

Ref: A08225

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Prime Minister

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Agree that we should not
object to the French proposal
at x.?

MR. COLES

Yes Mr

A. J. C. 26/4.

European Community Representation at the Versailles
Economic Summit

We spoke about this on the telephone on Friday, 23rd April, when you conveyed to me the Prime Minister's agreement with the line which I intended to take on this question at the Rambouillet meeting of Personal Representatives.

x 2. As you know, my place at the second half of this meeting yesterday was taken by Mr. Hancock. I have now heard from him that the question of European Community representation at the dinners confined to Heads of State and Government was discussed at Rambouillet yesterday evening. The outcome of this discussion was that the French Presidency will issue invitations for both the Belgian Prime Minister and the President of the European Commission to attend both the dinners confined to Heads of State and Government unless objections to this proposal are raised by any of the Governments of the Summit countries by close of play tomorrow Tuesday, 27th April.

3. As far as non-European Summit Governments are concerned, the United States Personal Representative made it clear that President Reagan would accept the decision of the Community countries in this matter, and the Japanese and Canadian Personal Representatives also seemed confident that no objection by their Prime Ministers would be made. We did not have any indication of the reaction of the German and Italian Governments, although I understand the German Personal Representative thought it unlikely that his Government would take issue with the French proposal.

4. Our approach to this problem throughout has been to allow the French to take the lead and to avoid the risk of being held responsible for either advocating or rejecting any particular proposal. In taking this approach we have also had in mind the Prime Minister's view that at meetings or meals for



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Heads of State or Government only it would be right for the President of the Council rather than the President of the Commission to attend. The new French proposal protects the position of the Belgian Prime Minister as President of the Council and also ensures that there will not have to be any invidious choice between him and the President of the Commission. I therefore recommend that we should make no objection to the French proposal and say that we are content that they should proceed as they propose.

5. I am sending a copy of this minute to Brian Fall (Foreign and Commonwealth Office).

REA

Robert Armstrong

26th April 1982

GR 1500

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FM LUXEMBOURG 261500Z APR 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 59 OF 26 APRIL 1982

INFO IMMEDIATE PARIS BONN WASHINGTON *UKL 8245*

INFO SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN

LUXEMBOURG ATHENS

PREPARATIONS FOR VERSAILLES ECONOMIC SUMMIT:
INTERNATIONAL MONETARY SYSTEM

FOLLOWING FROM HANCOCK

SUMMARY

1. THE POSSIBILITY OF AN INITIATIVE ON THE INTERNATIONAL MONETARY SYSTEM WAS DISCUSSED AT THE SECOND DAY OF THE PREPARATORY DISCUSSIONS FOR THE ECONOMIC SUMMIT AT RAMBOUILLET ON SUNDAY 25 APRIL. THE UNITED KINGDOM WAS REPRESENTED BY COUZENS (TREASURY) BRIDGES (FCO) AND HANCOCK DEPUTISING FOR ARMSTRONG. IT WAS AGREED THAT AN EFFORT SHOULD BE MADE TO FIND A BASIS FOR ACTION TO IMPROVE THE WORKING OF THE INTERNATIONAL MONETARY SYSTEM AS PART OF THE PREPARATIONS FOR THE VERSAILLES SUMMIT. CAMDESSUS, THE FRENCH DIRECTOR OF THE TREASURY, WILL CIRCULATE A NOTE EXPLAINING FRENCH IDEAS TO THE FINANCE MINISTRY REPRESENTATIVES OF THE SEVEN COUNTRIES. THIS WILL BE DISCUSSED AT A DINNER TO BE ARRANGED IN PARIS BY CAMDESSUS ON FRIDAY 14 MAY.

DETAIL

2. SPRINKEL (UNITED STATES) OPENED THE DISCUSSION BY SAYING THAT THERE WERE AT LEAST TWO PROPOSALS, ONE BY THE UNITED STATES CONTAINED IN A DOCUMENT HE HAD CIRCULATED TO THOSE PRESENT, AND ONE SUGGESTED BY THE HOST COUNTRY. HIS IDEA WAS THAT THE MAJOR COUNTRIES SHOULD TRY HARDER TO DEVELOP SUCCESSFUL POLICIES FOR REDUCING INFLATION WHICH OVER TIME COULD BE EXPECTED TO LEAD LOWER INTEREST RATES AND HIGHER INVESTMENT AND ALSO TO GREATER STABILITY IN EXCHANGE RATES. HE HOPED THAT IT WOULD BE POSSIBLE IN SOME WAY TO RECONCILE THIS APPROACH WITH THAT SUGGESTED BY FRANCE.
3. CAMDESSUS SAID THAT HE THOUGHT THAT IT WAS AGREED THAT THE PRINCIPLE OF STABLE BUT ADJUSTABLE EXCHANGE RATES SHOULD BE RESPECTED AND THAT MORE EFFORT SHOULD BE MADE TO PREVENT EXCESSIVE FLUCTUATIONS. SUCH A POLICY MUST BE BASED ON CONVERGENCE OF ECONOMIC POLICIES AND NOT ON MASSIVE INTERVENTION. IN THE VIEW OF THE FRENCH GOVERNMENT PUBLIC OPINION SHOULD BE CONVINCED THAT THE SUMMIT COUNTRIES WERE NOT COMPLACENT. CAMDESSUS HAD THEREFORE HOPED THAT AGREEMENT COULD BE REACHED ON THE FOLLOWING POINTS:

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- I. THE SUMMIT COUNTRIES AGREED THAT STABILITY OF EXCHANGE MARKETS WAS AN ELEMENT IN THEIR COMMON RESPONSIBILITY:
 - II. INTERVENTION TO SECURE A COMPETITIVE ADVANTAGE SHOULD BE EXCLUDED:
 - III. BUT THE SUMMIT COUNTRIES DID NOT EXCLUDE INTERVENTION WHICH WAS CONSISTENT WITH THE MODIFIED IMF ARTICLES ON FLOATING EXCHANGE RATES:
 - IV. THE COUNTRIES POSSESSING THE FIVE CURRENCIES IN THE SDR BASKET HAD A SPECIAL RESPONSIBILITY AND SHOULD BE SUBJECT TO AN ENHANCED DEGREE OF MULTILATERAL SURVEILLANCE:
 - V. THERE SHOULD BE A STUDY AIMED AT THE RECONSTRUCTION OF THE INTERNATIONAL MONETARY SYSTEM IN A MEDIUM-TERM PERSPECTIVE.
4. THE IMPLEMENTATION OF THESE PRINCIPLES WOULD REQUIRE INCREASED COOPERATION HAVING THE FOLLOWING ELEMENTS:
- I. REGULAR CONSULTATION ON THE FUNDAMENTALS WHICH SHOULD DETERMINE EXCHANGE RATES INCLUDING INTEREST RATES:
 - II. EXCEPTIONAL CONSULTATIONS WHICH SHOULD BE AUTOMATIC WHEN ONE OF THE SDR CURRENCIES GOT OUT OF LINE WITH THE REST:
 - III. A CENTRAL ROLE FOR THE INTERNATIONAL MONETARY FUND:
 - IV. MORE COOPERATION BETWEEN THE CENTRAL BANKS.
5. SPRINKEL SAID THAT THERE WAS A GREAT DEAL OF SIMILARITY BETWEEN THE UNITED STATES POSITION AND THAT DESCRIBED BY CAMDESSUS. HE HAD ONLY ONE FEAR WHICH WAS THAT CAMDESSUS' SUGGESTIONS WOULD LEAD TO EXCESSIVE INTERVENTION. MASSIVE INTERVENTION DEALT WITH THE SYMPTOMS OF DISEQUILIBRIUM AND NOT WITH THE BASIC CAUSE. HOWEVER THE UNITED STATES DID NOT RULE OUT INTERVENTION ALTOGETHER AND HAD ON FOUR OCCASIONS RECENTLY BEEN READY TO MOVE INTO THE MARKETS BUT THE PRESSURE HAD CEASED BEFORE THEY HAD ACTUALLY DONE SO. SPRINKEL AGREED THAT THE FIVE SDR CURRENCIES HAD A SPECIAL RESPONSIBILITY AND ESPECIALLY THE UNITED STATES. HE ALSO AGREED THAT THE CONSULTATION SHOULD CONCENTRATE ON FUNDAMENTALS BUT ANY DIFFERENCES OF VIEW ON POLICY WOULD NEED TO BE DEBATED FRANKLY.
6. WATANABE (JAPAN) SAID THAT HE UNDERSTOOD THE APPROACH BUT DID NOT BELIEVE THAT IT WAS REALISTIC BECAUSE OF THE BIG DIFFERENCES OF VIEW ABOUT POLICY AND DIFFERENCES IN ECONOMIC CONDITIONS. MUCH PREPARATORY WORK WOULD BE NEEDED BEFORE ANY SUCH PLAN COULD BE LAUNCHED.

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7. SCHULMANN (GERMANY) SAID THAT HE DID NOT THINK THE SCHEME COULD BE DESCRIBED AS EXCESSIVELY AMBITIOUS. SOME OF THE IDEAS IN IT USED TO BE TAKEN FOR GRANTED. IT OUGHT TO GO WITHOUT SAYING THAT THE COUNTRIES CONCERNED WERE RESPONSIBLE FOR THE STABILITY OF THE SYSTEM AND THAT CHANGES IN EXCHANGE RATES WHICH DEFIED FUNDAMENTALS SHOULD BE EXCLUDED. THERE MIGHT BE DIFFERENCES OF VIEW ABOUT THE ROLE OF INTERVENTION CONSISTENT WITH FUNDAMENTALS BUT AT LEAST THAT POINT OUGHT TO BE DISCUSSED. THE SDR WAS A MANIFESTATION OF THE IMF AND IT WAS VERY NATURAL THAT THE CURRENCIES CONCERNED SHOULD HAVE A SPECIAL RESPONSIBILITY. A JOINT STUDY WOULD BE NEEDED.

8. WATANABE SAID THAT JAPAN WAS READY TO JOIN IN A STUDY BUT HE WAS CONCERNED THAT THE SCHEME MIGHT HAVE AN ADVERSE EFFECT ON MARKETS.

9. VAN YPERSELE (BELGIAN PRESIDENCY) ASKED WHETHER THE JAPANESE DELEGATION HAD CONFUSED WHAT WAS PROPOSED WITH THE OBLIGATIONS UNDERTAKEN BY CURRENCIES IN THE EUROPEAN MONETARY SYSTEM. THERE WAS NO QUESTION IN THE PROPOSALS OF AUTOMATIC MARGINS OR AUTOMATIC CREDIT. THE BASIC OBLIGATIONS PROPOSED HAD ALREADY BEEN ACCEPTED IN OTHER CONTEXTS, IN PARTICULAR NO COMPETITIVE DEVALUATIONS; CHECKS ON EXCESSIVE FLUCTUATIONS; AND THE SDR AS THE CENTRE OF THE SYSTEM. HE AGREED WITH SPRINKEL THAT THE DISCUSSIONS WOULD HAVE TO BE ENTIRELY FRANK BUT THEY MUST OF COURSE BE CONDUCTED IN PRIVATE. A DECLARATION AT VERSAILLES OF AN INTENTION TO MAKE PROGRESS ON THE LINES SUGGESTED COULD HAVE A BENEFICIAL EFFECT ON EXPECTATIONS.

10. COUZENS (UK) SAID THAT BRITISH MINISTERS HAD NOT YET BEEN CONSULTED BUT HE WAS CONFIDENT THAT THEY WOULD BE SYMPATHETIC TO THE THRUST OF WHAT HAD BEEN DISCUSSED BETWEEN SPRINKEL AND CAMDESSUS. HE THOUGHT THAT IT WAS IMPORTANT TO EMPHASISE THE ROLE OF THE INTERNATIONAL MONETARY FUND AT THE CENTRE OF THE SYSTEM AND THIS COULD BE THE FIRST ELEMENT IN THE RETURN TO MORE ORDER. IT WOULD HOWEVER BE DANGEROUS TO LEAD PEOPLE TO EXPECT TOO MUCH. THE ESSENCE OF THE IDEA WAS THAT THOSE COUNTRIES WITH CURRENCIES IN THE SDR BASKET HAD A SPECIAL RESPONSIBILITY TO EVERYONE ELSE AND TO EACH OTHER. HE WAS GLAD TO HEAR SPRINKEL SAY THAT THE UNITED STATES HAD A PARTICULARLY IMPORTANT RESPONSIBILITY. THE UNITED KINGDOM WOULD AGREE THAT COMPETITIVE DEVALUATION SHOULD BE RULED BUT THAT MORE LIMITED INTERVENTION SHOULD NOT BE EXCLUDED AS A SIGNAL TO THE MARKET. THIS WAS OF COURSE QUITE DIFFERENT FROM THE OBLIGATIONS WITHIN THE EUROPEAN MONETARY SYSTEM. HE WAS DOUBTFUL ABOUT THE IDEA OF A STUDY OF THE RECONSTRUCTION OF THE INTERNATIONAL MONETARY SYSTEM IN THE MEDIUM-TERM. THIS BROUGHT BACK MEMORIES OF THE UNPRODUCTIVE LABOURS OF THE COMMITTEE OF 20. ANY SUCH AMBITIOUS IDEAS SHOULD BE LEFT TO A LATER STAGE. THE CONSULTATION SYSTEM PROPOSED WOULD GIVE A DEGREE OF FORMALITY TO A FORUM IN WHICH THE COMMUNITY COUNTRIES CONCERNED COULD DISCUSS INTEREST RATES WITH THE UNITED

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/STATES

STATES AND IN WHICH THE UNITED STATES COULD SUGGEST THAT OTHER COUNTRIES WERE NOT BEING SUFFICIENTLY ANTI-INFLATIONARY IF THEY THOUGHT THAT WERE THE CASE. THE MANAGING DIRECTOR OF THE IMF OR THE IMF STAFF SHOULD HAVE A SPECIAL ROLE - FOR EXAMPLE THEY COULD PROVIDE THE SECRETARIAT. (AT THIS POINT SPRINKEL INDICATED ASSENT).

11. SARCINELLI (ITALY) WELCOMED THE PROPOSAL BUT SAID THAT TOO MANY EXPECTATIONS SHOULD NOT BE AROUSED. THE CENTRAL POINT IN HIS MIND WAS THAT OF MAKING THE SDR CURRENCIES ACCOUNTABLE. BUT BEFORE GOING FURTHER IT WAS NECESSARY TO FIND OUT WHETHER THE CLIMATE WAS RIGHT FOR SUCH AN ADVANCE. THERE WOULD BE NO POINT IN CONSULTATIONS WHICH DID NOT LEAD TO ANY CLEAR RESULT. SOME KIND OF YARDSTICK WOULD BE NEEDED TO MEASURE THE EFFECTIVENESS OF THE POLICIES. HE ASKED CAMDESSUS HOW FLUCTUATIONS WERE TO BE MEASURED. CAMDESSUS REPLIED THAT SPECIAL CONSULTATION (PARAGRAPH 4 II ABOVE) SHOULD BE AUTOMATIC IF ONE OF THE CURRENCIES MOVED MORE THAN THE OTHERS IN TERMS OF ITS RELATIONSHIP TO THE SDR.

12. DRABBLE (CANADA) GAVE THE PROPOSAL HIS WARM SUPPORT AND DESCRIBED IT AS A VALUABLE INITIATIVE. BUT HE THOUGHT THERE SHOULD BE A PRECISE ROLE FOR THE IMF MANAGEMENT. COUZENS SUGGESTED THAT THE DISCIPLINE SHOULD BE AN ANNUAL REPORT BY THE MANAGING DIRECTOR OF THE IMF TO: FOR EXAMPLE, THE INTERIM COMMITTEE, ANALYSING THE SUCCESS OF THE ARRANGEMENT. THIS COULD BE THE BEGINNING OF THE YARDSTICK SUGGESTED BY SARCINELLI.

13. ATTALI (CHAIRMAN) SAID THAT THE FRENCH INITIATIVE WAS A POLITICAL AND NOT JUST A TECHNICAL PROPOSAL. IT WAS RELEVANT TO THE PROBLEMS OF THE CRISIS WHICH WOULD BE THE THEME OF THE VERSAILLES SUMMIT.

14. AFTER FURTHER DISCUSSION, AGREEMENT WAS REACHED ON THE PROCEDURE RECORDED IN PARAGRAPH 1.

FCO ADVANCE TO:
FCO - BRIDGES
CAB - ARMSTRONG
TSY - COUZENS; LAVELLE; HEDLEY-MILLER
BANK - LOEHNIS; BALFOUR

FCO PASS SAVING TO BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN
ATHENS

THOMAS

(REPEATED AS REQUESTED)

(ADVANCED AS REQUESTED)

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