Lord Howe

PO CH/GH/

PART.

~~CH/EXH 14 FEB - 17 FEB 1983~~

PO CH/GH/0171 PART A

These are the only papers I can find on the Riyadh mtg.

RIYADH MEETING

1983

14.2.83

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

10 January 1983

B J P Fall Esq
Foreign and Commonwealth Office
Downing Street
LONDON SW1A 2AL

Dear Brian,

SAUDI ARABIA

The Chancellor was grateful for the briefing on the postponement of the Arab League Delegation's visit which was enclosed with your letter of 5 January to me, and which was supplemented by Stephen Egerton on 6 January. He also saw John Coles' letter of 4 January to John Holmes.

The Chancellor's talks in Riyadh on 8 January on IMF matters with the Saudi Finance Minister and Central Bank Governor went well. We shall be reporting separately on the substance, and plans to advance the next Interim Committee meeting to February. In this letter I deal only with the subject of yours.

The Saudis received the Chancellor and M. de Larosiere courteously. The two hosts were at the airport to meet us on 7 January, and to say farewell on 9 January, and gave a dinner on 8 January. At no stage during a three hour plenary discussion and subsequent smaller meetings did they refer to the matter of the Arab League Delegation.

The Chancellor did however raise it privately with his Saudi counterpart on 8 December. He explained that the Prime Minister and the Foreign Secretary were concerned to maintain good relations with Saudi Arabia, and were surprised and disappointed by the way in which the present row had blown up, and extended to neighbouring states. They also attached importance to the results of the Fez Summit, and were disappointed that the Delegation's visit in December had not proved possible. Our position on PLO participation had, we thought, been made clear to the Morrocans in October. Our subsequent compromise proposal had certainly not been intended to give offence; and we were now seeking to identify an alternative arrangement, satisfactory to all parties, which would permit the Delegation's visit to go ahead. He hoped that our traditional close relations with Saudi Arabia on commercial and financial issues would not be affected.

/On this

On this last point the Minister said that he shared the Chancellor's hope. But he had not spoken to the King about the episode, though he had heard him speak of it in Cabinet. The King was strongly committed to the success of the Fez initiative, and was undoubtedly disappointed that the Delegation's visit to London had run into difficulties.

The Chancellor reported this to HM Ambassador, who found it, and the Saudi handling of the Chancellor's visit, not discouraging. He did however caution against drawing too much encouragement from it. The Chancellor was in Riyadh on specifically IMF business and in an IMF capacity; the Finance Minister is apparently one of the most moderate of Saudi Ministers; and any Saudi Minister would be reluctant to give a detailed exposition of the King's views unless specifically instructed to do so. The Chancellor fears that there must in fact be a substantial risk of damage to commercial relations; and that it is likely to grow the longer the present situation lasts.

A copy of this letter goes to John Coles at No 10.

Yours ever,

John Kerr

J O KERR

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Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

IMF INTERIM COMMITTEE

Last week's meeting in Washington of the IMF Interim Committee went well, and the gamble of advancing it paid off. The IMF should now be better placed to play its vital role in encouraging and assisting over-extended borrowers, especially in the more advanced developing countries, to adjust their economies.

2. The main features of the additional help which is now available are:

- the direct increase in IMF quotas is from SDR61 billion to SDR90 billion - not quite the 50 per cent I was aiming for, but as near as makes no practical difference and sufficiently near to avoid any sense of public disappointment;

- this is backed by the earlier decision, taken in Paris in January, to enlarge and expand the purposes of the General Arrangements to Borrow, which increases from SDR6.5 billion to SDR17 billion;

- in addition, it is now clear that the Saudis will, as discussed during my visit to Riyadh, make additional funds available in association with the enlarged GAB: discussion of the detailed arrangements was carried forward, although not yet quite completed, in Washington last week;

- finally, Congress permitting, the quota increase should be implemented by the end of this year, ie 2 years ahead of the previous schedule. (I shall be pursuing separately the question of our own Parliamentary timetable.)

/We know

3. We knew from the start that the problem would be how to find a compromise between the over-ambitious hopes of many developing countries and the disappointingly low figures advocated by the United States. In the event, it proved not too difficult to persuade developing countries to go for something around a 50 per cent increase, partly because it was possible to show them that the expansion of the GAB will be a genuine additional support for IMF operations in their interests, should the need arise. The critical problem was the attitude of the United States, for the Administration had, under Congressional pressure, begun to move to a more restrictive position than in the autumn, and there was talk of a $8 billion limit on their contribution to the quota increase and the GAB. If this ceiling had held firm, a deal would probably have been impossible.

4. Secretary Regan arranged for me to meet some 15 Senators and Congressmen, and I was able to explain to them our reasons for wanting a substantial increase in IMF resources. And in the meetings I pushed Regan above the $8 billion ceiling, and as far as he felt able to go, but not so far as to leave him without reasonable hope of persuading Congress to ratify later this year. He told me at the conclusion of the meeting that he was well satisfied with the outcome - and that the President too was pleased. (I did not in the end see the President myself - for Friday's blizzard blotted out his afternoon programme.)

5. There was some discussion of the world economic outlook during the plenary meetings. Some speakers urged the need for "locomotive" reflationary action by countries which had succeeded in reducing public sector deficits and inflation. But all of us cast in this role - Germany, Japan, the United Kingdom, and the United States - argued that our policies were already leading to some natural generation of demand, and that artificial attempts further to stimulate it would inevitably re-ignite inflation. I attach a copy of the communique, which covered this debate quite satisfactorily.

/I shall

6. I shall let you have a separate note on what I learned on the visit about the prospects for the US economy.

7. Copies of this minute go to the Foreign Secretary, the Secretary of State for Trade, the Governor of the Bank of England, and Sir Robert Armstrong.

G.H.

14 February 1983

FST
EST
Mr Littler
Mr Kemp
Mr Lavelle
Mr Bottrill

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

14 February 1983

The Rt Hon Edward Du Cann MP
Chairman
Treasury and Civil Service Committee
House of Commons
LONDON SW1

Dear Edward

IMF INTERIM COMMITTEE

Although I shall be reporting to the House of Commons in the normal way, I thought it right to send you at once a copy of the Communique of the meeting of the IMF Interim Committee which I chaired in Washington last week.

I believe that the outcome of this meeting was very satisfactory. The amount of the agreed quota increase - from SDR 61 billion to SDR 90 billion, all but 50 per cent, is about what the United Kingdom and many other governments were aiming for. It is less than some - particularly many developing countries - had originally hoped. But it is important to remember that, in addition to this direct quota increase, the IMF will be able at need to seek additional resources from the substantially enlarged General Arrangements to Borrow which I mentioned to you when I gave evidence on 31 January. You will also note from the attached Communique that Saudi Arabia most helpfully confirmed its willingness to offer a credit arrangement in association with the enlarged GAB. Overall, the total of effectively available Fund resources will be approximately doubled.

Of particular value also is the fact that with these decisions taken, legislative action can start soon, so that the arrangements can be put in place by about the end of this year. This would be some two years ahead of the previous schedule.

From our exchanges at the end of January, I am sure you will share my satisfaction over this outcome.

Yours ever
Geoffrey

GEOFFREY HOWE