

Prime Minister

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c. Mr. Turnbull.

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PRIME MINISTER

I spent four days last week in Washington and New York making or renewing contacts in the Administration and on the Hill, and discussing with US firms some specific issues of immediate interest.

Protectionism

2 In Election year, the protectionist lobbies are in full cry. All the important Democratic candidates (including Mondale) are supporting protectionist measures; Bills to limit imports are being actively prosecuted in Congress; and actions are being brought under existing laws which will require decision by the President a few weeks before the Election. It is a mark of the strength of protectionist sentiment that even Congressmen opposed to protectionist pressures to whom I spoke were adopting the dangerous tactics not of outright opposition, but of encouraging extreme measures in the hope of these measures being eventually defeated with no time left to promote more moderate Bills! Although those to whom I spoke in the Administration were concerned to minimise the economic damage of protectionist measures, they were not confident that their arguments would hold sway in the more politically charged atmosphere of the White House. Commerce Secretary Baldrige suggested it would be useful if you were to write directly to the President, setting out what



is at risk. I see advantage in your doing so later in the year, as a counter-balance to the severe domestic pressures he will then be facing.

3 In my speeches and interviews I drew parallels between the situation faced by the US today, and our own four years ago, when our currency was over-valued. I argued forcibly that the cause of the US trade imbalance was the budget deficit, and that action should be addressed to the root cause, not to the symptoms. It was interesting that among business circles there was no disputing the damage that the budget deficit is doing to US trade, and the question was rather whether remedial action could be delayed until after the Election. In general, I pointed out that we had rejected demands for import controls - and that we had not suffered electorally for our tough stance.

Bilateral Issues

4 On the question of limiting the export of high technology goods to the Eastern bloc, I stressed the importance which we attached to preserving, where possible, the technological advantage so important to the Western Alliance. I also stressed the need to be practical about this; and for there to be proper consultation between allies. I was struck by the disinclination of most of those whom I met to take head on our arguments about the unacceptable nature of the US intrusions into our sovereignty. We had an official team in Washington at the same time discussing particular problems of extra-territoriality and they reported a far more constructive attitude from the agencies



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concerned. I am doubtful, however, whether this will easily be converted into guarantees for future arrangements. But, just as pressure from major American firms is helping to persuade the various states to take a more reasonable line on unitary taxation, I think that in the same way we may eventually get results in the export controls area by using leverage on the companies. I met the Chairman of IBM and AT&T International, both of which currently have ambitions to develop their UK

*We said
No to
IBM in
Alvey report
afterwards*

interests - IBM as a partner of BT and a potential contributor to the Alvey programme, and AT&T as a possible purchaser of INMOS.

They quickly recognised that the extra-territorial application of US export controls necessarily affected our attitude. I hope they will be able to persuade the Administration to deal with these questions pragmatically. I know that both have started to press the need so to do on the Administration.

5 On particular issues, the Department of Justice is evidently pleased with the way we are responding to their needs in respect of banking secrecy in the Caymans and I shall be looking for some give in their position on international anti-trust matters. The cases involving the Laker liquidator, although still fraught with danger for our airlines because of the attitude of the judge in the private suit, have shown that the Administration can work with us in this area.

General Points

6 Two points of domestic UK policy were strongly illuminated

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during my discussions in the US. The first is the need, stressed in discussions which I had in New York with Morgan Stanley who will be advising on any US flotation of BT shares, to decide very quickly indeed in a number of key financial points affecting BT. The timetable in the US is even tighter than that in the UK, because of the need to issue a "red herring" prospectus. In both countries there will have to be a major marketing effort to prepare investors for a flotation of BT's magnitude. We shall therefore have to resolve the key financial points affecting BT by the end of March if we are to meet this timetable. I shall be discussing with Nigel Lawson how to ensure we do this. The second point emerged in a television interview on our privatisation programme. Although there was in general marked and enthusiastic interest in our plans, I was concerned that the line of questioning was based on the assumption that our policy was to raise revenue irrespective of the competition policy considerations. It was an indication of how much we have to do - even in a country as receptive to the idea as the US - to persuade people of the contribution to economic efficiency we shall make through privatising state concerns.

7 I also took the opportunity of stressing to my opposite numbers the need to establish with them the direct high level contacts which Ministers in the UK naturally enjoy with their European counterparts. I think this will be a difficult year for our relations with US, particularly on the trade side, and I



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would like to think we can deal with problems quickly and informally.

Exports

8 Our exports to the US have been rather slow to respond to the strength of the dollar but the latter part of 1983 brought a strong surge, especially in consumer goods. We are now giving a firmer sense of direction to the official services in supporting exports to this market, and I propose making a separate visit to the West Coast in May, to help launch a new initiative in an area where there is still considerable untapped potential for our exports, and which is an important centre for inward investment here.

Envoi

9 I should put on record the excellent arrangements that were made for my visit both by our Embassy in Washington and the British Trade Development Office in New York, for which I am grateful.

10 I am sending copies of this minute to Geoffrey Howe, Nigel Lawson and to Sir Robert Armstrong.

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16 February 1984



10 DOWNING STREET

Prime Minister

For E(S) tomorrow you
may like to look at
paras 1-3 of Mr Tebbit's
report on his visit to the
U.S.

He may raise the suggestion
at the bottom of page 1 of
your sending a letter to
President Reagan, sometime
late in the year.

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