



Foreign and Commonwealth Office

London SW1A 2AH

3 June 1987

John Charles

*CDP
2/6.*

Venice Economic Summit: Prime Minister's Bilaterals

I enclose with this letter:

- briefing for the Prime Minister's meeting with President Reagan;
- a contingency brief for any short and informal meeting with the Italian Prime Minister and host, Senator Fanfani, that might be arranged;
- brief points for the Prime Minister to use in any chance meetings with other Summit leaders in Venice.

Material for use with President Reagan on the fast-moving INF discussions will follow. The Iran/Iraq passage will also need updating, not least to take account of developments over Chaplin/Ghassemi.

None of this material has yet been seen by the Foreign Secretary, but it will all be submitted to him in parallel tonight.

I am copying this letter and enclosures to Alex Allan and Trevor Woolley.

John Charles

R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street



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VENICE ECONOMIC SUMMIT: PRIME MINISTER'S BILATERAL WITH
PRESIDENT REAGAN

Points to Make

i) Macroeconomic issues

- we have had many successes in past year. Summit declaration should take credit.
- but **world economy still plagued by huge imbalances and uncertainties. Lack of confidence is holding back growth.**
- we have **all committed ourselves to exchange rate stability,** backed by the right domestic policies. But have we all the political will to deliver?
- **you have started to reduce your fiscal deficit.** But spending cuts seemingly hard to achieve.
- believe that **only a package including some tax increases will carry conviction. Know strength of your views. Not in favour myself. But we increased taxes in 1981 to restore fiscal balance. Right decision, never regretted. Paved way for subsequent tax cuts.** Appeal to you to re-consider.

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- US action could help unblock damaging impasse.

Germans and Japanese have hitherto resisted expanding their economies. New Japanese package probably falls short of claimed 6 trillion yen. But something in it. If you could tell your Summit colleagues that you were committed to reducing your deficit as quickly as possible, one way or another, and not foreclosing a tax increase, this would put great pressure on Germans to take additional early action to expand.

- need to find language for our public statements from this Summit that will demonstrate our commitment to cooperate. action by all three countries greater than sum of parts. Understand your political problems, but chance for leadership.

ii) Trade

- we must support GATT round, oppose protectionism.
- hope you will veto any Congressional protectionist legislation.
- we are firmly opposed to EC oils and fats tax proposal. Hope you are making clear to other Europeans your opposition and determination to retaliate.

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iii) Agriculture

- OECD Ministerial did good job. Unthinkable even a year ago that we could have made so much progress on principles for reform.
- share your view on need for comprehensive negotiations in GATT. Summit declaration must carry personal commitment of all our leaders to reform process. We want to make progress here.

iv) Debt

- hope we can count on your support for Chancellor's Paris Club initiative on reducing sub-Saharan African debt burden.

v) INF negotiations

(to follow)

vi) East/West

- useful to reach joint assessment here of implications for West of Gorbachev's domestic and foreign policies.
 - sceptical about need for Summit East/West declaration.
- If there is one, must say that nuclear weapons are instruments to preserve peace.

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vii) Syria and terrorism

- need clear public evidence of change in Syrian policy on terrorism before we can think of improving relations. No firm evidence yet. Should at least demonstrate that Syrians no longer provide support for Abu Nidal etc, and that those involved in Hindawi affair have been removed from positions of influence.

vii) Arab-Israel

- welcome Israel/Jordan/US understanding. Active US role vital to sustain momentum, help Peres and King Hussein deny Russians' opportunity to make mischief.
- two suggestions: strong public reaffirmation of your commitment to peace process; US should talk to Russians to test their professed flexibility, positive approach.

viii) Iran/Iraq

- see no end to the conflict.
- appreciate Congressional pressure following appalling USS Stark incident, and doing what we can to be helpful.
- appreciate need for US actions on Kuwaiti tankers, but must guard against super-power rivalry.

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- already playing full part through Armilla patrol.

[see over]

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iv) Iran/Iraq

- thank you for letter:
- agree with need to bring conflict to an end, and do what we can to protect shipping in the Gulf
- appreciate Congressional pressure on the Administration following appalling USS Stark incident, and doing what we can to be helpful
- appreciate need for US actions on Kuwaiti tankers, but must guard against super-power rivalry
- already playing full part through Armilla Patrol
- see little difficulty with requests: already ^{our} saying more publicly about /activities in the Gulf; can probably beef up passing exercises
- but cannot do Gulf States' defence for them - they must use political (accommodation with Iran; lowering Kuwaiti profile) as well as military means
- (if necessary) not sure international conference on Gulf security would be useful. Gulf States unlikely to agree. If Oman as well as Iran have doubts, conference might fail.

Essential Facts(i) Macroeconomic issues

The Gramm-Rudman - Hollings bill aims to reduce the US budget deficit to zero by 1991. Even with recent House and Senate resolutions to freeze defence spending next year's target of \$108bn will be hard to achieve. In speaking to the Secretary of State in Paris last month Mr Baker hinted that tax increases might be the only way to achieve the 1991 target. But President Reagan has spoken out against tax increases.

(ii) Chancellor's initiative on debt

Three point plan for poorer African debtors.

- to write off aid debts
- longer repayment and grace periods for rescheduled official debt (mainly export credits)
- significantly reduced interest rates on rescheduled debt

The proposals are conditional on all creditors agreeing to the package of measures, and on debtors agreeing to implement effective economic adjustment policies.

(iii) Syria/terrorism

President Reagan is considering sending a message to President Asad of Syria stating the US interest in re-establishing a more normal relationship. The Prime Minister has persuaded him to defer a firm decision until they had discussed it at Venice.

iv) Arab/Israel

Peres has failed to secure Israeli cabinet support for an understanding with King Hussein on conference modalities. Shultz reluctant to contemplate overt interference in deadlocked Israeli politics. US Administration undecided on how to proceed. National Security Council favours engaging in more detailed discussion with Soviets: State Department retain strong reservations.



VENICE ECONOMIC SUMMIT: PRIME MINISTER'S MEETING WITH FANFANI

- Regret that we could not meet in London as we had planned (22 May) before the summit. Most grateful for your courtesy in receiving my Personal Representative, Sir Robert Armstrong. Read his report with great interest.
- Congratulate Fanfani on Italian arrangements in Venice. Memories of 1980. Regret that visit so brief because of election. But Geoffrey Howe and Nigel Lawson staying longer.
- Enquire about Italian election campaign (poll on 14 June).
- Greatly looking forward to Francesco Cossiga's State Visit (17-20 November).
- (If discussion turns to East/West) Ask about possible dates for Gorbachev's visit to Italy (agreed in principle).
- Regret having to raise one bilateral matter: Arms sales to Argentina. Most concerned at possible sale of Italian anti-submarine torpedoes (A184).

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VENICE ECONOMIC SUMMIT: PRIME MINISTER'S CONTACTS WITH
MR NAKASONE

- Sorry that Geoffrey Howe had to cancel his visit.
- Thanks for letter of 29 May about measures to stimulate domestic demand. Welcome general thrust, though some details still unclear. Change in structure of Japanese economy in interests of Japanese people as well as world economy.
- Know that restructuring economy difficult, lengthy process. But earlier package bred scepticism. To counter sceptics, convincing sustained action needed; plus demonstrable progress even if slow.
- Meanwhile short term problem - political as well as economic.
- Essential that Japan move quickly to open market/dismantle individual barriers. Easier/quicker than restructuring economy and would have major positive effect on public opinions in all partner countries. As for UK, recent financial services discussions encouraging. **Early moves on whiskey, Cable & Wireless.**
- **Hope final communique will reaffirm Japanese commitments,** matched by Germans, Americans.
- Interested in your proposals for helping developing countries. Japan well placed to assume major role. Hope for early action, especially on sub-Saharan Africa, and more resources for IMF/IBRD.

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CABLE & WIRELESS

1. Very concerned to see satisfactory outcome: practical advantages for Japan as well as Britain. Above all, important test of Japanese willingness to respond on opening market. - British opinion would react badly if Cable & Wireless bid failed because of bureaucratic obstruction by Ministry of Posts and Telecommunications.
2. Welcome Nakasone's personal interest, eg over separate licence for CW/IDC consortium. Cable & Wireless believe there is room for two consortia, object to MPT's continued attempt to force merger.
3. [If Nakasone asks about Japanese participation in Cable & Wireless/Mercury] No distinction is made between shareholders on nationality grounds [under Company articles up to 15% permitted]



VENICE ECONOMIC SUMMIT: PRIME MINISTER'S CONTACTS WITH
MR NAKASONE

Additional Point: \$1 Billion Government Procurement of Imports
(part of latest package)

Hope UK gain substantial share. Alan Clark in May wrote to Tamura (MITI Minister) with list including Condor contraband detection system and Terex trucks for Kansai Airport.

[Note: Condor is produced by British Aerospace. It is being sold in Japan by Cornes, the agent in Japan for several hi-tech British firms, whose Managing Director Watari is a son-in-law of Sir Y K Pao and who has particularly asked that the PM mention the system. Terex is a small but effective maker of earth-moving equipment.

There is a risk that much of the \$1bn will go to the Americans. Lockheed are campaigning ruthlessly to displace Condor.]



Cable and Wireless

Public Limited Company

Mercury House Theobalds Road London WC1X 8RX

Telephone: International +44 1 242 4433 National 01-242 4433 Telex: 23181 CANDW G

Ref: JHS/JLB/854/0682S

June 2nd 1987

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FAX TO : MR FURUHATA. C. ITOH & COMPANY

cc: Mr A Mori C Itoh
Mr R Histed IDC

cc: Chairman
Mr B Pemberton
Sir K Joseph
Dr J Morgan
Mr J Crouch

MEETING WITH AMBASSADOR YAMAZAKI 2ND JUNE

1. Mr Yamazaki and Mr Itoh called on Sir Eric Sharp on 2nd June to prepare a report for Mr Nakasone on 7th June.
2. There would be very little time in Venice for Mrs Thatcher to raise bilateral matters given her tight timetable. The talks between the companies were proceeding. What was C&W's assessment ?

3. The Chairman replied that:

(i) Mrs Thatcher was likely to raise the matter as was President Reagan. The Private Sector talks had made no progress and had virtually come to an end. Each side had its own distinctive philosophy which like oil and water did not blend. Both sides had tried to bridge the gap but had failed. Neither side could see a merger as a serious business proposition.

(ii) The US Government had approved the cable and the timetable in the FCC document required a serious Japanese partner by July. There was a strong congressional pressure, particularly from Senators on the west coast, who were concerned at Japan's apparent lack of response.

(iii) C&W maintained that IDC represented a magnificent example of industrial co-operation. Trade Wars were no good for any nation. There had to be a degree of co-operation.

(iv) IDC was not taking away a market, but strengthening the structure of Japan and indeed helped Japan itself. The UK was therefore, puzzled by the activities and obstruction of MPT. Hence the political problem.

(v) There did not seem to be any cogent reason as to why there should not be two separate licences. ITJ wanted a licence and IDC wanted to invest large sums of money in Japan.

(vi) C&W would be happy for there to be two licence applications to be examined by MPT in a fair and objective way as Mrs Thatcher had requested. The 2 companies could then settle matters in the market place - one selling existing capacity and the other creating new capacity. This was competition and co-existence in Japanese style and would help to defuse the strong feelings in the House of Commons and Congress.

(vii) It was puzzling why the Japanese had allowed themselves to lose the opportunity of saying that Japan was opening its doors while at the same time reinforcing its expansion around the world.

(viii) The matter had to be resolved as quickly as possible if it were not to re-emerge as a cause of Anglo/Japanese friction.

4. The Ambassador said that the talks were continuing. If the merger plan failed and new applications came forward, they would have to be considered on a fair and transparent basis.
5. Mr Itoh asked what views were held by other IDC members. Mr Solomon replied that there were varying views even within Toyota itself. Everyone was reassessing the position. C.Itoh, Fujitsu, Hitachi, DKB, C&W, PTI, and NTTI were all more or less of one opinion. Within Toyota the highest decision makers were aware of the dangers of alienating U.S. or EEC sentiment and had decided to follow the majority view. However, there were others with close ties and obligations to the MPT who still were wavering. This was not unusual and a new consensus within Toyota was in process.
6. The Ambassador asked about TPC 4. Mr Solomon replied that as in the case of satellites it was essential to have a back up system. TPC 3 could not just stand on its own. The FCC had, however, approved PPAC and the U.S. Authorities wanted to see both competition and route diversity. TPC 4 would have to await the completion of PPAC - the first direct US/Japan cable.
7. The Ambassador referred to The Times article on NTT. The Chairman said he welcomed genuine two-way co-operation with Japan across the world. He would welcome Japanese stakes in C&W. It was however, still not possible for C&W to take a stake in NTT.
8. The Ambassador said that it was not a good thing to refer to C&W as a test case. It was a special case which should be resolved peacefully and quietly. Japan's law was more liberal than anything in Europe. Japan was prepared to have foreign directors on their Telecom Boards. This was not happening anywhere else. The Chairman replied that unless implemented the law did not mean much. C&W was justifiably a test case, because the law as yet was not implemented and many obstructions had been set up. There was also a strong imbalance in Telecommunications Trade between both UK and USA and Japan. To permit service companies a position in Japan would make a contribution towards rectifying this imbalance.

8. (continued)

The Political heat would remain until proper implementation took place. Mr Solomon added that everyone would prefer peace and Japan would have gained significantly had it seen the benefits of IDC for strengthening its diplomatic position both in Washington or Europe. Unfortunately, by allowing things to drag on in various sectors, the language of sanctions had come to the fore.

9. Concluding, the Ambassador said that Mr Nakasone would wish to ensure that the matter was resolved on an equitable and co-operative basis. The Chairman thanked the Ambassador but warned that it would be dangerous to brief Mr Nakasone with the line, "All is well since the talks are continuing." This would falsify the situation.

JH Solomon

J H SOLOMON
Director, Corporate Strategy



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VENICE ECONOMIC SUMMIT: PRIME MINISTER'S CONTACTS WITH
CHANCELLOR KOHL

- concerned about continuing US, Japanese and German imbalances. Will be urging President Reagan to take action. New Japanese package at least some advance. Hope you will consider early expansion of domestic demand: recent figures disappointing. Understand risks, applaud your record of price stability, but world economy needs German contribution.
- hope we can count on your support for Chancellor's Paris Club initiative on reducing sub-Saharan African debt burden.
- hope you will speak up against statement on South Africa.
- no sign Syria has changed policy on terrorism. Until there is, we should maintain our measures.
- INF [to follow].

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Foreign and Commonwealth Office

London SW1A 2AH

5 June 1987

Dear Charles,

Secretary General of the Commission

As you know, there are three candidates to succeed M Noel. The claims of the Frenchman, M Achard, are not regarded as strong, and M Delors does not see him as a serious candidate: his candidacy has been advanced by the Matignon, and we of course have an Elysee commitment to back a UK candidate. The German, Krenzler, has had Genscher's support, but you have established with the Chancellery that Kohl would not wish to press his claims. M Delors has, it appears, not yet received clear German confirmation of that: he is accordingly delaying a decision, although we know that Mr Williamson is his preferred candidate.

Against that background, the Foreign Secretary believes that it would be helpful for the Prime Minister to have a further word with Chancellor Kohl in Venice. She might say that she:

- (a) wants to get the matter settled soon;
- (b) believes that Mr Williamson is the strongest candidate, and attaches considerable importance to his securing the job;
- (c) was accordingly pleased to hear that the Chancellor did not wish to press Krenzler's claims, but would be happy to support him for DGI; and
- (d) hopes that the Chancellor will now get that message through to M Delors.

The Prime Minister may not of course have time to raise this with Chancellor Kohl: if so, the Foreign Secretary would propose to do so himself. And he hopes that you might find an opportunity to keep up your pressure on Teltschik.

I am sending a copy of this letter to Trevor Woolley (Cabinet Office).

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
PS/10 Downing Street



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VENICE ECONOMIC SUMMIT:

PRIME MINISTER'S CONTACTS WITH MR MULRONEY

- worried about continuing US, German and Japanese imbalances. Will raise at our first session. Hope for your support in persuading our colleagues to act, despite the political difficulties.
- we cooperated closely at OECD on agriculture. Good result. Hope Summit will build on progress.
- grateful for your support on African debt problems.
- not the time for new initiative on South Africa. SAG, opposition and most blacks would be hostile.
- must avoid South Africa dominating CHOGM.
- (if necessary) decision now to hold mid-term Trade Ministers' review of GATT negotiations premature. Need to make progress first, then judge timing of meeting.

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VENICE ECONOMIC SUMMIT: PRIME MINISTER'S CONTACTS WITH
PRESIDENT MITTERRAND/M. CHIRAC

- Worried about continuing US, German and Japanese imbalances. Will raise at our first session. Hope for your support in persuading our colleagues to act, despite the political difficulties.
- African debt of great concern to us both, given our political influence in Africa. Hope for your support for Nigel Lawson's initiative. Ready to consider separately ways of reducing or alleviating poorer African countries' debts owed to IMF and World Bank. Many ideas, need examination.
- No sign Syria has changed policy on terrorism. Until there is, we should maintain our measures.
- INF (to follow)
- Opposed like you to statement on South Africa. [if necessary] also unenthusiastic about East/West declaration; want strong statement against terrorism.
- [Chirac only] grateful for full compensation for losses incurred by lamb transporters last autumn.
- [Chirac only] many thanks for account of your Moscow visit. Our analyses similar.