



Treasury Chambers, Parliament Street, SW1P 3AG
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Charles Powell Esq
10 Downing Street
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Dear Charles,

G5: FUTURE PARTICIPATION OF ITALY AND CANADA

I wrote to you on 16 January about Signor Craxi's letter of 30 December asking that Italy should participate in future G5 meetings.

When this was discussed at last weekend's G5 meeting, to everyone's surprise the Americans announced that the White House had concluded that the G5 should indeed be expanded to include Italy and Canada.

The US proposal was predictably supported by Bereznev (France). But both the Chancellor and Stoltenberg made clear their reservations about so fundamental and potentially damaging a change in the nature of what for 12 years has proved the most effective forum for international financial co-operation among the key currency nations. Moreover all the Europeans pointed to the difficulty of excluding the Commission, if Canada and Italy were added. Baker in reply made it clear that to add the Commission would be unacceptable. He subsequently claimed that he had undertaken to the President to raise the proposal at the G5, but was prepared to consider other solutions to the Italian problem, if that was what other G5 members preferred.

At the end of the discussion it was agreed that no final decision could be made immediately. The only firm conclusion possible was that further consideration of the options would be needed and that a decision would have to be made at the Tokyo Summit at the latest.

Since the meeting we have discovered that President Reagan had indeed already sent S. Craxi a sympathetic reply, promising that the US would "advocate and support at the G5 meeting the creation of a Group of Seven Finance Ministers". The Chancellor's assessment is that, in view of the line now being taken by the USA and France, it is now virtually unavoidable to admit both Italy and Canada at least for some purposes. We and the other G5 members will need further time to report on



precisely what the future arrangements should be and how a new G7 Finance Ministers will fit in with the Economic Summit and the G10 before a formal invitation is sent to the Italians and Canadians. (There will certainly be a general wish to exclude the Commission and there should be a fair chance of doing so on the grounds that they have no direct responsibility for monetary issues and are allowed into the Economic Summit because of their trade responsibilities).

In the meantime a holding reply to S. Craxi is required. The Chancellor's recommendation is that our reply should be positive, making it clear that we sympathize with the Italian request and hinting that we expect it to be met. I enclose a draft reply for this purpose, which the Chancellor has approved.

I am sending copies of this to Len Appleyard (FCO) and Michael Stark (Cabinet Office).

Yours Sincerely,

Philip Wynn Owen

P WYNN OWEN
Private Secretary