARGETS.

AT THEIR SECOND FULL GATHERING IN THIS HISTORIC COLONIAL TOWNSHIP, THE LEADERS DISCUSSED THEIR APPROACH TO WORLD ECONOMIC RECOVERY, WITH THE DEBATE CENTRED UPON AN AMERICAN QUOTE THEMATIC PAPER UNQUOTE WHICH REPORTEDLY COVERED A WIDE RANGE OF ECONOMIC ISSUES, INCLUDING CONVERGENCE OF THE ECONOMIC POLICIES OF LEADING INDUSTRIAL NATIONS, EXCHANGE RATE STABILITY, THE PROBLEMS OF DEBTOR COUNTRIES AND THE NEED TO ASSIST DEVELOPING NATIONS TO SHARE IN WORLD ECONOMIC RECOVERY.

BRITISH SOURCES CONSIDERED THAT THE OMENS WERE FAVOURABLE FOR THE SUMMIT TO SEND OUT A MESSAGE OF HOPE FOR ECONOMIC ADVANCE IN DEVELOPED AND DEVELOPING COUNTRIES ALIKE, AND TO SIGNAL STRONGLY THE ADHERENCE OF THE SEVEN TO A FREE WORLD TRADING SYSTEM AND THEIR OPPOSITION TO TRADE PROTECTIONISM.

US BUDGETARY DEFICIT

BOTH THE UK PRIME MINISTER, IN HER TALK WITH PRESIDENT REAGAN, AND THE CHANCELLOR OF THE EXCHEQUER, SIR GEOFFREY HOWE, DURING A MEETING WITH US FINANCE SECRETARY DONALD REAGAN, REITERATED THE CONCERN FELT BY THE UK AND OTHER COUNTRIES ABOUT THE SIZE OF THE US FEDERAL BUDGET DEFICIT - CURRENTLY SOME 200 BILLION US DOLLARS - AND THE RETARDING EFFECT THIS MIGHT HAVE ON WORLD ECONOMIC ACTIVITY.

INFORMED SOURCES SAID SIR GEOFFREY TOLD HIS AMERICAN OPPOSITE NUMBER OF THE PROBLEMS THE US DEFICIT COULD POSE TO OTHER NATIONS IN TERMS OF CHOKING OFF INVESTMENT THROUGH HIGHER INTEREST RATES AND IN INCREASING THE BURDENS OF DEVELOPING COUNTRIES IN SERVICING THEIR DEBTS.

THESE SOURCES SAID THE AMERICANS TOOK NOTE OF THIS CONCERN, BUT CONSIDERED THAT THE DEFICIT PROBLEM WOULD PROBABLY EASE ITSELF AS RECOVERY GATHERED MOMENTUM IN THE UNITED STATES. PRESIDENT REAGAN, THEY ADDED, WAS ANXIOUS TO RETAIN TAX CUTS HE HAD INTRODUCED, REGARDING THEM AS AN IMPORTANT MOTOR OF RECOVERY.

EXPORT ADMINISTRATION ACT

MRS THATCHER AND THE CHANCELLOR ALSO TOOK THE OPPORTUNITY TO RAISE WITH THE PRESIDENT AND US FINANCE SECRETARY CONCERN FELT BY BRITAIN AND OTHER EUROPEAN COUNTRIES ABOUT THE US EXPORT ADMINISTRATION ACT WHICH COMES BEFORE CONGRESS FOR RENEWAL IN LATE SUMMER.

THEY REITERATED OBJECTIONS TO THE 'EXTRATERRITORIALITY' ASPECTS OF THE ACT WHICH AUTHORISES US SANCTIONS AGAINST EUROPEAN SUBSIDIARIES OF US COMPANIES, OR EUROPEAN COMPANIES MANUFACTURING AMERICAN PRODUCTS UNDER LICENCE, IF THEY SUPPLY COMMUNIST BLOC COUNTRIES WITH WHAT THE AMERICANS CONSIDER TO BE TECHNOLOGY OF STRATEGIC SIGNIFICANCE. THIS CONTROVERSY WAS HIGHLIGHTED LAST YEAR WHEN THE US ADMINISTRATION APPLIED SANCTIONS TO SEVERAL EUROPEAN FIRMS WHICH HAD CONTRACTED TO SUPPLY EQUIPMENT FOR THE SOVIET SIBERIAN NATURAL GAS PIPELINE TO WESTERN EUROPE.

INFORMED SOURCES SAID THAT FINANCE SECRETARY REAGAN HAD TOLD THE CHANCELLOR THAT AMENDMENTS TO THE ACT WHICH WERE BEING CONSIDERED COULD GO SOME WAY TOWARDS MEETING EUROPEAN OBJECTIONS.

MUTUAL SURVEILLANCE

ONE SUBJECT LIKELY TO CLAIM CONSIDERABLE ATTENTION AT THIS SUMMIT, THE NINTH OF ITS KIND, IS THE IDEA FIRST FLOATED AT THE VERSAILLES MEETING A YEAR AGO THAT THERE SHOULD BE 'MULTILATERAL SURVEILLANCE' OF THE ECONOMIES OF THE MAJOR INDUSTRIAL NATIONS TO PRODUCE MORE CONVERGENCE OF ECONOMIC POLICIES AND ENSURE THAT THE NATIONAL POLICIES OF ONE COUNTRY DO NOT INHIBIT GENERAL ECONOMIC ADVANCE.

SIR GEOFFREY HOWE, THE CURRENT CHAIRMAN OF THE POLICY-MAKING IMF (INTERNATIONAL MONETARY FUND) INTERIM COMMITTEE, HAS BEEN A LEADING EXPONENT OF SUCH A MOVE, AND PARTICULARLY OF MORE POLICY CONVERGENCE AMONG THE FIVE COUNTRIES WHOSE CURRENCIES MAKE UP THE IMF SPECIAL DRAWING RIGHTS (SDR'S). THESE ARE THE USA, UK, FEDERAL GERMANY, FRANCE AND JAPAN.

THE CURRENT SUMMIT IS EXPECTED TO ENDORSE THE NEED FOR FURTHER PROGRESS ON MULTILATERAL SURVEILLANCE UNDER THE AUSPICES OF THE IMF, AND TO MAKE SOME PRONOUNCEMENT UPON THE JURGENSEN REPORT, COMMISSIONED AT VERSAILLES, CONCERNING THE NEED TO SECURE GREATER EXCHANGE RATE STABILITY AMONG THE WORLD'S MAJOR CURRENCIES.

MIDDLE EAST

FOREIGN MINISTERS OF THE SEVEN HAVE ALSO BEEN MEETING HERE, THEIR FIRST ROUNDS OF TALKS CENTERING UPON THE MIDDLE EAST. THEY GAVE A GENERAL WELCOME TO THE SUCCESS OF THE US ADMINISTRATION IN HAVING ACHIEVED AN AGREEMENT BETWEEN ISRAEL AND LEBANON ON THE WITHDRAWAL OF FOREIGN FORCES, BUT THERE WAS CONCERN ABOUT OBSTACLES IN THE WAY OF IMPLEMENTATION OF THE AGREEMENT AND UNEASE ABOUT THE RISKS POSED FOR LEBANON AND GENERALLY FOR THE REST OF THE REGION.

LATER, AS THE HEADS OF STATE AND GOVERNMENT WERE SCHEDULED TO CONCENTRATE ON EAST-WEST QUESTIONS, THE FOREIGN MINISTERS WERE DUE TO CONCENTRATE UPON ARMS CONTROL ISSUES (LPS)

(NOTE TO COI NEWSROOM: PRIME MINISTER GIVING PRESS CONFERENCE TONIGHT BUT UNLIKELY TO LAND COPY IN LONDON MUCH BEFORE ONE AM YOUR TIME.)

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