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PO -CH /GH/0072



PART B

Chancellor's (Howe) papers:
VERSAILLES ECONOMIC
SUMMIT JUNE 1982

PO -CH /GH/0072
PART B

Disposal Directions: 25 Years

D. Mole

26/7/95.

CABINET OFFICE PAPER

The following Cabinet Office papers have been taken off the file. If you require access to these papers please contact the Cabinet Office.

Reference	Date Of Paper
LIST OF BRIEFS IN PMVS (82) SERIES	27 MAY 1982
PMVS (82) 14 (e) (Revised)	27 MAY 1982
PMVS (82) 5 - Addendum	28 MAY 1982
PMVS (82) 6 (Revised)	01 JUNE 1982
PMVS (82) 13 (2nd Revise)	01 JUNE 1982
PMVS (82) 14 (c) (Revised)	01 JUNE 1982
PMVS (82) 1 (Revised)	02 JUNE 1982
PMVS (82) 12 (Revise) - Addendum	02 JUNE 1982
PMVS (82) 8 Revised	03 JUNE 1982



pmf

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

27 May 1982

M M Hall Esq
Conference and Visits Section
Protocol and Conference Department
Foreign and Commonwealth Office
LONDON
SW1A 2AH

Dear Michael,

ECONOMIC SUMMIT, VERSAILLES 4-7 JUNE

Your letter of 29 April to John Kerr refers.

I have already let you have photographs of John Kerr. I am now making up the full set by sending you photographs of Sir Kenneth Couzens.

Yours sincerely,

Jill Rutter

JILL RUTTER



Foreign and Commonwealth Office

London SW1A 2AH

EXCHEQUER	
REC	- 3 JUN 1982
ACTION	Mr Hawtin 3-6
COPIES TO	CST, F&T, EST, Sir A Wasy, Sir K Conzen, Mr Little, Mr Carey, Mr Lovelle, Mr Kidley.

3 June 1982

Dear John,

East/West Economic Relations

I enclose a copy of Washington telno 1976. This makes it clear that, in the view of American officials, the related subjects of export credit for the Soviet Union and the exemption of existing European contracts from the impact of the measures against the Soviet Union adopted by the United States Administration on 29 December 1981 are likely to be the most difficult issue at the Versailles Economic Summit. It quotes the comment of a State Department official that the problem of existing contracts cannot now be resolved within the Washington bureaucracy and his belief that only a direct appeal by the Prime Minister to the President when she meets him will do the trick; ie secure the exemption of these contracts.

The Foreign and Commonwealth Secretary spoke to the American Ambassador about existing contracts on 2 June. He reminded Mr Louis that President Reagan had not replied to either of the two messages (dated 29 January and 5 April) in which the Prime Minister had referred to the subject; pointed out to him that it was the Americans who had created a link between the problems of export credit and existing contracts; and underlined to him the serious difficulties which were now faced by the British companies concerned, especially John Brown.

Although Mr Louis undertook to report our concerns to Mr Haig immediately, the Foreign and Commonwealth Secretary hopes that the Prime Minister will be willing to have a word with President Reagan about the problem of existing contracts at Versailles. It is really most important that the Americans should make a move on this issue. Unless they do, John Brown will face extremely serious problems; and it is possible that the related question of export credit for the Soviet Union, by which the Americans set so much store, could become a serious bone of contention at the Summit. It is hard to believe that either President Mitterrand or Chancellor Schmidt would be willing to give the Americans much over export credit unless the Americans were prepared to do something about the contracts of French and German firms which have now been blocked for over five months.

The Prime Minister could remind President Reagan of what she said to him in her messages of 29 January and 5 April; point out to him that it is the Americans who have established a link between the problems of export credit and existing contracts; and indicate to him just how far we have been prepared to go, so far

/on



on an unrequited basis, on the first of these problems. She could also point out that the French and the Germans, who have so far been dragging their feet over export credit, would be much more likely to offer something substantial in this field if they could be assured that the contracts of their companies were to be exempted from the impact of the American measures. She could also, perhaps, mention the fact that NATO contingency planning for a Soviet invasion of Poland specifically exempted existing contracts from any measures to be adopted, precisely because of the legal and political problems which would otherwise arise.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Trade, the Secretary of State for Industry and Sir Robert Armstrong.

Yours over.

A handwritten signature in cursive script, appearing to read 'Francis Richards'.

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

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TO IMMEDIATE F C O

TELEGRAM NUMBER 1976 OF 1 JUNE

VERSAILLES SUMMIT: LATEST U.S. POSITIONS.

1. THE FOLLOWING IS A SYNTHESIS OF OFFICIAL VIEWS ON THE EVE OF PRESIDENT REAGAN'S DEPARTURE TO EUROPE. DISCUSSION IN THE WHITE HOUSE IS CONTINUING UP TO THE LAST MINUTE. WE WILL REPORT ANY FURTHER MODIFICATIONS IF NECESSARY.

CREDITS FOR THE SOVIET UNION AND EXISTING CONTRACTS
2. THIS STILL SEEMS LIKELY TO BE THE MOST DIFFICULT ISSUE. THE AMERICANS FEEL THAT THE TONE OF THE LAST ROUND OF OFFICIAL DISCUSSIONS IN PARIS ON 27 MAY WAS AN IMPROVEMENT ON ITS PREDECESSORS. BUT THEY ARE DISAPPOINTED AT THE LACK OF AGREEMENT ON A MECHANISM FOR CONTROLLING CREDITS TO THE SOVIET UNION. MR HAIG HAS NOW SENT A FURTHER LETTER TO HIS COLLEAGUES (WHICH WE HAVE NOT SEEN HERE). THE PRESIDENT WILL RAISE THE MATTER HIMSELF AND MAY WELL TABLE THE DRAFT PROTOCOL WHICH HIS OFFICIALS PUT FORWARD ON 27 MAY. THE MINIMUM THE AMERICANS COULD ACCEPT WOULD BE A VERY FIRM AGREEMENT IN PRINCIPLE, AND FURTHER WORK BY MINISTERS OF FINANCE (PARAGRAPH 5 (A) OF PARIS TELNO 551 TO F C O)). INDIVIDUAL ACTION BY GOVERNMENTS WOULD BE INADEQUATE. WITHOUT AGREEMENT, THE AMERICANS WOULD - OUR CONTACTS SAY - BE BOUND TO ACT IN WAYS THEIR PARTNERS FOUND UNPLEASANT.

GOVERNMENTS WOULD BE INADEQUATE. WITH
WOULD - OUR CONTACTS SAY - BE BOUND TO ACT IN WAYS THEIR PARTNERS
FOLLOWS UNPLEASANT.

3. ON EXISTING CONTRACTS THE ISSUE REMAINS OPEN. HAIG AND REGAN
(WHO WILL BE AT VERSAILLES) AND BALDRIGE ARE IN FAVOUR OF
FLEXIBILITY. WEINBERGER IS AGAINST AND MRS KIRKPATRICK ARGUED IN THE
N S C ON 24 MAY THAT FLEXIBILITY WOULD BE QUOTE IMMORAL UNQUOTE. ONE
STATE DEPARTMENT OFFICIAL HAS COMMENTED THAT THIS ISSUE CANNOT NOW
BE RESOLVED WITHIN THE WASHINGTON BUREAUCRACY. HE BELIEVES THAT
ONLY A DIRECT APPEAL BY THE PRIME MINISTER WHEN SHE MEETS THE
PRESIDENT WILL DO THE TRICK.

O E C D EXPORT CREDIT CONSENSUS

4. THE AMERICANS WILL PROBABLY RAISE THE CONTINUING ABSENCE OF
AGREEMENT, BUT WOULD OBJECT TO LINKING THIS WITH THE ISSUE OF
CREDITS FOR THE SOVIET UNION.

MACRO-ECONOMIC POLICY AND EXCHANGE RATE MANAGEMENT

5. THE AMERICANS SEE VERSAILLES AS AN IMPORTANT OPPORTUNITY TO
RE-STATE OF THE COMMON THEMES SET OUT AT THE ORIGINAL RAMBOUILLET
SUMMIT. OFFICIALS ARE ENCOURAGED BY GREATER FLEXIBILITY IN AMERICAN
ATTITUDES, AND BY A CORRESPONDING FRENCH REALISM. THEY ARE HAPPY
WITH THE DRAFT LANGUAGE FOR THE SUMMIT TO ADOPT AS IT NOW STANDS.
THEY EXPECT SOME CRITICISM OF THEIR DOMESTIC ECONOMIC POLICIES, BUT
ARE LIKELY TO OPPOSE SUGGESTIONS THAT SCHEDULED TAX CUTS BE CANCELLED
THAT PLANNED INCREASES IN DEFENCE EXPENDITURE BE CUT TO THE POINT
OF DIMINISHING U.S. SECURITY, OR THAT THE U.S. MONEY SUPPLY SHOULD
BE EXPANDED RAPIDLY TO BRING DOWN INTEREST RATES. THEY ARE LIKELY
TO CONTINUE WARNING OTHER COUNTRIES AGAINST THINKING THAT A
REDUCTION IN U.S. INTEREST RATES WILL BRING DOWN INTEREST RATES
ELSEWHERE, UNLESS OTHER COUNTRIES ADOPT SUITABLE COUNTER-
INFLATIONARY POLICIES THEMSELVES. THEY ARE UNEASILY AWARE THAT THE
PRESIDENT'S FAILURE TO GET A BUDGET AGREEMENT WILL WEAKEN HIS HAND,
THOUGH THE PRESIDENT WILL DOUBTLESS BLAME THIS ON CONGRESSIONAL
POLITICS.

6. ON INTERNATIONAL MONETARY CO-OPERATION, THE AMERICANS ARE CONTENT
WITH THE LANGUAGE THAT HAS ALREADY BEEN AGREED.

TRADE

7. THOUGH THE AMERICANS WANT THE SUMMIT TO SPEAK UP FOR FREE TRADE
AND TO SUPPORT INITIATIVES AT THE NOVEMBER G A T T MINISTERIAL
AND SERVICES AND INVESTMENT, THE PRESIDENT IS UNLIKELY TO
THE JAPANESE

TRADE

7. THOUGH THE AMERICANS WANT THE SUMMIT TO SPEAK UP FOR FREE TRADE AND TO SUPPORT INITIATIVES AT THE NOVEMBER G A T T MINISTERIAL MEETING ON SERVICES AND INVESTMENT, THE PRESIDENT IS UNLIKELY TO MAKE DETAILED PROPOSALS. THE AMERICANS THINK THAT THE JAPANESE TRADE MEASURES OF 27 MAY REPRESENT A SUBSTANTIAL STEP ESPECIALLY ON INDUSTRIAL GOODS THOUGH LESS SO ON AGRICULTURE. THEY BELIEVE THAT THE JAPANESE ANNOUNCEMENT WILL DEFUSE WHAT COULD HAVE BEEN A DIFFICULT SITUATION. INSTEAD, THEIR ATTENTION MAY FOCUS ON EUROPE, ESPECIALLY AGRICULTURE AND STEEL (NO SETTLEMENT ON THE LATTER IS LIKELY BEFORE THE SUMMIT). BUT ON THE WHOLE THEY FEEL TRADE WILL NOT BE A DIFFICULT ISSUE.

GLOBAL NEGOTIATIONS

8. THE CONFUSION DESCRIBED IN WASHINGTON TELNO 1927 CONTINUES. BASIC AMERICAN ATTITUDES ARE UNCHANGED. BUT THE STATE DEPARTMENT THINK THAT HORMATS (AND PERHAPS HAIG) BUT NOT THE PRESIDENT MAY PROPOSE LANGUAGE IN VERSAILLES SHOWING GREATER FLEXIBILITY ON PROCEDURE, WHILE REMAINING FIRM ABOUT THE INDEPENDENT ROLE OF THE SPECIALIZED AGENCIES. OTHERWISE, THE AMERICANS FEAR, THE EUROPEANS WILL MOVE AWAY FROM THEM TOWARDS ACCEPTANCE OF THE G.77'S BEDJAQUI TEXT. BUT THE TACTICS STILL REMAIN TO BE DECIDED BY THE PRESIDENT.

YOUTH EXCHANGES

9. THOUGH IT HAS ACHIEVED LITTLE PUBLIC PROMINENCE HERE, THE WHITE HOUSE TELL US THE PRESIDENT (AND MR WICK) STILL WANT THE SUMMIT TO ENDORSE THE PROPOSED INITIATIVE.

F C O PLEASE ADVANCE TO PS, PS/PUS, BRIDGER, EVANS, BAYNE AND GOWLLAND (T R E D)

HENDERSON

NNNN



From the Secretary of State

John Coles Esq
Private Secretary
Prime Minister's Office
No 10 Downing Street
London SW1

3 June 1982

Dear John,

VERSAILLES SUMMIT/EXPORT CREDIT CONSENSUS

Thank you for sending me a copy of Sir Campbell Fraser's 28 May letter to the Prime Minister. We were aware of the concern of the CBI (and British industry generally) about the negotiations on the Consensus which are likely to be discussed at Versailles. The Chancellor has already suggested that the EC should put forward counter-proposals covering the two most difficult points, namely the sharp increase in Consensus rates for Newly Industrialised Countries (NICs) and the margin to be applied to Japan.

The main brief (PMVS(82)9) for the Summit generally identifies the issues, but greater stress should be given to the need to moderate and stage any changes in interest rates for the NICs. We would therefore propose that paragraphs 2 and 3 be amended to read:-

"Like most EC countries we can accept much of the compromise proposals put forward by the Chairman of the OECD Export Credit Group. But it is not sensible to widen the interest rate advantage enjoyed by the Japanese, and we are also anxious to avoid a sharp increase in the Consensus rates for Newly Industrialised Countries (NICs)".

"Given a satisfactory resolution of the Japanese and NIC points, we could go some way towards US concern on credit for the USSR".

I also enclose for your information a supplementary brief prepared by ECGD expanding on the line that might be taken with the other Summit participants.

I will let you have a draft reply to Sir Campbell Fraser shortly.

Yours sincerely,

JOHN RHODES
PRIVATE SECRETARY

VERSAILLES ECONOMIC SUMMIT

4-6 JUNE 1982

EXPORT CREDIT CONSENSUS

Supplementary Brief by Export Credits Guarantee Department

1 The Export Credit Consensus will now almost certainly be raised at the Summit (probably by the Americans pressing the EC to accept the Swedish Chairman's compromise). Given the stalemate that has emerged in the Consensus negotiations and the real risk of the collapse of the arrangement, we should take the opportunity to apply pressure in three directions:-

A on the Americans to accept some reduction in the proposed increases in the interest rate guidelines for the Newly Industrialised Countries (and to help us with Japan on the problem of the margin (surcharge) to be added to official finance provided by the Japanese Eximbank;

B on the Japanese to agree to some increase in the margin (eg to 0.5%) which would still leave them in a better position than that agreed in November 1981; and

C on the French to accept a realistic scaling down of their hopes of securing changes in the Swedish compromise to the most vital elements (on the lines put forward by the Chancellor - see Annex attached).

2 Although agreement has been given to a short extension of the Consensus until 15 June, it is clear from discussions between officials last week that the Americans are still hoping that the EC will accept the whole compromise package, whilst the French will be insisting on significant changes. The Japanese (who have come out very well in the compromise) have made it clear that they will certainly oppose the

re-opening of the negotiations. There is thus a real risk that the Consensus will disintegrate (or split into two rival arrangements) unless the Summit discussion can provide some fresh momentum to the negotiations.

POINTS TO MAKE

(To all)

- 1 The break up of the Consensus will be to no-one's advantage: it could lead to a costly credit war which might embitter future trade relations between the Seven.
- 2 Further negotiations will be necessary as the EC will be seeking some changes in the Chairman's compromise proposals (as they stand these seem clearly unacceptable to the French and would be very unpopular with British exporters).

To the Americans

- 3 Considerable progress has been made in reducing the level of interest rate subsidies and more would be achieved if the Consensus survives; (thus Consensus rates would range from 10-12 $\frac{1}{2}$ %: quite close to average World market rates of 12%; whereas last October Consensus rates of 7 $\frac{1}{2}$ -8 $\frac{3}{4}$ % were well below market rates then averaging 13.3%).
- 4 As a "windfall benefit", rates for the USSR would rise from 7.75% at present to 12.5% if the Consensus survives.
- 5 The Swedish Chairman's proposals involve far too rapid a change in the credit terms for Newly Industrialised Countries ("NICS" - Brazil, Mexico, etc). This could impair their ability to service their debts and lead to a sharp drop in World trade. (For example, the proposals would mean that the maximum terms for Brazil etc would change immediately from 10 years credit at a Consensus interest rate of 7 $\frac{3}{4}$ %, to 8 $\frac{1}{2}$ years credit at 11.6%).

6 This abrupt change would also severely affect the competitive position of the UK and France vis-a-vis Japan; (thus last October all three countries were charging a common rate of 7.4% irrespective of the currency, whereas now it is proposed that the rate for the yen should be 8.7%, compared with a Consensus rate of 11.6%).

7 It is not feasible for Japan to finance all European exports in yen, therefore either the Japanese margin must be increased (to (say) 0.5% compared with the 0.3% proposed by the Swedish Chairman) or the Americans will have to forego the proposed increase in interest rates for the NICs this time.

To the Japanese

8 In addition to the points at 5 -7 above, we consider that the Japanese should make a contribution to help preserve the Consensus. We consider that a margin of 0.5% added to their (fluctuating) Long Term Prime Rate (currently 8.4%) should not be an intolerable burden. (It would enable Eximbank finance to be provided in support of yen credits at a blended rate of 8.9%, compared with about 9% at present).

9 Unless an acceptable margin is finally agreed, European and US demands for equal access to the yen capital market might reach levels the Japanese government would find embarrassing.

10 To the French

10 We have put forward some realistic ideas as to counter-proposals the EC might seek (as per Annex attached). We believe these cover the essential areas for both countries. We hope that the French will support these and not press for more substantial improvements in the Swedish Chairman's package, which are unlikely to be negotiable.

BJGD

1 June 1982

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CFED EXPORT CREDIT CONSENSUS - CHAIRMAN'S COMPROMISE

UK COUNTER-PROPOSALS

(Proposed by Chancellor at ECOFIN on 17 May not yet put forward by EC)

- 1 The increase in rates for Newly-Industrialised Countries moving into Category 2 should be staged as a transitional arrangement (eg over 6-12 months).
- 2 The maximum credit terms for NIC's should be 10 years not $8\frac{1}{2}$ years.
- 3 The proposed increase in rates (+0.6% to 11.6%) for Category 2 (middle income) countries should only be implemented if the margin surcharge to be applied by Japan for its official financing is increased to 0.5% above the market rate.

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From: K E Couzens
Date: 3 June 1982
cc: Mr Littler
Mr Carey
Mr Butterworth

CHANCELLOR

VERSAILLES AND THE EXPORT CREDIT CONSENSUS

I would like to offer some supplementary briefing for Versailles on the Export Credit Consensus because I think that progress on it at Versailles may be a way of avoiding some quite serious strains among the participant countries.

2. The Americans seem sure to press the question of trade relationships with the Soviet Union and export credit for the Soviet Union in particular. Three areas of policy are related to this: the treatment of Polish debts, the Buckley proposals and the renegotiation of the Export Credit Consensus. Unless the Americans on the one side or the French and other Europeans on the other change their present positions, there could be an impasse in all three areas. In those circumstances we can count on it that American dissatisfaction would reach the press and there would be a very real chance that there would be no agreement to renew the Export Credit Consensus when it expires on 15 June.

3. Of the three areas, the Export Credit Consensus is the one where there is most at stake for us, where there is the greatest urgency for a settlement and perhaps where there is the best chance of achieving agreement. If there were significant progress towards agreement on the Consensus, plus agreement to go on talking on Buckley then the risk of a "failure", or of a renewed tension with the United States in this whole area, would be avoided.

4. There is a chance that the UK could play something of a mediating role between the United States and France on the Export Credit Consensus. I believe that the Americans will raise it. But it also seems likely that Heads of Government will look to Finance Ministers to discuss it.

5. The Wallen Compromise. You will recall that when it proved impossible to reach agreement on a revised Consensus, the Swedish chairman made some proposals on his own authority. Subsequent discussion has centred round those proposals. There is evidence that Mr Loeff of the European Commission has had a major hand in drafting the proposed compromise and he has been active in saying that anything less would be quite unacceptable to the Americans. But to get an agreement the Americans have to be persuaded that some compromise is necessary and the French have to be persuaded not to demand more than the Americans can in the last analysis accept. We ourselves would like to see some changes in the Wallen proposals, although in the very last resort we would settle for the compromise as it stands rather than see the Consensus break up.

6. Everybody has accepted a recategorisation of countries within the three classes of category. This recategorisation puts the Soviet Union into the top category and brings several NICs, including Brazil, Mexico and Algeria, up from the third category into the second.

7. The outstanding issues are:

i should the interest rate for the top category (now including the Soviets) rise by a further $1\frac{1}{4}\%$ to $12\frac{1}{2}\%$?

ii should the interest rate of the middle category of countries rise by 0.6%?

iii should there be some special transitional provisions for the NICs which have been transferred from the third to the second category? For example, should they be allowed to retain for a limited period 10 year instead of $8\frac{1}{2}$ year maximum credit and should there be an interval of say 6 months during which they enjoy the old rather than the new category 2 interest rate?

iv should the margin which the Japanese are required to charge, as a low interest rate country, above their market rate be increased to 0.5% compared with the 0.3% proposed by Wallen?

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8. Elements of a Deal. Our guess is that the French would in the end accept the $1\frac{1}{4}\%$ increase in the rate for the top category, provided they obtained concessions elsewhere. And this is the most important element for the US because it bites on the Soviet Union. The rate to them would rise from $7\frac{3}{4}\%$ now to $12\frac{1}{2}\%$ in one step, because of the recategorisation and the rate increase (though the low interest rate countries would be able to offer lower rates).

9. But the US ought to make concessions on the second category and on the pressure they are prepared to apply to the Japanese on their minimum rate. The French would no doubt make much of concessions obtained for LDC's and from the Japanese. It is possible we might have a role in persuading the Americans that these were reasonable prices for a deal. The concessions on Category 2 might have to take the form of a smaller increase than 0.6% in the interest rate and a transitional provision for those "promoted" from Category 3 on the lines of paragraph 7iii. above.

10. As Treasury we would be happy if there were no special concessions in Category 2, though we very much want the extra concession from the Japanese. But any deal on the lines of paragraphs 8 and 9 would suit the UK national interest well. We would preserve the Consensus and avoid a damaging row with the Americans. We would have some answer to critics on loss of competitiveness to low interest countries. We would avoid appearing unduly harsh to the NIC's moving into Category 2 - a very Latin American group with serious debt problems.

11. A deal could not be finalised at Versailles. The Summit is only part of the Consensus membership. But if an informal deal were struck (and perhaps blessed by Heads of Government) the remaining meetings would become a formality - including, on this point, ECOFIN on 14 June.

12. It may not happen like this at all. If it does however (or can be made to) I hope this will help by way of preparation.

KEC

K E COUZENS

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FROM: R R GARSIDE
DATE: 3 June 1982

1. SIR K COUZENS
2. CHANCELLOR

cc Mr Bottrill
Mr Scholar, No 10 Downing
Street

VERSAILLES ECONOMIC SUMMIT: UP-DATE ON SUMMIT ECONOMIES

I attach a note which brings together information on Summit countries which has become available since our brief on the World Economy was finalised ten days ago. The information is therefore additional to that in PMVS (82)3 Revised.

I also attach our latest note on World Economic Developments and a set of economic statistics on Summit countries.



R R GARSIDE

KEC

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VERSAILLES ECONOMIC SUMMIT: RECENT DEVELOPMENTS IN SUMMIT ECONOMIES

General

No general recovery of output in summit countries is underway yet, but the rate of inflation continues to fall. The average increase of the CPI for the summit countries over the past three months (annualised) has been about 7 per cent compared to its 1980 peak of 12 per cent.

United States

President Reagan comes to Versailles under something of an economic cloud. GNP declined slightly in the first quarter, real interest rates - at about 8 per cent - are higher than at any time since the 1930s, unemployment continued to rise fast in April and M1 growth by mid-May was 7.7% up at/annual rate since November compared to the $2\frac{1}{2}$ - $5\frac{1}{2}$ per cent target for the whole of 1982.

Equally disturbing, after three months of negotiations and deliberation the Administration and Congress are still far from agreement on a budget for fiscal 1983, which begins on 1 October. Hopes of their reaching agreement have dimmed with the recent rejection by the House of Representatives of the budget plan for a \$116 billion deficit next year passed by the Republican-dominated Senate, and all other proposals before it. Meanwhile forecasts, both by the Administration and others, of federal deficits in years to come grow larger. Fundamental political differences over desirable levels of social spending and defence are reasserting themselves.

The good news is: that the inflation rate over the past 6 months to April - when annualised - has been only 2.8 per cent. (It may well move up a little from this); that some banks lowered their prime rates $\frac{1}{2}$ per cent to 16 per cent last week, and that in April the index of leading indicators moved up for the first time in 12 months. This last development needs to be treated with caution until one sees whether the new direction is confirmed over the next two months.

Uncertainty continues about the Fed's conduct of monetary policy with some analysts claiming the Fed. has been easing credit recently.

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This would be in line with calls now issuing from some Congressmen for easing monetary policy. In contrast to its position some months ago, the Administration however is giving no support to such an easement. Indeed Lawrence Kudlow, Chief Economist at the Office of Management and Budget, recently said: "We don't want to loosen the spigots at this point".

Three-month money market rates have eased down by one percentage point since the early spring to about $13\frac{1}{4}$ per cent, but longer term rates edged higher last week as the supply of corporate bond issues coming to the market grew rapidly.

Federal Republic of Germany

The economic news from Germany is rather better than that from America. Revised figures, just published, show that industrial production rose at an annual rate of 3 per cent (seasonally adjusted) in the first quarter. Unemployment has stopped rising. Inflation has continued to abate (to 5 per cent in April). Wage settlements are generally at or below the 4.2 per cent set by the engineering industry. There is little or no industrial unrest actual or foreseen.

In May the authorities felt able to abolish the special Lombard rate, recently $9\frac{1}{2}$ per cent, at which the Bundesbank lends to commercial banks, and the nominal Lombard rate, 9 per cent, is once more in effect. Central Bank Money is just above the 7 per cent upper margin of the current target band.

It remains to be seen whether the making of the 1983 Budget will be less of a trial than "Operation 82". Certainly it will not be easy. Difficulties to come were foreshadowed by the blocking by the CDU (by use of its strength in the Upper House of Parliament) of the 1 per cent increase in VAT intended to finance the government's employment package, while letting the rest of the package go through. Consequently in his maiden speech to the Bundestag as Minister of Finance, Lahnstein declared that the conditions for the income tax concessions promised for 1984 had "fallen away". Indeed he has warned that revenue will have to be increased. Even assuming further transfer to the Finance Ministry coffers of Bundesbank profits, an extra DM 5-7 billion of revenue will be required in 1983

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to keep the deficit to its presently expected level of DM 30 billion. Left-wing resolutions passed by the SPD congress in April intensify the political strains within the party itself and with the FDP coalition partner.

France

Signs of crisis in economic policy-making are accumulating, and as they shape their tactics for the Summit the French may remember the use Chancellor Schmidt made of the Ottawa Summit in his own budget-making last year. M. Mauroy and ministerial colleagues have spoken of the need for "rigour and realism", for "a change of speed", and for facing up to a long haul. M. Delors has been preaching the need for belt tightening to bring down increases in wages, health expenditure and social transfers. The government can count on a remarkable degree of realism and understanding from M. Maire, the leader of the CFDT, the Socialist trade union confederation, but the Communist Party and the Communist-controlled trade union confederation, the CGT, are ruling out "austerity" and opposing wage controls. President Mitterrand has confined himself so far to an affirmation that the main outlines of policy will not change.

The franc is under renewed pressure. It is almost at its floor-rate against the mark, and speculation both over a new devaluation and its eventual withdrawal from the EMS is gaining ground. President Mitterrand has told American journalists that he does not rule out either.

A supplementary budget announced in May increased the basic rate of VAT by 1% but lowered VAT on basic foods and reduced local company tax. The increased revenue is to be spent on a major investment programme by newly nationalised industries.

Japan

Exports picked up in April after the pause round the turn of the year and the current balance moved to a \$1 billion surplus. The low level of output at the end of 1981 and start of 1982 has led to an expected ten per cent shortfall of revenue as compared with budget estimates, producing a government deficit considerably larger

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than intended. To counteract the economic slowdown, the government brought forward a modest amount of public works expenditure originally planned for later this year. Interest rates have recently risen a little as the deficit has grown. The yen, however, remains weak (Y244 to \$1 at 2 June).

The Keidanren (Federation of Economic Organisations) says that the government should resign itself to low growth for at least the next few years and concentrate on cutting public expenditure to match the lower levels of revenue. On the other hand the Economic Planning Agency under Mr Toshio Komoto, with whom the Chancellor had a meeting at OECD, says the government should borrow more and spend more.

The package of measures relating to import tariffs and quotas announced at the end of May has been received without great enthusiasm by Japan's trading partners.

Italy

The Italian government has at last succeeded in obtaining parliamentary legislation of the core of its 1982 budget, but Signor Spadolini has lost his fight to hold the PSBR to 50 trillion lire, and the government estimates the PSBR will be at least 60 trillion.

The Italian employers' association has announced its intention of withdrawing from the country's wage indexation agreement with effect from next January. Strikes and demonstrations have erupted on a large scale in protest against the decision. Wage negotiations due to be held this year on three-year contracts for 10 million workers have not yet begun in earnest; they will now take place in a highly charged atmosphere.

RECENT DEVELOPMENTS

Output and unemployment

Although there are no clear signs of a general recovery in the major industrial countries, real GNP is estimated to have risen in Germany in the first quarter. In the US, where output fell 1% in the first quarter, prospects may have brightened slightly with the news that the index of leading indicators rose in April for the first time in a year. Industrial production in the first quarter rose in Germany and Italy but fell in the USA, Canada and France; the growth of output in Japan halted, at least temporarily.

2. Seasonally adjusted unemployment now averages around 8% of the labour force in the major 7 industrial countries; it is now rising strongly in North America but more slowly in Europe. Japanese unemployment edged up slightly in March but still remains at only 2.3% of the labour force (1.3 million people).

Prices

3. Helped at least temporarily by the fall in US interest rates late last year and the fall in oil prices earlier this year consumer prices in the major 7 have rise at an annual rate of 6% in the latest period, while the year on year rate remains around 8%. The rate of increase in earnings in France (16%) and Canada (13½%) is high and rising. Elsewhere it is falling. A fall in food prices pushed commodity prices in SDR terms down 1½% in the first three weeks of May. Spot crude oil prices have fluctuated recently but the overall trend has been upwards; they have reached levels at, or not far short of, OPEC term prices. OPEC's shared reductions in output have been an important factor.

Financial

4. Half way through the year, US monetary growth is significantly above the targetted 2½-5½% annual increase: by mid-May M1 was an annualised 7.7% above the November base. Germany's Central Bank Money outstripped its 7% target growth in the five months to April.

5. Some US banks lowered prime interest rates $\frac{1}{2}\%$ in mid-May but money market rates began to harden towards the end of the month following Congress's failure to agree a budget resolution. The earlier downward trend in the dollar was reversed. Simultaneously markets were also disturbed by speculation in Bonn and Paris over the possible withdrawal of the French franc from the EMS - fuelled in part by remarks made by President Mitterand to American journalists.

6. The improvement in current balances in Japan and Germany was halted in the first quarter with a reduction in the Japanese surplus and Germany returning to deficit. Japan, however, returned to strong surplus in April. The US was in strong surplus ($\$3.8$ bn in Q1) but Italy and France remained in deficit (the latter showing signs of worsening).

POLICY DEVELOPMENTS

7. United States: Budget-making has been stymied by the House of Representatives' rejection of draft budget proposals which would produce a deficit of $\$116$ billion ($3\frac{1}{2}\%$ of GDP) for fiscal 1983, beginning on October 1. The Fed appears to have eased credit conditions in recent weeks - possibly in the aftermath of the Braniff and Drysdale collapses - but has countered Administration concern about too rapid M1 growth by claiming that the recent bulges are likely to be temporary.

8. Germany: The expenditure side of February's Joint Initiative' to stimulate investment and employment passed into law but the 1% increase in VAT from July 1983 that was to finance it has been rejected. The new Finance Minister, Herr Lahnstein, has said that on 16 June the Cabinet will decide on the 1982 Supplementary Budget and the draft 1983 Budget, both of which will be presented to Parliament in early July. Although this year's Federal deficit will probably exceed the planned DM 26.8 billion Schmidt and Lahnstein seem determined it should not exceed DM 30 billion. The general easing of credit conditions was symbolised in the replacement of the Special Lombard (official lending) rate by the normal Lombard system on 6 May.

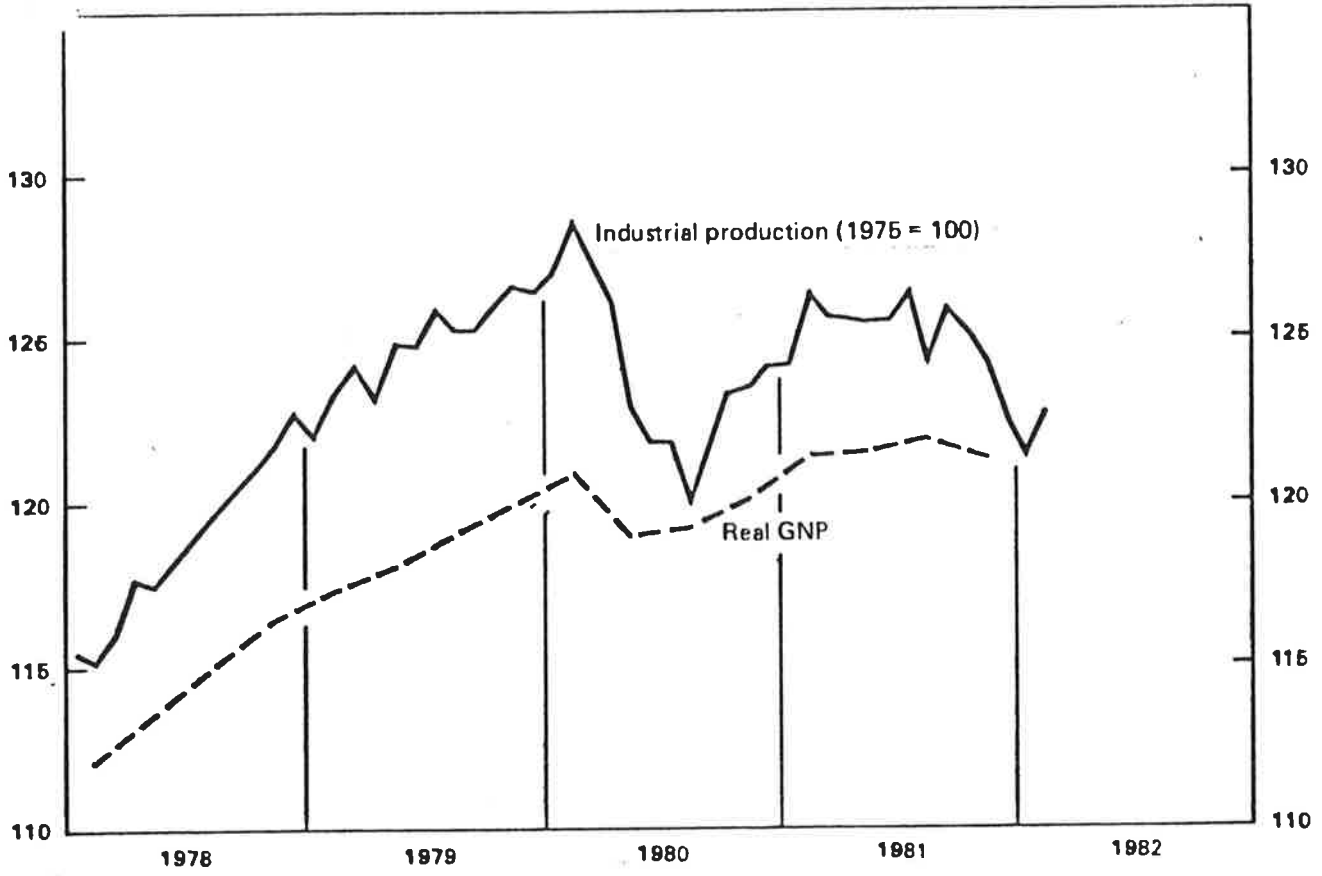
9. France A supplementary budget is passing into law. This raises the basic rate of VAT by 1% to 18.6% but lowers VAT on certain basic foods and reduces local company tax. The measures were announced as part of a fiscally balanced economic package by the Council of Ministers on 12 May in which the revenue gain from the VAT increase would be spent by the newly nationalised industries in a major investment programme to which the newly nationalised banks have also been directed to contribute. More important changes in economic policy have been foreshadowed in public statements by the Prime Minister and several of his colleagues calling for "rigour and realism" in the face of economic difficulties. Views long associated with M Delors are gaining ground.

10. Netherlands: The Labour party has withdrawn from the governing coalition and a new minority government was sworn in on May 29, consisting of Mr Van Agt's Christian Democrats and the Democrat 66 party. The government will rely on passive support from the Liberals (conservatives) to enable it to make controversial cuts in planned public expenditure, in the hope of winning a probable general election on September 8.

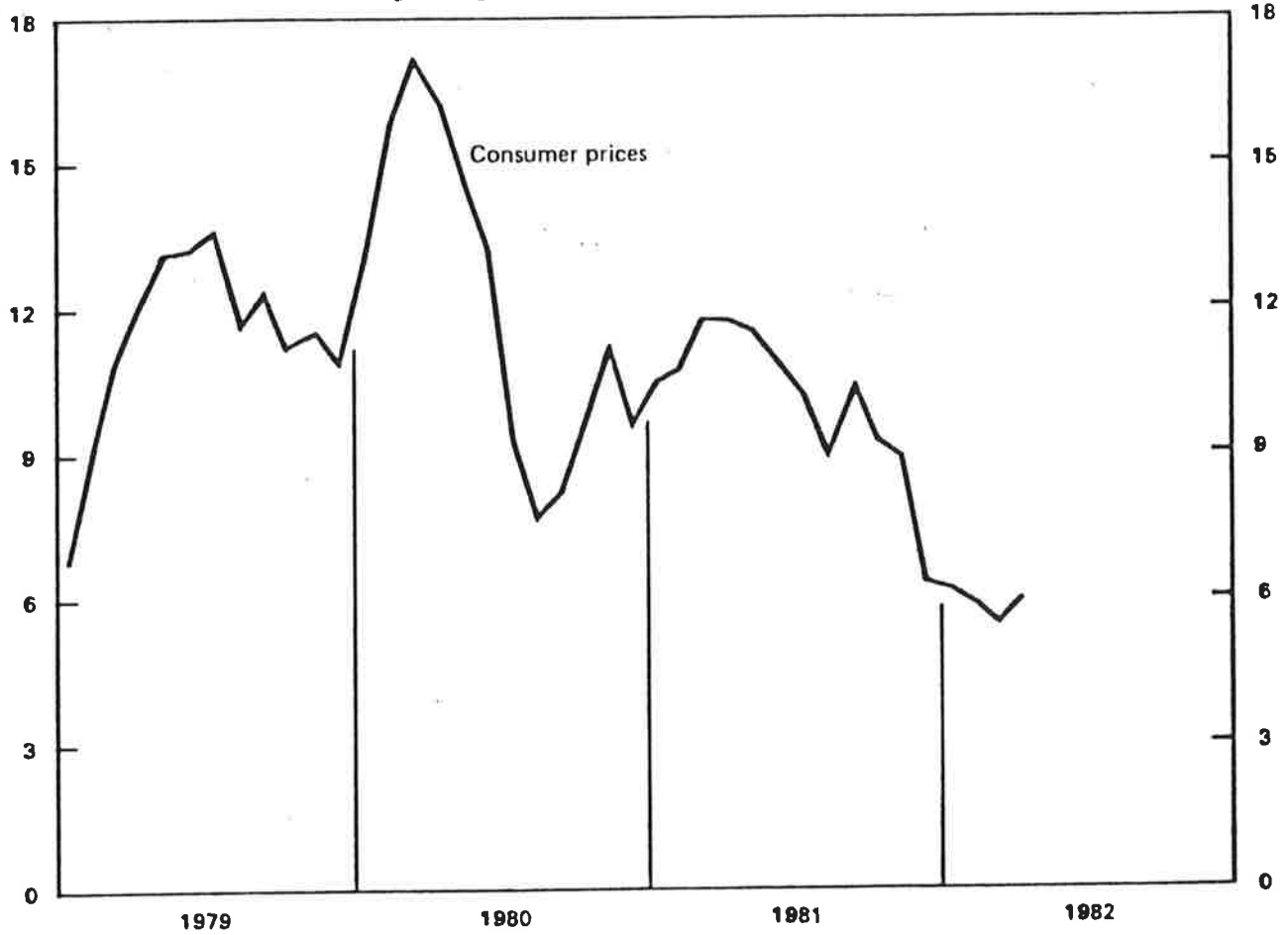
11. Italy: The core of the 1982 Budget was passed at the end of April but Sig Spadolini has probably failed to keep the PSBR to the Finance Bill's figure of 50 trillion lire, and an adjustment budget will be necessary later this year. The latest (government) estimate of the PSBR is 60 trillion lire (13% of GDP).

12. Japan: Lower than planned revenue growth has augmented the likely central government deficit for 1982; this was caused by the halt in the domestic economy's growth earlier this year and has prompted the government to a modest acceleration of public works programmes. To head off criticism at Versailles a package of tariff abolitions, cuts and increased import quotas was announced at the end of May.

Major 7 OECD Countries
1975 = 100

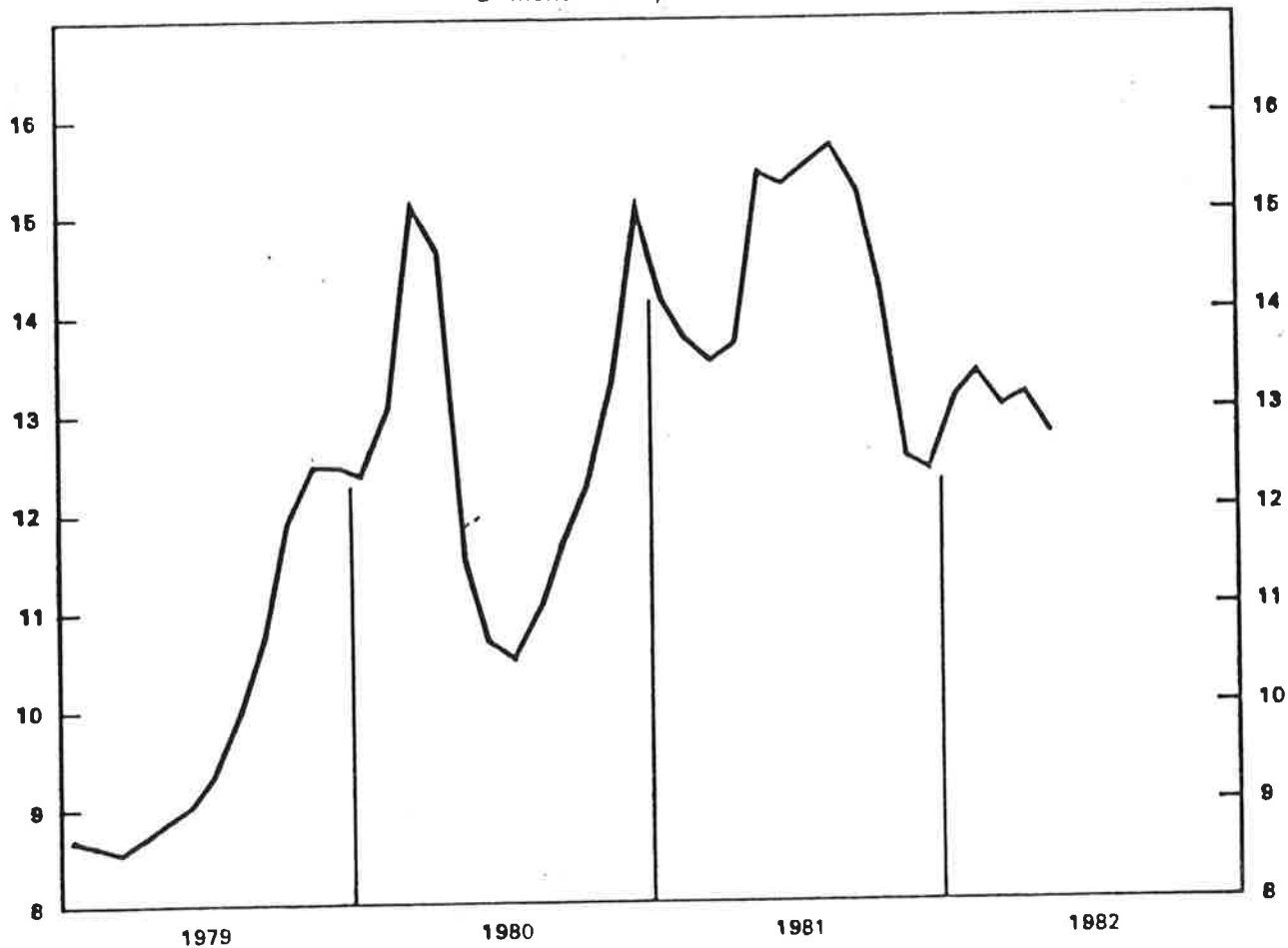


Percentage change over previous three months at an annual rate

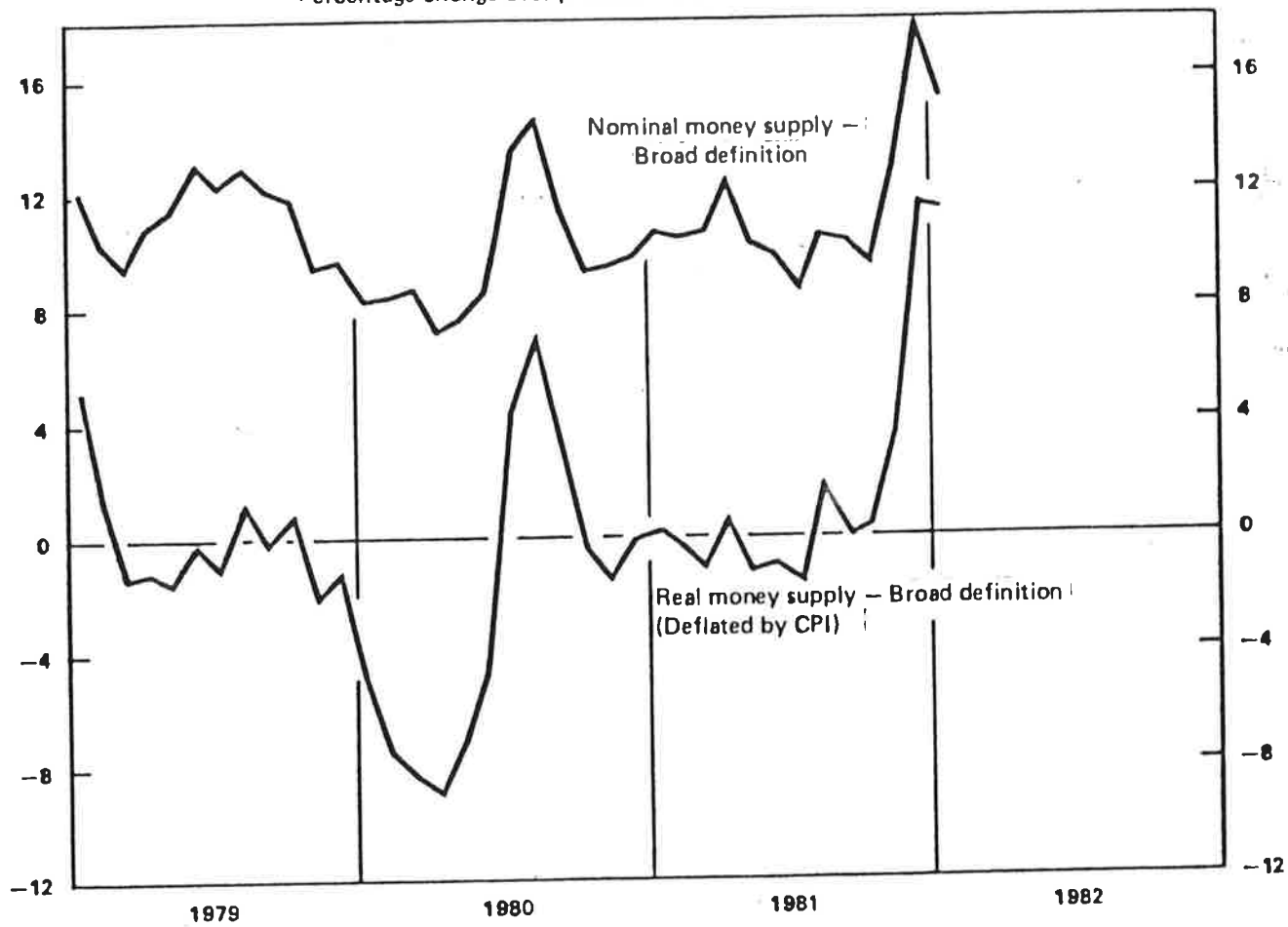


Major 7 OECD Countries

3-month money market rates



Percentage change over previous three months at an annual rate



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SHORT-TERM INTEREST RATES

ROSH T Weights	1981				1982			Latest available 31 May			
	1980	1981	I	II	III	IV	I		April	May	
Canada	.021	13.1	18.3	17.08	18.45	20.63	16.99	15.26	15.75	15.36	15.65
US	.345	13.1	15.8	15.81	16.76	17.34	13.22	14.32	14.34	13.39	13.25
Japan	.191	10.9	7.4	8.24	7.15	7.22	6.98	6.41	6.55	6.8	7.09
Germany	.197	9.5	12.1	11.37	13.14	12.76	11.19	10.18	9.34	9.14	9.15
France	.145	12.2	15.0	11.99	16.36	17.71	15.88	15.15	16.42	16.34	16.25
Italy	.101	17.6	20.2	18.01	20.30	21.19	21.23	21.33	20.84	20.88	20.88
Major 6		12.3	13.8	13.2	14.5	15.0	12.9	12.84	12.85	12.52	12.52
UK		16.7	13.9	13.35	12.48	14.33	15.63	14.42	13.81	13.44	13.44

The pattern of short term interest rates developments continues to be shaped predominantly by events in the US (viz the perceived inconsistency between monetary and fiscal policies). Significantly, Japan did not follow most Europeans last year in 'locking in' its rates to those in the US. Recent figures for 1982 show some modest attempts at 'decoupling' in Germany and the UK with some upward movement in Japan.

REAL GROSS NATIONAL PRODUCT(percentage changes)

	1980 GNP Weights	1980	1981	1981*				1982*	OECD Forecast 1982 on 1981 (December Outlook)
				I	II	III	IV	I	
Canada	.04	0.0	3.0	3.9	5.8	-3.4	-2.1		1
US	.42	-0.2	2.0	8.6	-1.6	1.4	-4.5	-3.9	‡
Japan	.17	4.2	2.9	3.0	4.8	3.0	-3.5		3‡
Germany	.13	1.7	-0.2	1.1	-1.2	3.8	-1.2		1‡
France	.10	1.1	0.5	-1.6	5.1	0.3	5.2		2‡
Italy	.06	3.9	-0.2	3.3	-4.1	-6.6	10.6		1
MAJOR 6	.92	1.3	1.6	4.8	0.5	1.2	-1.7		1
UK	.08	-2.4	-2.8	-2.3	-1.1	1.5	1.5		‡
MAJOR 7	1.0	1.0	1.2	4.2	0.4	1.2	-1.4		1

* On previous quarter at annual rate

The recovery in activity since mid-1981 has been hesitant and uneven. A sharp drop in export volume was mainly responsible for the fall in Japan's 1981 Q4 GNP. Activity early in 1982 remains especially weak in the US, Canada. In Europe growth in Germany may have picked up in 1982 Q1 (industrial output grew substantially), whilst growth in France may have slackened.

CONSUMER PRICES(percentage changes)

	1980 Consumers Expenditure Weights	1981						1982					Latest month on same month in 1981
		<u>1980</u>	<u>1981</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>April</u>	
Canada	3.70	10.1	12.4	12.7	13.3	12.7	11.3	10.4	9.2	10.4	11.5	10.4	11.3
USA	43.58	8.5	10.4	10.7	10.3	10.8	8.8	4.7	6.0	5.1	2.7	3.3	6.6
Japan	15.82	8.0	4.9	4.2	5.2	3.8	2.8	2.2	2.8	3.5	0.6	2.1	3.0
Germany	11.74	5.5	5.9	6.1	8.1	6.1	5.0	5.4	5.8	5.4	4.8	5.1	5.0
France	10.73	13.3	13.4	12.0	13.1	15.3	15.1	12.7	13.0	12.5	12.6	12.4	14.1
Italy	6.32	21.2	19.3	22.9	20.3	15.2	16.2	18.1	17.5	19.1	17.8	15.4	15.6
MAJOR 6	91.89	9.5	9.9	10.1	10.3	9.9	8.7	6.4	7.2	7.0	5.2	5.5	7.4
UK	8.12	18.0	11.9	8.7	15.2	13.8	8.6	8.5	9.3	7.8	8.4	10.8	9.4
MAJOR 7	100.0	10.2	10.1	10.0	10.7	10.3	8.7	6.6	7.4	7.1	5.5	5.9	7.6

*Over previous six months at annual rate

Inflation has slackened markedly since mid 1981. The sharpest improvement has occurred in the US where weakening demand, wage moderation and weak commodity prices have been complemented by the strength of the dollar. In Europe - with depreciating exchange rates - the improvement has been rather less marked.

EFFECTIVE EXCHANGE RATES1975 = 100

	1980	1981	1981				1982			Latest available June 1
			QI	QII	QIII	QIV	Q1	April	May	
Canada	84.5	86.9	84.7	86.9	87.9	88.2	88.4	88.4	86.9	86.7
US	93.9	105.7	98.6	105.5	111.2	107.4	111.7	115.4	112.9	115.4
Japan	126.5	142.9	146.7	143.1	140.3	141.7	139.3	135.7	137.7	135.4
Germany	128.8	119.3	111.9	118.2	116.5	122.5	121.8	123.5	125.2	124.1
France	94.4	84.4	88.0	84.5	82.8	82.1	80.0	78.8	80.0	79.4
Italy	67.2	58.3	61.6	58.3	57.2	55.9	55.0	54.1	54.3	54.2
UK	96.1	94.9	101.8	97.8	90.5	89.7	91.1	90.0	89.9	90.5

After some fall in 1981 Q4 the dollar had resumed its climb in 1982 on the back of increasing interest rate differentials. The Yen fell early this year but has firmed more recently, partly reflecting higher domestic interest rates. The strength of the Deutschmark so far this year probably owes much to favourable developments in fundamental factors (unit labour costs, current balances) since the authorities have sought to reduce interest rates.

UNEMPLOYMENT

(Percentage rates, seasonally adjusted)

(Annual figures - OECD definition; quarterly/monthly figures - national definition)

	1980 Labour Force Weights	1981	1981				1982		OECD forecast-1982 (December outlook)
			QI	QII	QIII	QIV	Q1	April	
Canada	4.23	7.5	7.3	7.2	7.6	8.4	8.6		8½
USA	38.99	7.4	7.4	7.4	7.4	8.4	8.8	9.4	9
Japan	20.62	2.2	2.2	2.3	2.2	2.2	2.2	2.2	2½
Germany	9.74	4.3	4.7	5.3	5.9	6.6	7.3	7.5	6
France	8.47	7.6	8.6	9.2	9.6	10.1	10.4	10.6	8½
Italy	8.32	8.3	8.7	8.4	8.8	9.6	10.4		9
MAJOR 6	90.37	6.0							7
UK	9.63	11.2	9.6	10.4	11.1	11.5	11.8	11.9	12
MAJOR 7	100.0	6.5							7½

*Not seasonally adjusted

Unemployment rates have continued to rise into 1982 (with the notable exception of Japan). The sharpest rises have occurred in the US and Germany (in the latter case prompting a limited package of measures to boost investment). Short term growth prospects do not promise much more than a moderation in the rate of increase in most countries during the rest of 1982.

CURRENT BALANCES

(\$ billion seasonally adjusted)

	1980	1981	1981				1982		OECD forecast -year (December outlook)
			QI	QII	QIII	QIV	QI	April	
Canada	-1.6	-5.4	-1.2	-1.6	-2.1	-0.5	0.1		-10½
USA	3.7	6.6	3.3	1.2	2.2	-0.1	3.8		3
Japan	-10.8	4.7	-0.8	1.9	2.5	1.1	0.9	1.0	17
Germany	-16.3	-7.8	-4.5	-2.6	-2.2	1.5	-1.8	-0.7	1½
France	-7.8	-7.5	-2.2	-0.4	-2.2	-2.7	-2.2	-1.3	-6½
Italy	-9.8	-8.0	-4.5	-2.0	-0.6	-0.9	-3.1		-5
MAJOR 6	-42.7	-17.4	-9.9	-3.5	-2.4	-1.6	-2.5		-½
UK	7.2	16.2	6.8	4.2	2.4	2.8			2½
MAJOR 7	-35.2	-1.2	-3.1	0.7	0	1.2			1½

In 1981 the major economies sharply reduced their combined deficit (as OPEC's current account surplus deteriorated); Japan swung into a strong surplus, Germany halved its deficit and the US doubled its surplus. Japan moved back into strong surplus in April after the fairly modest surpluses around the turn of the year. In Europe the slowly emerging surplus in Germany contrasts continued weakness in France and Italy.

NARROW MONEY SUPPLY

(Percentage changes seasonally adjusted - end period)

		1981*						1982*				
		1980	1981	QI	QII	QIII	QIV	QI	Jan	Feb	Mar	April
Canada	M1	10.7	-0.1	6.2	-4.6	-10.6	10.2	-4.0	25.3	26.2	-4.0	
USA	M1	6.6	6.4	9.9	3.8	2.6	9.3	6.8	15.3	10.4	6.8	0.8
Japan	M1	-1.5	10.1	5.3	15.3	7.9	11.3		-5.3	-4.9		
Germany	CBM	5.3	3.0	4.1	4.0	3.8	0.2	8.8	3.0	8.1	8.8	9.6
France	M1	6.8	14.9	10.6	18.6	27.4	4.2					
Italy ⁺	M1	13.4	9.9	-11.4	2.5	-5.0	69.2		46.8			
MAJOR 6		5.6	7.5	6.8	7.1	5.4	11.8					
UK	M1	4.0	9.1	15.8	14.8	5.1	1.4	2.7		6.1	2.7	
MAJOR 7		5.5	7.6	7.5	7.7	5.4	11.0					

*percentage change on three months earlier at annual rate.

⁺not seasonally adjusted

Growth has been erratic but an expansionary trend can be detected in this year's figures for most countries (especially the USA, with annualised growth above the Fed's 2½-5½ target range for the period since last November). This may in some cases reflect increased transactions demand as activity hesistantly recovers.

BROAD MONEY SUPPLY

(Percentage changes seasonally adjusted - end period)

		1980	1981	1981*				1982*			
				QI	QII	QIII	QIV	QI	Jan	Feb	Mar
Canada	M3	10.6	20.0	13.5	6.5	27.6	34.2	11.1	28.3	17.2	11.1
USA	M2	9.0	10.0	11.3	9.7	8.9	10.3	9.6	12.0	8.6	9.6
Japan	M2	7.8	10.5	8.9	10.1	12.7	10.3		8.3	9.1	
Germany	M3	6.3	4.8	4.5	9.4	4.5	1.0		9.3	10.0	
France	M2	9.7	11.5	16.5	17.0	10.2	2.8				
Italy ⁺	M2	12.7	9.8	-7.8	-0.7	-1.6	61.6		42.0		
MAJOR 6		8.8	9.9	9.3	9.7	9.3	12.6				
UK	£M3	19.1	13.4	6.8	18.6	19.2	9.5	7.2		7.1	7.2
MAJOR 7		9.6	10.2	9.1	10.4	10.1	12.1				

*percentage change on three months earlier at annual rate.

⁺not seasonally adjusted

In spite of higher interest rates broad money growth was generally greater in 1981 (end year on end year) than in 1980. Towards the end of 1981 growth was abruptly checked in Germany, France and the UK, however. So far this year positive real money growth appears to have continued (especially in the US, Germany and Japan).


cc. Secretary of State
Chancellor of Exchequer
Mr Fall
Mr Kerr
Sir R. Armstrong
Sir K. Clegg
Lord Bridges
Mr Whitmore
Mr Coles
Mr Ingham
Mr Funn
Mr Jay

June 5, 1982

Mr. Bullard:

I appreciated the opportunity to discuss
communique language on East-West economic relations
this afternoon. However, on further reflection, we
have decided that the attached language is preferable
to the draft text with which we concluded our
talks. Secretary Haig will thus be distributing the
attached for discussion with Foreign and Finance
Ministers this evening.

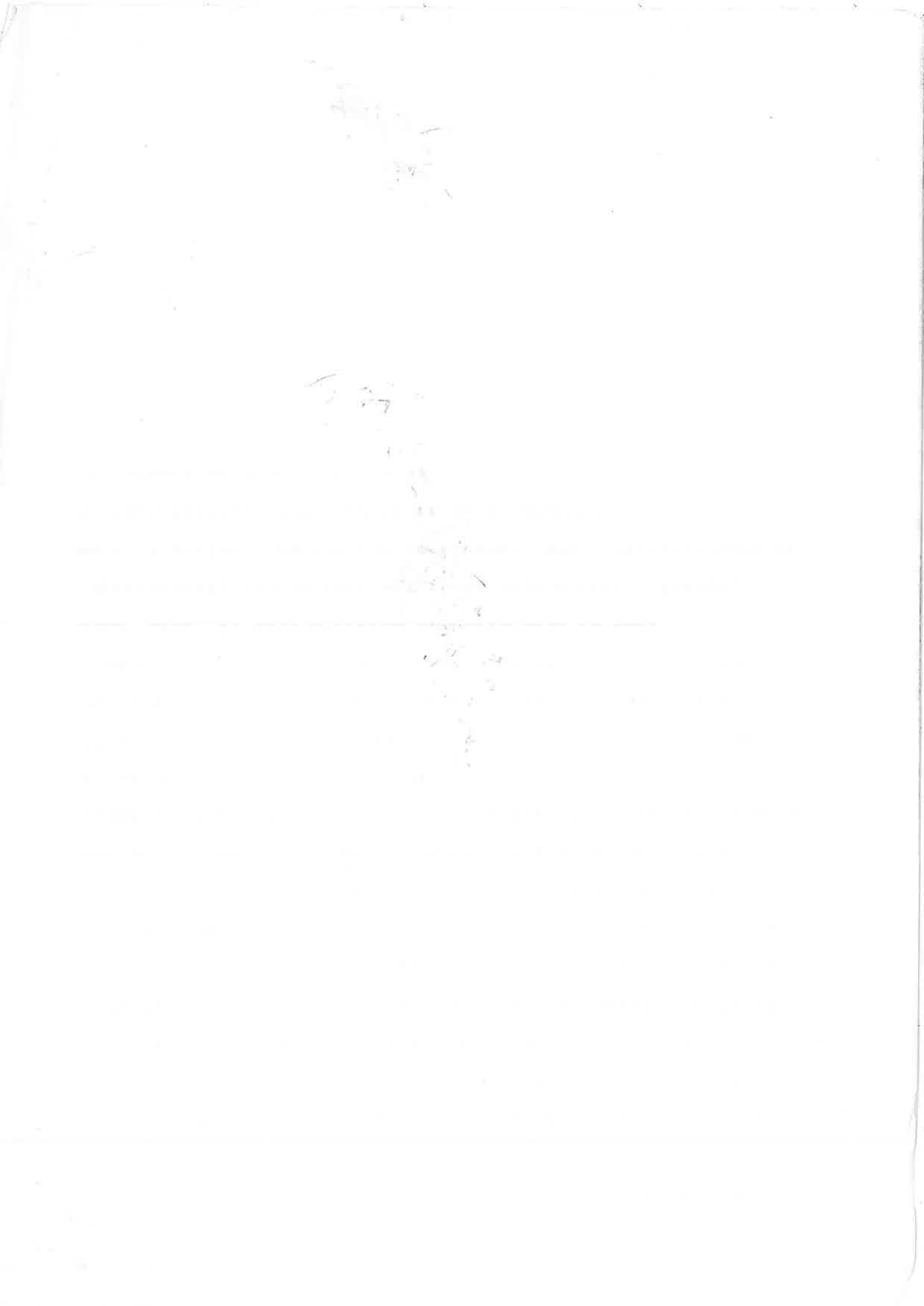
JD 5/6

Sincerely,

Richard Burt

Attachment:
as stated

DRAFT COMMUNIQUE LANGUAGE ON EAST-WEST ECONOMIC RELATIONS

We agreed to pursue a prudent economic approach to the USSR, consistent with our political and security objectives. This includes actions in four key areas. First, building on the January high-level meeting of the COCOM, our senior officials will work together to strengthen the COCOM control system and national enforcement of security control arrangements. Second, we will exchange information in the OECD on all aspects of our economic, commercial, and financial relations with the Soviet Union and Eastern Europe. Third, taking into account existing economic and financial considerations, we have agreed to limit the flow of officially-supported credits to the USSR in such a way as to insure that they are provided on a sound economic basis, and to reduce the budgetary costs associated with them. We have directed our officials to work expeditiously to put this agreement into effect. Fourth, we will actively pursue the development and diversification of Western sources of energy in order to minimize dependence on less reliable sources.



PROJET DE DECLARATION. RELATIONS ECONOMIQUES EST-OUEST

Nous sommes convenus de conserver à l'égard de l'URSS et des pays d'Europe orientale, une attitude prudente et diversifiée dans le domaine économique, correspondant à nos intérêts politiques et de sécurité. Ceci comporte des actions dans quatre secteurs clés.

En premier lieu, et conformément aux conclusions de la réunion à haut niveau du COCOM, tenue en janvier, nos hauts fonctionnaires travailleront ensemble à l'amélioration du système de contrôle du COCOM et à la mise en oeuvre nationale des mesures de contrôle de sécurité.

En second lieu, nous échangerons des informations au sein de l'OCDE sur tous les aspects de nos relations économiques, commerciales et financières avec l'URSS et l'Europe orientale.

En troisième lieu, et compte tenu de considérations économiques et financières actuelles, nous sommes convenus de gérer prudemment les relations financières avec l'URSS et les autres pays d'Europe orientale, afin de s'assurer qu'elles sont conduites sur une base économique saine. Le développement des relations économiques et financières sera soumis périodiquement à une surveillance a posteriori.

En quatrième lieu nous poursuivrons activement le développement et la diversification des approvisionnements énergétiques de nos pays, de façon à réduire la dépendance à l'égard de sources trop peu nombreuses (1).

(1) Le quatrième principe trouverait mieux sa place dans la partie de la déclaration consacrée à l'énergie.

An. A

On technology, perhaps the point that public opinion needs convincing not to resist but to accept and welcome change.

You could also say that there has been some progress in agreeing on the basis for launching global negotiations; but I think that it would be better and safer kept until tomorrow.

Robert



Geoffrey Howe
—

TECHNOLOGY EMPLOYMENT AND GROWTH

*REPORT BY
Mr. FRANÇOIS MITTERRAND
PRESIDENT OF THE
FRENCH REPUBLIC
AT THE SUMMIT OF THE
INDUSTRIALIZED COUNTRIES*

*CHÂTEAU DE VERSAILLES
JUNE 5, 1982*

We, the representatives of seven of the richest countries in the world, find ourselves gathered here to examine together, over the next two days, the current economic and political situation. It is not our task to decide alone the future of the world, nor is it to defend our own interests at the expense of those not here among us. However, in our eyes and in the eyes of the world, the means that we possess vest in us a collective responsibility both for the present and for the future. It is incumbent on us to join in reflection in order to lay down the major lines of a concerted action in defence of the values we hold in common.

Let us first examine the facts.

Our seven countries have not been spared the consequences of the crisis from which the world is suffering. Moreover, the situation is not improving. Unemployment has touched all of our countries: since the Ottawa Summit, five million men and women have lost their jobs. Production, investment and trade are sluggish, protectionism poses a threat, currencies are falling into a state of near-permanent disorder and interest rates have reached levels that preclude any job-generating growth. Self-interest is becoming the rule.

In the countries of the South, conditions of survival have worsened: nearly 30 million human beings have died of starvation.

Yet, if we consider it closely, the balance sheet for the year is not entirely negative, and encouraging signs have appeared: inflation has slowed down, productivity has improved; in some countries, and France among them, growth has resumed and employment is no longer on the increase.

Let us now look ahead. The future hinges on our political determination. We can surmount the crisis by having faith in our own future, by rejecting the inevitability of the crisis which stifles so many individuals of talent and creative capacity, and by uniting our efforts.

The scope of the transformation required, however, must exceed the individual efforts made by countries for themselves.

The crisis extends far beyond national borders: thus it is only through joint action that we shall be able to control this transformation, and prepare for the future.

In a perfect world, the international monetary system would be stable, protectionism would be banished, each nation would maintain balanced trade relations with others, no monopoly would interfere with the dynamic of the competitive marketplace, interest rates would be low, and the North and South would unite in their efforts towards the mutual fulfilment of their cultures and liberties. In this manner, the economic requirements of the development of a strong alliance would be met. Our joint action would be easy to frame.

Such is not the case today. Thus, we must reflect on ways to organize balanced growth, reduce unemployment, stop protectionism, build a stable monetary system and provide the South with the means for its own development.

In the meantime, should we feel powerless to attain these goals? Certainly not. This would be a hasty and incorrect assessment of the situation. Our duty is not only to examine the global situation in order to resolve the problems created by the crisis, and, to this end, agree on its nature and causes, but to explore the vast fields of endeavour open to our common effort. Among the latter, science and technology, whose rapid development are revolutionizing our societies, threaten to turn against man, their creator, if he does not master them properly.

Undoubtedly, many private and public firms, and each of our countries, have already devoted time to this question, and France among them. But, although we are aware of what is at stake in the dawning industrial revolution, are we sure to have all the winning cards in our hand? We lack the master trump, which may only be had through coherent and concerted action. This is a subject worthy of your reflection.

MANKIND'S VITAL SPIRIT PROPELS IT TOWARDS NEW FIELDS OF DEVELOPMENT

Where does technological progress stand today, and in what ways will it be able, over the next ten years, to resolve the crisis we are experiencing? In the past five years it has accelerated rapidly in the fields of biotechnology and electronics. The new spheres seem limitless, and include time, space and organic matter.

1) BIOTECHNOLOGIES SHOULD SUCCEED IN REDUCING FAMINE, DISEASE AND OVERPOPULATION.

Tomorrow, the combined use of biochemistry, microbiology and genetic engineering will open the way to industrial micro-organism production, and will transform entire economic sectors. The latter will include not only the chemistry and pharmaceutical sectors, but food and energy as well.

The food sector will derive the greatest benefits from biological discoveries in the medium term. Their application will increase yields considerably, and will save on fertilizers, which are costly to produce in terms of energy. Thanks to these technologies, a new agrofood industry is in the making, which will revolutionize all facets of agricultural production.

New microbiological techniques will allow for protein savings in agriculture. This development, which will allow proteins to be used primarily for human consumption, will furnish new hope for an assured food supply in the Third World.

2) ELECTRONICS IS MULTIPLYING PRODUCTIVE AND CREATIVE CAPACITIES.

Electronics is multiplying our economies' productive and creative capabilities. Micro-electronics, new composite materials and optical fibres will radically transform such established industries as telecommunications, transport and the mechanical industry, while creating new ones, such as robotics and office automation.

This is already a reality: in ten years, the capacity of integrated electronic circuits has increased a hundredfold, while their cost has dropped a thousandfold. This trend will continue to progress rapidly. The development of bulk storage and the use of laser videodisks improve data processing performance, reduce production costs and create new consumer goods. Products which were non-existent in 1975 are now available to an increasing number of users (personal computers, videotape recorders, videodisks) and their market will be ten times larger in 1990.

Industrial robotization has begun to be used in our countries. Thousands of highly sophisticated robots are in use throughout the world. They increase productivity in many operational sectors, including the automobile, electrical, electronics and nuclear industries. Before the end of this decade, robot inventory will increase ten to twelvefold, and they will perform increasingly complex tasks, thus changing labour organization, and restating the employment question in radically different terms.

3) ENERGY TECHNOLOGIES WILL DEVELOP RAPIDLY OVER THE NEXT TWENTY YEARS.

Technologies such as bioenergy, geothermal and solar energy, will contribute substantially to resources already in use. Nuclear

energy, carefully controlled, will modify the operations of several key sectors in our economies, and progress made in the field of chemistry will alter techniques of exploration, extraction, transport, storage and use of hydrocarbons.

4) LASTLY, NEW SPHERES ARE OPENING UP TO OUR INTELLIGENCE.

I shall limit myself to only a few examples here.

- *Oceanographic exploration will allow us to discover and extract deposits of heretofore unknown natural resources, energy and minerals.*

- *Space exploration will multiply our means of communication. In ten years time, several hundred satellites will permit a complete earth observation system to be established and advanced communications systems to be developed.*

- *These new communication technologies will usher in a new form of civilization. The proliferation and interdependence of electronic information systems will influence our everyday lives, ways of communicating and value systems. In ten years, tens of millions of personal computers will be in use. Videotape recorders, videocameras and cable television will become familiar household objects. With "electronic banking" permitting long-distance transactions to be carried out, the everyday activities and traditional behaviour patterns of the consumer will be modified.*

Communication is already becoming worldwide. The same television series, political and sports events, are viewed in hundreds of countries.

The modern orientation of the traditional means of knowledge and information

dissemination is already precipitately changing inter-personal relations, as well as those between different social groups, nations and regions of the world.

How will these changes, among many others, transform the challenges facing us?

The technological revolution, by increasing our control over matter, time and space, shapes the evolution of our economics, life-styles, thought patterns and systems of reference.

It will have a positive, or dangerous effect on unemployment, inflation and growth, according to the way in which it is managed.

Without further delay, and in the interests of democracy and peace, we must draw on the immense resources of knowledge.

DRAWING ON THE IMMENSE RESOURCES OF THE HUMAN INTELLIGENCE

Faced with these upheavals, wait-and-see attitudes and self-interest would only exacerbate the disturbances, hardships, violence, imbalances and dissensions. Each of us must do everything in his power, at home, and through broad economic cooperation, to guarantee that progress will be a factor for peace and prosperity, to avoid that it produces, as the case has been in the past, unemployment and recession. I offer you five propositions for reflection and action.

1) ACHIEVING FULL EMPLOYMENT WHILE CONTROLLING THE CONTENT OF WORK

Technological progress cannot spread in a context of high unemployment, which creates a pessimistic environment, incites isolationist patterns, and destroys confidence. This is why the fight against this scourge, by our concerted economic policies, is a top priority matter.

Many fear that progress only aggravates the unemployment that assails us. After due consideration, I can assure you of my medium-term optimism.

Progress is only a danger for those who cannot dominate the transition which it implies between declining activities and new ones. For those who can, it is an opportunity.

It is certainly true that the quantitative effect of progress on employment is difficult to assess. The technological revolution, which creates jobs through the development of new sectors and the preservation of older ones, also des-

troys jobs, through the automation of certain activities.

By 1990, 20% of mass production will be carried out by automatic assembly machines, eliminating many industrial tasks, especially the most tiresome. Tertiary activities such as banking and insurance will also be affected. On the whole, several million jobs could be destroyed by 1990 in the industrialized countries alone.

We must therefore devise the means to manage this transformation, to make sure that technology will not destroy jobs at a faster rate than it can create them. We must reduce the period necessary for that unavoidable transition.

If we are prepared, the new technologies will induce the creation of as many jobs, if not more, than they eliminate, not only by the production of new industrial goods, but also by related services (marketing, engineering, consulting, training, leisure activities, etc.), provided we succeed in organizing them, and through the repercussions which they undoubtedly will have in sectors such as metallurgy, iron and steel, mechanical engineering and chemicals.

Therefore the problem we face is the orderly and rapid substitution of new jobs for old. I shall make a number of suggestions about this matter.

This substitution cannot be only quantitative. It will be accompanied by sweeping changes in the substance and organization of work. It will impart a new meaning to the reduction of the workweek. An economic, social and cultural need, this reduction will become one of the instruments of the economic policy, a counterpart to the gains in productivity.

We know that the risks of a loss in professional qualifications, of a uniformization of the tasks, of isolation, are worrying the workers, and these fears are quite well-founded. Should we fail to elucidate the means by which our societies will adapt to the technological transformations, we risk keeping our nations in a state of chilled rejection of progress, as shown by the slowdown in our investments.

This is why we must invest together in anything that affects the work environment and the adaptation of knowledge, in order that social progress can accompany technological progress.

In this perspective, I feel that each of us should observe three guidelines.

- Sustaining demand to stimulate the growth of markets for the new consumer goods and services incorporating these technological advances.

- Stabilizing interest rates and exchange rates. I shall not dwell on this, because this will be the essential subject of the rest of our discussions.

- A greater effort for professional training and mobility. The organization and content of work will, as I have said, be determined by the spread of new technologies. The practice of several occupations during a working life will be one of the salient features of our future societies.

On this level, however, nothing has yet been accomplished. In the most developed countries, the growth of the number of trained engineers and specialists has declined considerably. In 1980, public and private professional training expenditures failed to account for even 1% of our joint Gross National Product. What seemed adequate in a context of sustained expansion and of steady work organization is

now inapt for organizing the mobility of the work force and the spread of knowledge.

This effort is a prerequisite for the undertaking and acceptance of progress by all the working categories.

Without this immense training effort, from which wage-earners of every sector, of every age group, men and women alike, from the top to the bottom of the scale of professional qualifications, must benefit, only a select few will be able to understand and influence the world, at the cost of a prodigal waste of the creative capacities of the rest.

We must therefore launch a vigorous policy of training and adaptation of our know-how.

The content of work will change qualitatively and quantitatively, in the direction of improved working conditions, provided we develop the means to achieve this, especially by furthering and developing cooperative action with the workers and their organizations.

This movement is only feasible if education, culture and the environment accompany scientific and economic progress, by giving it a soul, a plan, a meaning.

2) STIMULATING THE DYNAMICS OF INDUSTRY.

The basic foundations exist. It is becoming possible to overcome the recession, to staunch the loss of productivity, and to open new markets.

- In 1990, the central activities in the technological revolution (integrated circuits, office automation, robotics, new telematics applications, new mass consumer goods, space, biological engineering, offshore, energy and new

materials) will treble their relative share of production in our countries.

- Simultaneously, the high technology industries (telecommunications, aerospace, medical and pharmaceutical products, energy, chemicals, transport) will account for nearly a third of the industrial production of the Seven. They will constitute an important growth factor, together with all the activities involved in the operation or utilization of the goods and services produced by these sectors (training, research and development, marketing, planning, etc.).

- The rapid automation of industrial production should help to achieve productivity gains of over 10 % per year. These gains are a prerequisite for the success of anti-inflationist policies.

To accomplish this, the conditions for a new industrial dynamism must be satisfied: an investment effort and guaranteed competition.

a) Revitalizing the industrial investment effort

Whereas the so-called austerity policies hinder technological progress by discouraging long-term investments that generate new demand, we must now respond to the technological revolution by encouraging private and public industrial investments.

- We have to bring about an unprecedented mobilization of capital for industry and research: this investment effort will mean a very large additional annual levy on the available resources of the international capital market. Our monetary and financial markets will have to comply. It is therefore essential for international interest rates to be reasonable in order to allow this investment to take place, and for our exchange rates to be stabilized by cooperation between the chief currencies, so that an orderly international monetary system can be

rebuilt. This matter will certainly occupy our discussions, and we shall deal with it again this afternoon.

- Owing to their scale and the fact that they can rely on a national plan, public investments and contracts (communications, transport, energy) will perform a driving role. We shall exchange our points of view and can set up a cooperative scheme on this subject.

b) Ensuring competition

Competition is an essential factor for growth and technical progress. However, the problems it will raise are quite different from those with which we are familiar today.

In the field of biotechnologies, for example, since more than one-third of products are manufactured by firms enjoying a world monopoly, the imbalance will become more pronounced.

Similarly, in the field of advanced electronics, eight firms control 70 % of the integrated circuits market. This concentration is to be intensified.

Technological innovations are nevertheless essentially produced by small and medium-sized companies, and this is a good thing. But they fit into an increasingly complex production system, and since the traditional conditions of competition are altered, the flow of trade becomes a source of greater stresses, and power relationships between companies, between regions of the world, and between markets, are exacerbated. We must consider this matter closely, and I shall volunteer a number of proposals for action.

3) FIGHTING AGAINST NORTH-SOUTH IMBALANCES.

The latest technological discoveries must serve the nations of the South. Like the biotechnologies, which I dealt with earlier, they will help materially to reduce their energy and food dependence.

We certainly cannot hide the fact that they will also raise new dangers in these countries, generating other forms of instability and dependence.

Biotechnologies, for example, will develop substitutes for traditional raw materials and energies, incurring the risk of aggravating the condition of poor commodities-producing countries. The development of new materials, and the future mining of polymetallic nodules (cobalt, nickel, manganese, copper), in the absence of a fair distribution of the seabed, will threaten countries which are heavily dependent on ore exports. We must therefore accelerate the transfer of technologies to the countries of the South, while perfecting the organization of world markets.

We must consider not only the means to transfer our technologies to them by suitably adapting them, but also the creation of conditions to encourage the development of technologies that focus directly on their own realities; it is on this condition that the independent development of their agriculture, their industry and their services is possible.

Lastly, although it is in the interest of the industrialized nations for the immense markets of the countries of the South to open up to the technological revolution, science and technology must provide these countries with the conditions for survival in dignity, by protecting and mobilizing their natural resources and their environment: by boosting national energy out-

put, by halting the spread of untillable zones, by stopping the disappearance of plant and animal species and soil depletion, and by fighting against the dramatic causes and effects of an urban concentration which is accelerating at an unprecedented rate.

To achieve this, the resources of the multilateral agencies for aid to technological research must be oriented towards the needs of the South.

I shall suggest the means to enable to countries of the South to accommodate new technologies.

In brief, it is possible for us to make use of scientific and technological research for the full and global utilization of the common heritage of the nations of the North and South.

4) OVERCOMING ISOLATIONIST TEMPTATIONS.

As world trade slows down, products incorporating high technology are occupying a growing share of this trade. We must overcome this contradiction.

Technical progress will offer new opportunities for trade. However, the very nature of high technology products affords protectionism new forms of expression (standards, licensing procedures). Technological development as a whole could, in the short term, trigger withdrawal and isolationism, which oppose the medium-term interests of all countries. It is essential to cooperate to guarantee that protectionism will not eventually triumph.

5) BUILDING A NEW CIVILIZATION.

A new civilization begins at the point where the greater availability of resources serves to liberate mankind from the twofold

constraint of time and distance, affecting interchange and communication. The interrelationship of networks will lead the most diverse societies to communicate with each other, to know and to understand each other better.

The impact of new technologies on urban civilization is still unclear. We shall ensure that the expansion of the means of transport, the proliferation and interdependence of information systems, the laying of cable networks and the implementation of new housing techniques, will make the cities more attractive for all and break the isolation of the countryside.

Herein lies the great adventure, because in the absence of a powerful current of interchange and communication, all cultures and languages will be threatened with uniformity.

In actual fact, communications are becoming more concentrated in all countries. A handful of firms have taken possession of the electronic distribution infrastructures. By dominating them, they influence the traditional media, cinema, press and television. The major part of the new activities in which most of the firms are engaged (information production, storage and processing) implies very large investments, and therefore encourages intense concentration. Already, the two leading image banks supply nearly all the television stations worldwide, more than three-quarters of all press news are supplied by five agencies. If this natural tendency spreads further, by the end of the decade it will mean the control of the world communication industry by some twenty firms.

By cooperating, we can prevent the accumulation and processing of information by a small number of firms and nations possessing the most highly and rapidly developed processing and storage systems.

More generally speaking, the dissemination of information processed and largely controlled by a small number of dominant countries could cause the rest to lose their memory and sovereignty, thus jeopardizing their freedom of thought and decision.

This is why I should like us to reflect on a possible Charter of Communication.

PROPOSALS FOR A CONCERTED DEVELOPMENT OF THE WORLD ECONOMY

What remains for us to do? I would like for us to reflect on a comprehensive set of measures capable of rapidly implementing the principles I have just outlined, for each of our countries individually, and as a group.

I do not ask that you decide upon such a set of measures today, but that at least this indispensable joint action be launched in the coming year.

Barring this, each one of us will withdraw into himself, trade conflicts will worsen, and protectionist practices will establish themselves. No one has anything to gain by this.

The past bears witness to the reality of these dangers. The first phase of each of the two previous industrial revolutions in the West was characterized by rising unemployment, protectionism, and inflation.

During a second phase, in the better prepared countries, the social forces of change prevailed; growth and stability returned, and investment rose.

Today, if we are not careful, we run the risk of witnessing the same sequence of events: the new industrial revolution has already begun to intensify unemployment, inflation, financial problems and inequalities. This trend may last if we do not decide to put an end to it.

Not one of us, despite the differences of opinion dividing us, can resign himself to this. We are all responsible for ensuring that the

transition is carried out as soon as possible. We are equipped to do so, as we can anticipate and organize change, and coordinate the transformation. It is for this reason that I wished to approach this subject with you.

I propose:

- that we launch a concerted programme of selective growth through technology;*
- that we grant equal priority to employment and working conditions;*
- that together we foster the fulfilment of cultures.*

First proposal: launching a concerted programme of growth through technology

The broad field of action open to us may be organized into six major branches:

1) Global targets: fixing them in percentage of GNP for 1985 and 1990 and exchanging our views on national research and development policies, completing this action, if necessary, with sectorial objectives and drawing upon work already completed by international institutions such as the O.E.C.D.

2) Setting a few priority measures for technological cooperation between private and public companies and between nations, in the following areas requiring heavy initial investment: new energy sources, telecommunications, robotics, new materials, composite materials, electronics, artificial intelligence, space, biotechnologies and agricultural technologies specifically designed for the Third World.

An Implementation Committee could be appointed for each project adopted, which would include relevant public agencies from the participating countries. A minimal financial contribution from each country would be established.

3) Innovation should be stepped up in all of its forms by determining useful procedures. We should entail the creation of new firms, cooperation between firms in different countries and the framing of joint policies in opposition to monopolistic practices and to hindrances to competition.

4) Establishing gradually a world technology market (standards, patents).

5) Taking a number of joint initiatives in order to enable the countries of the South to master new technologies. Increasing research and development in areas of particular interest to these countries, essentially education, training, nutrition and health, within the framework of co-development agreements; creating research centres and promoting research personnel exchanges; ensuring the growth of national energy sources through specialized subsidiaries of the World Bank. Finally, the implementation of the guidelines established by the United Nations Conference on Science and Technology for Development will be accelerated.

6) Finally, we should stabilize as quickly as possible the international monetary system, the unpredictability of which is curbing investment. In order to achieve this, we have to search for the ways and means of reinforcing a balanced monetary cooperation between the three monetary poles – Europe, America, and Japan – with a view to returning to stable and economically correct exchange rates.

Preparation for this programme could be based on the methods already used in

different cooperation formulae: the setting up of networks of research centres allowing for wide distribution of information (weather, environmental and oceanographic data), the establishment of common rules and standards, bilateral action within the framework of a multilateral programme (international telecommunications development programme, world weather programme) and “custom-built” project models (UNESCO science programmes).

Second proposal: placing technology at the service of employment and of working conditions

1) By establishing a vast training system designed to manage the job transformations which I discussed, in order to speed up the transition of the industrial revolution. To this end, we should:

- begin in 1983, in each our countries, using our own methods, a specific system for training in the new technologies, such as data processing, biology and the new jobs (telecommunications, biological sciences, engineering, leisure activities), in the following three directions:
 - priority for the training of engineers and specialists;
 - training programmes for the young jobless aged 16 to 18;
 - a programme for the conversion of workers in mid-career to the new technologies.

Request the O.E.C.D. to prepare, in the forthcoming six months, a special exchange and cooperation programme concerning training and conversion methods.

- Request the International Labour Organization to set up an observation post to follow the evolution of the occupations concerned by the new technologies.

2) We must also draw on the new technologies to improve living and working conditions. I suggest the following:

- To intensify cooperation and research on the organization and conditions of work associated with the new technologies, and on the incidence of the new technologies on the duration of the workweek and its possible reduction.

- To set up, prior to the next Summit, a programme to evaluate the experiments – both positive and negative – conducted in the cities, and the effects of the technological changes on urban living patterns, pertaining to cabled cities, new modes of transport and housing.

Third proposal: fostering together the fulfilment of cultures

I suggest directing our efforts at three matters:

1) THE SCHOOL.

The computer revolution is gradually working its way back to the wellsprings of education, to the earliest years of schooling. While they maintain their standard traditions, our teaching systems are in for some rude shocks, and this implies hopes and fears. To cope with these transformations, we should:

- mount a joint effort in order to develop new teaching systems adapted to each country, and elucidate together the means to enable our school systems to keep pace with their environment;

- develop a family of simple data-processing languages for worldwide use;
- act jointly to expand the use of computer in the classroom, in order to familiarize young people very rapidly with the tools of their future everyday-life and with the requirements of their future jobs.

2) COMMUNICATION AND LANGUAGE.

The development of teaching and research in the field of linguistics and communication is indispensable to withstand the powerful trend towards uniformity which I discussed earlier. We could do the following:

- set up, within the United Nations University, a world network linking all the teaching, training and research centres devoted to languages and communication. This network should facilitate the development of the following activities in the different countries concerned: the study of languages, the elevation of the role of national languages in the spread of technologies, the proliferation of multilingual computer glossaries, the setting up of programmes of mechanical translation for languages other than the major ones, and the training of specialists in communication.

- to compile a great encyclopedia of all the cultures of the world: it is conceivable today to create the tools for the mass dissemination of cultures, even isolated ones. For each nation, this means gathering together all the essential components of its cultural identity or identities. Apart from books, the means of dissemination could be:

- one or more satellites, placed under the control of UNESCO, designed for regional television broadcasts;

- a major computer centre, such as that of the European Space Agency, which could be the Server of a bibliographic data base that could be consulted via the world's leading telematics networks.

3) CHARTER OF COMMUNICATION.

I feel that negotiations should be carried out in stages, in the international bodies concerned, for the preparation of a World Charter of Communication, which is so difficult nowadays. The Charter could be based on five principles:

- *affirming the respect for the diversity of languages;*
- *promoting the harmonization of legislations governing information, intellectual property, contract law, and the protection of individual liberties;*
- *inciting to the determination of common rules for international data exchanges;*
- *protecting the sovereignty of States and their cultural integrity, which is threatened by the new technologies;*
- *enabling the countries of the South the means to control their communications and the messages of which they are the vehicles.*

4) A WORLD EXHIBITION "FOR A PRESENT IMAGE OF THE FUTURE".

This would illustrate the role of technological development in bringing nations closer together.

France would be ready to organize this exhibition in 1989.

Before concluding, I should like to clarify the conditions for the joint implementation of the proposals that I have presented to you:

- *we will set up a working group of eight personalities immediately after this Summit, with the mission of identifying a number of priorities based on the proposals contained in this report and on your discussions;*
- *the group would work in consultation with the competent international institu-*

tions, including the O.E.C.D., and would be required to prepare a report, by the end of this year;

- *the report's conclusions and the resulting projects would be examined at the next Summit of the industrialized countries, to be held in 1983 in the United States of America.*

If, through our concerted action, we succeed in launching these projects, will we have resolved the problems facing our societies? Certainly not. Technological progress does not in itself ensure economic and social progress. It can only contribute to the resolution of these problems in those societies able to incorporate it into coherent policy.

Much remains to be done in order to re-establish balanced and equitable growth, and in order to abolish misery and servitude in all of their guises. We must rebuild a stable monetary system, provide low-cost financing for companies, devise equitable economic and political relations between continents, and do away with all trade barriers. Finally, and most importantly, we must make it possible for each individual to freely use the time made available to him by progress.

We will in this way have accomplished our role as leaders.

Each individual will thus have more material means at his disposal to live the human experience as he sees fit. The human experience: both limited and exalting, incomplete and grandiose, fleeting and eternal.

For our part, by tackling the problems that beset us, and finding rapid solutions to them, we will have secured for our nations the most important element of all: self-confidence.

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John Kerr

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PRIME MINISTER

MEDIA TODAY

You are scheduled to undertake three media events today:

- the Summit press conference at which you will give your account of the weekend's proceedings;
- a national press conference in the Orangerie;
- the usual radio and television interviews immediately after your press conference which Mr. Pym will of course attend.

A draft statement at the Summit press conference is being prepared separately.

National Press Conference

I suggest that since you will have delivered this statement immediately before your national press conference (and since it will have been relayed to the press centre over TV) you should dispense with an opening statement at your national press conference. Content?

I shall permit a number of TV cameras to film the press conference.

I suggest that I should take charge of the press conference; select the questioners; and draw it promptly to a close because of the severe shortage of time (which I deal with below).

Time

The position is that 50 minutes have been allowed for the joint Summit press conference followed immediately by national press conferences, starting at 5.50 pm. This time will almost certainly slip, especially as a drive is involved from Summit press conference to national one. You are unlikely to start your national press conference before 6 pm. You will have to return to the Grand Trianon to change for dinner before departure from there at 7.30 pm. But it will be particularly important in view of the Reagan visit and the UN row that you give

/ radio

radio and television interviews. I suggest therefore that you give a 20 minute press conference followed immediately by radio (first) and TV in quick order. I am trying to persuade BBC to dispense with a separate radio interview, so that you will have only three 4-minute recordings - IRN, BBC and ITN.

Content?

One final point about the media - while your press conference is intended primarily for British journalists, we cannot make it exclusive and you will have a multi-national audience.

Facilities

Your press conference will attract a large audience and it will be very hot. (All the more reason for rationing time). We shall have to record radio and TV in one of two small offices (beige wall background) partitioned off the main press briefing area. These are far from ideal but the only possible accommodation. You know your interviewers - Keith Graves (BBC), Michael Brunson (ITN) and Nick Peters (IRN).

Substance

The media have basically only one interest - the state of Anglo-US relations after the UN vote. You will have had your own discussions on this. Meanwhile, I have made it absolutely clear to the media this morning that they will try in vain to drive a wedge between ourselves and the Americans. Whatever interpretation they may have put on the draft resolution we and the US vetoed, we know whose side the USA are on and who they are supporting. We have very firmly rejected as unfounded, a UPI quote that the British found Haig's performance "duplicitous".

You know our objectives under the heading of Falklands. Purely as a reminder, the following questions are likely to arise:

- How do you see Anglo/US relations now? And what sort of a reception do you think President Reagan will get in London?
- How do you feel about the support you have got this weekend?

- Why haven't

- Why haven't your troops moved yet - do you feel under a constraint because of Versailles; Reagan's visit; NATO Summit? (NB - this being the anniversary of D Day, there are some romantics who think you will order the charge today).

One additional point on the Falklands - Colonel H. Jones is reported today as having intended to sue the BBC for manslaughter for careless talk about the imminence of the attack on Goose Green. Bearing in mind Ministerial remarks immediately before the attack, there is no profit for you in taking the media to task.

I suggest you simply say you have read of this and would merely reiterate a point you have made before: Careless talk costs lives.

For the rest the main interest has centred on:

- East/West economic relations - the extent of your support for the USA on credit (some reports say we have been unhelpful) and the problems with the other Europeans;
- ???
- Monetary cooperation - on which the lefties among the press will try to portray you as going along with intervention; and
- Economic policy divergence - the extent to which, if any, you have moved on the paramountcy of controlling inflation vis a vis unemployment. (The Chancellor of the Exchequer told the press yesterday that the long-running sterile debate on this may now be pronounced dead); and how far you can be induced to criticise USA deficit/interest rate policy.

Which takes us back full circle to the Falklands - or, more precisely, the media's purpose today: wedge-driving between UK and USA. My objective today has been to prevent them from getting a blade of grass between us.

Nick Fenn's brief on other international political issues is attached.



BERNARD INGHAM
6 June 1982

POLITICAL SUBJECTS

LEBANON

1. Much preoccupied during the Conference by increasingly serious reports from Lebanon and the Lebanon-Israel border area. Not only mounting death toll and destruction but also disturbing reports of Israeli troop movements. Lebanon is a sovereign state whose territorial integrity should be respected, as should that of Israel and every other State in the area.

2. Glad therefore to

- support Security Council Resolution last night calling for restoration of the ceasefire;
- respond to the Secretary-General's message to the Chairman of the Conference, President Mitterrand;
- join with our partners - making the appeal we issued earlier today.

3. Each of us will "use all the means at our disposal" to support this appeal. I have already instructed our Ambassadors to take action in Israel: also in Beirut where those of us who are in a position to do so will speak also to the PLO: and in Damascus, Amman, and Cairo. I call on all the parties to heed these appeals.

4. US influence important. Wish Habib well.

ASTIZ

Luxurious accommodation? Not sure that Chichester Keep is precisely luxurious. But right to treat Prisoners of War properly

- because of the importance we attach to our obligations under the Geneva Convention
- for the sake of our own Prisoners of War

/ He is a torturer/

He is a torturer/murderer? There are indeed terrible allegations against this man. But he has the status of a POW and as such entitled to the protection of the Geneva Convention.

French and Swedish questions? Yes, we shall give Astiz an opportunity to answer detailed questions about matters of concern to the French and Swedish governments. The questions are being put to him. But he cannot be compelled to answer them, cannot be extradited, and will be repatriated to Argentina in due course.

OTHER QUESTIONS

Not much time to consider other questions.

But important not to forget

- Afghanistan; Poland

- Disarmament and Arms Control. Reagan's Eureka College speech. Looking forward to going to UN for Special Session. START/INF.

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