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PRIME MINISTER

Prime Minister

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To note.

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Versailles Economic Summit

The last meeting of Personal Representatives before the Versailles Economic Summit was held near Paris last weekend, 14th-16th May. The following were the main subjects discussed.

General Mood of the Summit

2. The French President's Personal Representative, Monsieur Attali, reported briefly on the visits which the President had paid by now to most of the other Heads of State or Government. He had encountered a general desire for a confidence-building Summit.

Technology, Economic Activity and Employment

3. Monsieur Attali said that this would be the theme of the President's opening statement to the Summit meeting. A paper would be circulated; we had a draft before us, but we were told not to regard that as final. The President saw it as useful that Heads of State or Government should balance their preoccupations with short-term problems with a look at the longer-term future, and the challenges and opportunities which new technology would present. The paper would offer a number of proposals for consideration, but at this stage they were put up for suggestions, not for decision at the Summit. The President would suggest that they should be pursued in some kind of follow-up procedure. The discussion showed that the other Personal Representatives welcomed the theme, but were wary about the specific proposals. These were ambitious, and tended to be dirigiste. A number of us emphasised that it was likely that the most successful exploitation of technological development would come primarily in the private sector, and often in small and medium-sized businesses. Governmental and intergovernmental action might best be concentrated primarily on the removal of barriers to the development of technology and to trade in technological ideas and products.

4. It was agreed to recommend to the Heads of State or Government that they should appoint a working group of suitably qualified representatives to study these matters, including the French President's proposals, further, and to produce a report by the end of the year, for consideration at the 1983 Summit.

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Macro-Economic and International Monetary Matters

5. The discussion of this subject was less sharply polarized than on previous occasions. It was clear from what the United States representative said that it was unlikely that President Reagan would have arrived at a compromise with the Congress on the budget for fiscal year 1983 before the Versailles Summit. It was not therefore possible to foresee any sustained relief from the pressures of high United States interest rates ahead of that time. On the other hand the United States representatives at the meeting were clearly thinking and talking in terms of the need for a compromise which would reduce the United States budget deficit in fiscal year 1983 and later years. They were also readier than in the past to contemplate the possibility that there might be occasions when it was sensible for monetary authorities to intervene in exchange markets to stabilise volatile movements of exchange rates. The French representatives had ambitious ideas for a reconstruction of the international monetary system, based on the three poles of the United States dollar, the yen and the European Monetary System. The way in which the French formulated these ideas was, too ambitious for some of the other countries represented, but we had no difficulty in agreeing upon a commitment to closer co-operation among the authorities representing the currencies of North America, Japan and Europe in setting medium-term economic and monetary objectives, as a means of working towards an orderly and constructive evolution of the international monetary system. Representatives of the Ministries of Finance of the seven Summit countries had met the previous day, and had agreed upon a draft declaration or statement of guidelines on monetary questions, which it was agreed to accept (with some amendment) as an annex to the draft declaration for the Summit. We had little difficulty in striking a balance between the need to continue the struggle against inflation and the need to promote growth and higher employment.

Trade

6. In this area the main discussion was on the subject of trade with Japan. The Japanese Personal Representative made a long statement, delivered in a manner irresistibly reminiscent of that of Mr. Ian McDonald of the Ministry of Defence, indicating that his Government was expecting to announce a further

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package of measures to make the Japanese market more open to imports. He was left in no doubt that, unless such a statement were made before the Versailles Summit, and unless it was effective, his Prime Minister could expect to have a rough time there. A strongly-worded sentence was proposed for inclusion in the draft declaration; it does not appear in the present draft, but it was made clear to the Japanese Personal Representative that his colleagues would revive it at Versailles if nothing had happened before then. He defended his Government against the charge that they were relying solely on exports to stimulate the Japanese economy: the level of exports had stabilised and even fallen slightly in recent months, and domestic demand was rising.

Relations with the Developing Countries

7. The main subject for discussion in this area was the global negotiations. It was made clear to the United States representative that the European Community and Canada regarded the Bedjaoui declaration by the Group of 77 as an acceptable basis for opening global negotiations, though the British and German Personal Representatives indicated that they would prefer to see certain amendments to the draft to ensure that the independence of the specialised agencies was fully protected. The position of the United States representatives on the Bedjaoui declaration was more reserved, although they too indicated that it was likely that, if the President was satisfied that the independence of the specialised agencies would indeed be fully protected - and they remained to be convinced that this could be achieved within the terms of the Bedjaoui declaration - he could well in the end be prepared to agree to enter global negotiations on that basis. There was general agreement that there would be no point in embarking on global negotiations without the United States.

East-West Trade

8. There had been a meeting of the Buckley Group in Paris just before our meeting, and the sharp polarization between Europe and the United States evident at the Buckley Group meeting was reflected at our meeting. While the United States representatives insisted that the President's objective was to ensure that the Western world was not over-committed in credit to the Soviet Union and Eastern Europe, the European Community representatives, and

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particularly the continental Europeans, were suspicious that the President's motive was in fact to introduce some form of economic sanctions against the Soviet Union. They did not believe that such sanctions would be effective; and they thought that the price to be paid would be paid entirely by Europe. One of the German representatives had produced a set of proposals for increasing down payments on, and reducing the duration of, credits to the Soviet bloc and for reducing the proportion of total credit which might be officially supported.

Most of the European countries seemed to be prepared to look at least at some of these possibilities; but the French representatives said that they were precluded by the terms of their existing agreements from doing anything of this kind before 1985. One of the French representatives even said that his Government was not yet committed to the increase in the consensus rate for credits to the Soviet Union; this attracted a unanimous chorus of protest and requests to think again by all the other Personal Representatives present.

The United States representatives said that, unless some progress could be made on this subject, it would be much more difficult for the United States to meet the problems of their European allies on such matters as the gas pipeline from the Soviet Union to Germany and France. It was agreed that there would have to be another meeting of the Buckley Group before the Versailles Summit.

Draft Declaration

9. The Personal Representative of the French President said that his President was not enthusiastic about having any kind of communique from the Economic Summit. He recognised with some reluctance that there would have to be some document, but he insisted that it should be short, and political rather than technical in its language. The French Personal Representative produced a draft, which was discussed, considerably amended, and in its revised form provisionally agreed as the basis for the work which Personal Representatives would do when it came to the Summit Meeting itself. I attach a copy of the draft declaration as revised over the weekend, with the annexed statement of monetary undertakings (see paragraph 5 above). You will see that it contains a few



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passages in square brackets, which represent points on which agreement was not reached. These will have to be resolved at Versailles. I hope that Personal Representatives will be able to resolve most of them at Versailles without troubling Heads of State or Government, but one or two of them, particularly in the passage on relations with developing countries, may need to be resolved by Heads of State or Government themselves.

10. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Energy and the Secretary of State for Trade.

Robert Armstrong

19th May 1982

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DECLARATION OF THE SEVEN HEADS OF STATE AND GOVERNMENT
AND REPRESENTATIVES OF THE EUROPEAN COMMUNITY

Having come together to improve our understanding of the situation of the world economic situation, we have drawn up a number of common objectives for future action.

We affirm that the improvement of the present situation, by a further reduction in the level of inflation, and by a return to steady growth and higher levels of employment, would strengthen our joint capacity to safeguard our security, to maintain confidence in the democratic values that we share, and to preserve the cultural heritage of our people in all their diversity. Full employment, price stability and sustained and balanced growth are ambitious objectives. They are attainable in the coming years only if we pursue policies which encourage productive investment and technological progress; and only if, in addition to our own individual efforts, we are willing to join forces, if we are sensitive to the effects of our policies on one another and if we collaborate in promoting world development.

In this spirit, we have decided to implement immediately the following five lines of action:

- Growth and employment must be increased. This cannot be attained on a sustainable basis unless we continue to be successful in our fight against inflation. Furthermore, this will help to bring about lower real interest rates and more stable exchange rates which are in everybody's interest and which we all want to achieve. It is essential to intensify our economic and monetary co-operation. In this regard, we will work toward an orderly and constructive evolution of the International Monetary System by a closer co-operation among the authorities representing the currencies of North-America, of Japan and of the European Community [which constitute the EMS] in pursuing medium term economic and monetary objectives. In this respect, we have committed ourselves to the undertaking contained in the attached statement.

- The development of world trade in all its facets is both a necessary element for a growth of each country, and a consequence of that growth. We reaffirm our commitment to strengthening the open multilateral trading system as embodied in the GATT, and maintaining its effective operation. In order to promote stability and employment through trade and growth, we will continue to resist protectionist pressures and overt or hidden trade restrictions; [we will avoid trade distorting practices such as certain subsidies]; we are resolved to complete the work of the Tokyo round and to improve the capacity of the GATT to solve current and future trade problems. We will also be prepared to take measures where appropriate towards the further (balanced) opening of our markets. We will work together with the developing countries to strengthen and improve the multilateral system, in particular to encourage greater mutual trading opportunities with the new industrialised countries. In this spirit, we shall participate fully in the forthcoming GATT Ministerial Conference.

- The progress we have already made does not diminish the need for continuing efforts to economise on energy and to promote alternative sources, including nuclear energy and coal, in a long-term perspective. These efforts will enable us further to reduce our vulnerability to interruptions in the supply of energy and instability of prices. Co-operation to develop new energy technologies, and to strengthen our capacity to deal with disruptions, can contribute to our common energy security. We shall also work to strengthen our co-operation with both oil-exporting and oil-importing developing countries.

- The growth of the developing countries and a constructive relationship with them are vital for our political and economic well being. We will therefore take steps to maintain a high level of financial flows and official assistance increasing their amount and their effectiveness as far as possible and sharing responsibility broadly among all countries capable of making a contribution. [The launching of Global Negotiations in the near future is a major political objective approved by all participants in the Summit. We consider that it should take place by next autumn provided that the independence of the specialised institutions is guaranteed.] At the same time, we are prepared to continue and develop

practical co-operation with the developing countries through innovations within the World Bank, [such as the creation of an Energy Affiliate] and [the IDA Special Fund,] increased private capital flows, (international arrangements to improve the conditions for private investment), programmes designed to increase indigenous food and energy production, [the stabilisation at a proper level of commodity export earnings of the L.D.C.'s] and a further concentration of official assistance towards the poorest countries.

- Sustained growth of the world economy will depend upon co-operation among our countries and with other countries in the exploitation of scientific and technological development and, in particular, of the opportunities presented by the new technologies, whose potential is immeasurable. We shall need to remove barriers to, and to promote, the development of and trade in new technologies both in the public sector and in the private sector. Our countries will need to train men and women in the new technologies and to create the conditions which allow these technologies to develop and flourish. We have considered a report presented to us on these issues by the President of the French Republic, in the light of which we have decided to set up promptly a working group of representatives of our governments to develop, in consultation with the relevant international institutions, especially the O.E.C.D., proposals to give effect to the objectives we have noted. The group will be asked to submit its report to us by 31 December 1982. The conclusions of the report and the resulting actions will be considered at the next Economic Summit to be held in 1983 in the United States.

STATEMENT OF INTERNATIONAL MONETARY UNDERTAKINGS

1. We accept a joint responsibility to work for greater stability of the world monetary system. We recognise that this rests primarily on convergence of policies designed to achieve lower inflation, higher employment and renewed economic growth; and thus to maintain the internal and external value of our currencies. We are determined to discharge this obligation in close collaboration with all interested countries and monetary institutions.
2. We are ready to strengthen our co-operation with the IMF in its work of surveillance; and to develop this on a multilateral basis with special reference to the five currencies constituting the SDR.
3. We attach major importance to the role of the IMF as a monetary authority and we will give it our full support in its efforts to foster stability.
4. We rule out the use of our exchange rates to gain competitive advantages.
5. We are ready, if necessary, to use intervention in exchange markets under the conditions provided for in Article IV of the IMF Articles of Agreement to counter erratic fluctuations.
6. Those of us who are members of the EMS consider that these undertakings are complementary to the obligations of stability which they have already undertaken in that framework and recognise the role of the System in the further development of stability in the international monetary system.
7. We are all convinced that greater monetary stability will assist freer flows of goods, services and capital. We are determined to see that greater monetary stability and freer flows of trade and capital reinforce one another in the interest of economic growth and employment.

LIST OF BRIEFS

1. Steering Brief
2. Draft Declaration
3. World Economy: Economic and Monetary Policies
4. International Monetary Matters
5. Trade
6. North/South
7. Energy
8. East/West Economic Relations
9. Export Credit Consensus
10. Impact of Technology
11. State of the World
- 12a. East/West Relations: Relations with the Soviet Union and Eastern Europe
- 12b. Poland
- 12c. East-West Relations: Afghanistan
13. Disarmament and Arms Control
- 14a. Falkland Islands
- 14b. General Approach to Relations with the Third World
- 14c. Middle East
- 14d. Cambodia
- 14e. Central America
- 14f. Settlement of the Namibia Question and its Consequences
- 14g. Africa: Economic Situation of certain African Countries, Zaire, Zambia, Sudan, etc.
15. Terrorism
16. Youth Exchange
17. Bilateral Meetings
18. Statistics
19. Personality Notes

PMVS(82)1-19 preserved
in CAB 133. This set is
destroyed.

R. Pannan
22 Mar 11



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10 DOWNING STREET

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From the Private Secretary

SIR ROBERT ARMSTRONG

VERSAILLES ECONOMIC SUMMIT

The Prime Minister has noted
without comment your minute of 19 May.

A. J. COLES

24 May 1982