

Po - CH / NL / 0133

PART B



Chester  
Lawson

PART B

**SECRET**

(Circulate under cover and  
notify REGISTRY of movement)



PO -CH /NL/0133



PART B

CHANCELLOR'S PAPERS ON  
THE GROUP OF SEVEN (G7)  
ECONOMIC SUMMIT, 4-6 MAY  
1986, TOKYO

Begin: 15/4/86

Ends: 1/5/86 (CONTINUED)

DD: 25 years

5/9/95

PO -CH /NL/0133

PART B



PS/CHANCELLOR OF THE EXCHEQUER  
TREASURY

1 - ~~TK~~ - to  
see Sir G's  
comment

*Mr Wynn - Owen*  
*I doubt the need for*  
*substantial set-piece bilaterals.*  
*Perhaps a word in Paris tomorrow.*

*JH 16/4*

*2 - JWP*

CONFIDENTIAL

29688 - 1

*P.S. Finance Ministers  
meet each other  
more often (and  
more effectively)  
than Foreign Ministers*

OCMIAN 9688  
CONFIDENTIAL  
OO TOKYO  
RR ROMEE  
FM FCOLN TO TOKYO  
151030Z APR  
GRS 251

Sir G. Kitter.

*Geff, Should we start*

*looking any bilaterals in advance  
like this?*

*Philip Wynn Owen  
16/4*

CONFIDENTIAL  
FM FCO  
TO IMMEDIATE TOKYO  
TELNO 299  
OF 151030Z APRIL 86  
AND TO IMMEDIATE WASHINGTON, OTTAWA, BONN  
INFO ROUTINE PARIS, ROME, UKREP BRUSSELS, THE HAGUE

TOKYO SUMMIT: BILATERALS FCO TELNO 203 REFERS

1. THE PRIME MINISTER WOULD LIKE BILATERALS WITH PRESIDENT REAGAN, MR NAKASONE, MR MULRONEY AND CHANCELLOR KOHL, IN THAT ORDER OF PRIORITY.
2. THE PRIME MINISTER WILL NOT BE ARRIVING IN TOKYO UNTIL 1530 ON SUNDAY 4 MAY. WE UNDERSTAND THAT WASHINGTON HAVE PROVISIONALLY ARRANGED A BILATERAL WITH PRESIDENT REAGAN FOR 1700. THIS MAY NOW BE CONFIRMED. THE PRIME MINISTER WILL WISH AT LEAST 30 MINUTES OF THIS MEETING TO BE TETE A TETE (IE NOTETAKERS ONLY).
3. FOR TOKYO. GRATEFUL IF YOU APPROACH THE JAPANESE ASKING THEM TO IDENTIFY A SUITABLE SLOT ON EITHER MONDAY OR TUESDAY. LIKELY TIME SLOTS WOULD BE BETWEEN 0830 AND 0930 ON BOTH DAYS, BETWEEN THE END OF THE PLENARY SESSION AT 1800 AND 1900 ON MONDAY 5 MAY, AND BETWEEN THE PRESS CONFERENCE ON THE AFTERNOON OF 6 MAY, AND 1800 THAT DAY.
4. FOR OTTAWA AND BONN. THE TIMINGS OF MEETINGS WITH MR MULRONEY AND CHANCELLOR KOHL CAN ONLY BE SETTLED ONCE THE MEETING



CONFIDENTIAL

29688 - 1

WITH PRIME MINISTER NAKASONE HAS BEEN FIXED.

5. TIME CONSTRAINTS ARE UNLIKELY TO ALLOW BILATERALS BETWEEN THE PRIME MINISTER AND HER OTHER COLLEAGUES, THOUGH A FIRM DECISION HAS YET TO BE TAKEN ON THE POSSIBILITY OF HOLDING ONE WITH THE FRENCH.

HOWE

ECONOMIC SUMMIT  
STANDARD (~~PALACE~~)  
ERD  
ECONOMIC ADVISERS  
FED  
NAD  
ECDs  
TRED  
SOVIET D  
EED  
UND  
MAED  
SCD

MR MAUD  
MR WILSON  
- SIR D MIERS  
MR REEVE

ADDITIONAL DISTRIBUTION  
ECONOMIC SUMMIT

-2-  
CONFIDENTIAL





FROM: P WYNN OWEN  
DATE: 15 April 1986

~~b/f 16/4~~  
~~b/f 21/4 pt~~

*[Handwritten initials]*

SIR G LITTLER

cc PS/Economic Secretary  
Mr Lavelle  
Mr Fitchew  
Mr Mountfield  
Mr S Matthews  
Mrs Case  
Mr P Davis  
Mr Cropper

~~b/f 23/4 pd~~  
25/4  
9/5  
~~b/f 8/5 pd~~  
(check with  
SEL that  
Tokyo brief  
covered this)

**MAJOR SHAREHOLDINGS**

The Chancellor would like to be clear about our policy on the ... attached table. He has asked for your advice on what changes we are prepared to see.

*[Handwritten signature]*

P WYNN OWEN



BRETTON WOODS INSTITUTIONS

MAJOR SHAREHOLDINGS

~~The Chart~~  
 We need to have a policy on that: what changes are we proposing to see? Ask for 5% for admin. &

Country	IMF Votes (a)	IFC Votes 1/ (b)	IBRD Votes 2/ (c)	IDA 7 Donor Shares (d)	IDA7 Share/ IBRD Share (e=d/c)
US	19.29	25.44	20.00	25.00	1.25
Japan	4.57	4.47	4.99	18.70	3.75
UK	6.69	6.61	4.76	6.70	1.41
Germany	5.84	5.79	4.96	11.50	2.32
France	4.85	5.16	4.76	6.60	1.39
Saudi Arabia	3.47	1.65	3.08	3.50	1.14
Total	44.71	49.12	42.55	72	1.69

Notes:

1. as at 30 June 1985
2. as at 24 February 1986



International Economic Policy Coordination

The heads of state and government emphasized the importance of close and continuous coordination of economic policy among the seven Summit countries. They welcomed the recent examples of improved coordination among the Group of Five Finance Ministers and Central Bankers, noting that this coordination had helped realign currency exchange rates and lower interest rates on a basis that was both orderly and non-inflationary. They agreed, however, that additional measures should be taken to assure that mechanisms for effective international economic policy coordination are strengthened further. To this end, the heads of state and government:

- (1) stated that the purposes of such improved coordination should explicitly include the following:
  - (a) promoting non-inflationary economic growth;
  - (b) increasing market-oriented incentives for employment and investment;
  - (c) opening the international trading and investment system; and
  - (d) fostering greater stability and predictability in currency exchange rates;
- (2) directed the Finance Ministers of the seven Summit countries to work together more closely and more frequently in the periods between regular Summit meetings;
- (3) directed the seven Finance Ministers to review their individual economic objectives and forecasts collectively at least once each year -- with a view, particularly, toward examining their mutual compatibility;
- (4) re-affirmed their undertaking at the 1982 Versailles Summit to cooperate with the IMF in strengthening multi-lateral surveillance among the countries (the Group of Five) whose currencies constitute the SDR;



- (5) directed the Group of Five, in conducting such surveillance and in conjunction with the Managing Director of the IMF, to review their individual economic forecasts in relation to specified objective indicators -- including GNP growth rates, inflation rates, unemployment rates, fiscal deficit rates, trade balances, monetary growth rates, and exchange rates [stated both in relation to major currencies and in relation to a commodity-based index that gives considerable weight to gold];
- (6) urged the Group of Five Finance Ministers and Central Bankers to provide their best efforts to reach agreement on appropriate remedial measures whenever there were significant deviation from intended objectives;
- (7) recommended that efforts to agree on such remedial measures focus first and foremost on underlying policy fundamentals, while reaffirming their Williamsburg commitment to intervene in currency exchange markets when to do so would be helpful;
- (8) directed the Group of Five Finance Ministers to expand their meetings and discussions to include other Summit countries whenever possible remedial measures would have a significant economic impact on them; and
- (9) requested the Group of Seven Finance Ministers to report, at the next Summit, on their progress in strengthening mechanisms for effective international economic policy coordination, and to offer such further recommendations as may be appropriate.





1. Philip
2. ~~Debbie~~
3. Jk
4. pwp

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

17 April 1986

R N Culshaw Esq  
Private Secretary to the  
Secretary of State for Foreign and Commonwealth Affairs  
Foreign and Commonwealth Office  
LONDON SW1A 2AH

Dear Robert,

**ECONOMIC SUMMIT, TOKYO**

Thank you for your letter of 11 April. The Chancellor has approved the draft telegram attached to your letter and has asked me to thank you for arranging VIP facilities for him.

Yours sincerely,  
Debbie Lester

p.p. P WYNN OWEN  
Assistant Private Secretary



*pmf*

CONFIDENTIAL

30584 - 1

OCMIAN 0584  
CONFIDENTIAL  
PP MOSCO  
RR TOKYO  
FM FCOLN TO MOSCO  
171630Z APR  
GRS 92

1- cc Sir G. Littler  
Mr Culpin

CONFIDENTIAL  
FM FCO  
TO PRIORITY MOSCOW  
TELNO 272  
OF 171630Z APRIL 86  
INFO ROUTINE TOKYO

2- a) Tony  
b) Debbie  
c) Nigel

*Ro 18/4*

ECONOMIC SUMMIT, TOKYO

1. THE CHANCELLOR OF THE EXCHEQUER, SIR GEOFFREY LITTLER AND MR R CULPIN WILL FLY TO TOKYO ON AF 270 DEPARTING PARIS AT 1225 ON 3 MAY, ARRIVING TOKYO AT 0940 ON 4 MAY.
2. THIS AIRCRAFT STOPS IN MOSCOW EN ROUTE FROM 1800 HRS TO 1920 ON 3 MAY.
3. PLEASE INFORM SOVIET AUTHORITIES OF THIS TRANSIT STOP. GRATEFUL IF CHANCELLOR COULD BE MET BY THE EMBASSY AND IF VIP ROOM COULD BE RESERVED.

HOWE  
MINIMAL  
PROTOCOL D.  
ERD  
SOV D.

COPIES TO:  
PS | CHANCELLOR (TSY)  
PS | SIR R. ARMSTRONG,  
CABINET OFFICE.



CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

17 April 1986

*Dear Rachel*

*1- TK  
2- Debbie  
3- b/f 1/s*

Tokyo Economic Summit:  
Arrival Arrangements: 4 May

I enclose an extract from Tokyo telegram number 414 setting out the arrangements for the Chancellor when he arrives at Narita Airport on Sunday 4 May.

All the Chancellor's party plus those meeting them from the Embassy will be able to travel in the helicopter.

Members of the Embassy staff will remain behind to clear and collect the baggage. Your Travel Section are being asked to put the request about luggage to Air France.

CH/EXCHEQUER	
REC.	18 APR 1986
<del>TO</del>	Sir G. Hittler
COPIES TO	Mr Culpin
	Mrs Hester

*✓  
18/4*

*Yours ever*

*R N Culshaw*

(R N Culshaw)  
Private Secretary

Mrs Rachel Lomax  
PS/Chancellor of the Exchequer

CONFIDENTIAL



CONFIDENTIAL

Extract from Tokyo tel; No. 414 of 16 April, 1986

ARRIVAL ARRANGEMENTS

4 MAY PRIME MINISTER'S ARRIVAL

9. THE MFA ARE NOT YET SURE WHETHER ONE OR TWO HELICOPTERS WILL BE AVAILABLE. IF ONE HELICOPTER IS AVAILABLE A MAXIMUM OF 8 UK DELEGATION (INCLUDING EMBASSY) WILL TRAVEL BY HELICOPTER FROM HANEDA TO ICHIGAYA AND FROM THERE BY CAR TO NEW OTANI (2 MINUTES DRIVE). IF TWO HELICOPTERS ARE AVAILABLE THE MAXIMUM NUMBER OF UK DELEGATION WILL BE 19 (9 IN ONE AND 10 IN THE OTHER).

10. APPROXIMATE TIMINGS FOR ARRIVAL OF THE PRIME MINISTER'S PARTY ARE AS FOLLOWS:

1415 ARRIVAL OF VC10 (WE ASSUME THE TIMING GIVEN IN FCO TELNO 299 TO TOKYO IS AN ESTIMATE OF THE PRIME MINISTERS ARRIVAL TIME AT THE SUMMIT SITE)  
1425 DEPART BY HELICOPTER FOR ICHIGAYA  
1435 ARRIVE ICHIGAYA HELIPAD  
1441 DEPART ICHIGAYA BY CAR FOR NEW OTANI  
1444 ARRIVE NEW OTANI  
1543 DEPART HOTEL FOR WELCOMING CEREMONY AT AKASAKA PALACE  
1546 UK DELEGATION WELCOMING CEREMONY

11. THE TRANSFER AT ICHIGAYA IS SLIGHTLY CUMBERSOME, BUT THE ONLY ALTERNATIVE WOULD BE TO TRAVEL FROM HANEDA AIRPORT DIRECTLY TO THE NEW OTANI HOTEL. THE MFA HAVE RESISTED THIS IDEA (AND HAVE SUGGESTED THAT THE POLICE WOULD ALSO SEE DIFFICULTIES). IT MIGHT ALSO MEAN SLIGHTLY LESS TIME TO REST AT THE HOTEL BEFORE THE WELCOMING CEREMONY. MAY WE THEREFORE CONFIRM THAT THE PLAN IN PARA 10 ABOVE IS ACCEPTABLE. UNDER THIS SCENARIO THE REMAINING VC10 PARTY AND PRESS WOULD GO BY ROAD FROM HANEDA TO THE NEW OTANI, TOGETHER WITH THE LUGGAGE.  
HOW MUCH LUGGAGE WILL THE PM WISH TO TAKE ON THE HELICOPTER?

3 MAY SECRETARY OF STATE'S ARRIVAL

12. A MAXIMUM OF 9 UK DELEGATION (INCLUDING EMBASSY) WILL TRAVEL BY HELICOPTER FROM NARITA TO AKASAKA PALACE AND FROM THERE TO NEW OTANI BY CAR (THREE MINUTES DRIVE).

4. MAY CHANCELLOR'S ARRIVAL

13. A MAXIMUM OF 9 UK DELEGATION (INCLUDING EMBASSY) WILL TRAVEL BY HELICOPTER FROM NARITA TO ICHIGAYA HELIPAD AND FROM THERE BY CAR TO NEW OTANI HOTEL.

-3-  
**CONFIDENTIAL**

14.



14. FOR THE ARRIVALS OF THE SECRETARY OF STATE AND THE CHANCELLOR AT NARITA AIRPORT, WE HAVE BEEN ASKED TO CONTACT BA AND AIR FRANCE IN TOKYO AND IN LONDON TO ENSURE THAT LUGGAGE FOR RESPECTIVE ARRIVAL PARTIES CAN BE OFFLOADED BEFORE ALL OTHER LUGGAGE. THE PRESENT PLAN IS FOR THE ARRIVING AIRCRAFT TO COME TO A SPECIAL GATE WHERE THE SECRETARY OF STATE AND CHANCELLOR'S PARTIES WILL DISEMBARK AND TRANSFER STRAIGHT TO A HELICOPTER. THEIR LUGGAGE WILL ALSO BE OFFLOADED HERE FOR SPECIAL CIO CLEARANCE. THE ARRIVING AIRCRAFT WILL THEN MOVE OFF TO ANOTHER GATE FOR ORDINARY PASSENGERS TO DISEMBARK SEPARATELY. WE SHALL PURSUE WITH BA AND AIR FRANCE IN TOKYO. GRATEFUL IF YOU COULD DO LIKEWISE IN LONDON. WE UNDERSTAND THAT THE DUTCH PRIME MINISTER IS ARRIVING ON THE SAME PLANE AS THE CHANCELLOR.

GIFFARD



The Rt. Hon Nigel Lawson.

~~6/5~~ 25/4/84

Re; TOKYO SUMMIT

This letter has also been sent to; Sec of State for Trade & Industry; Secretary of State for Foreign & Commonwealth Affairs.

It is being sent to you for information.

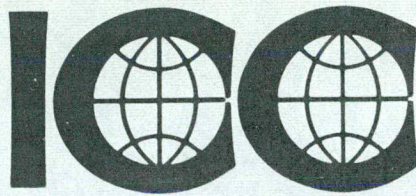
WITH THE COMPLIMENTS OF THE DIRECTOR

✓ RS



· ICC UNITED KINGDOM · CENTRE POINT · 103 NEW OXFORD STREET · LONDON WC1A 1QB ·  
· TELEPHONE: 01-240 5558 · TELEX: 21332 ·





*For Tokyo  
bldg pps*

**ICC UNITED KINGDOM · CENTRE POINT · 103 NEW OXFORD STREET · LONDON WC1A 1QB ·  
TELEPHONE: 01-240 5558 · TELEX: 21332 ·**

GW/MR

The Rt. Hon. Margaret Thatcher MP,  
10, Downing Street,  
London,  
SW1A 2AL.

17 April 1986

*Dear Prime Minister,*

As in previous years, the ICC, as the world's leading business organisation with members in over 100 countries, has prepared a statement for the Tokyo Summit. This is attached.

Whilst we would imagine that Her Majesty's Government would not disagree with most of the points made, it is worth reminding you that the statement will be sent to the other heads of government taking part in the Summit.

It would be most helpful to the ICC to receive comments on our statement, before or after the Summit, as appropriate.

Yours sincerely,

Sir Graham Wilkins.

Enc.

CH/EXCHEQUER	
REC.	21 APR 1986
ACTION	MR FITCHEN
COMES TO	EST
	SIR G WILKINS
	MR LANGRISH

*2/4*





**International Chamber of Commerce  
Chambre de Commerce Internationale**

38, Cours Albert 1<sup>er</sup>, 75008 PARIS

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Secretary General's Office

9.4.86

MW/mhb

S T A T E M E N T

for

Submission to the Heads of State and Government

attending

the Tokyo Summit, 4-6 May 1986



## The Mandate of the Tokyo Summit

The Tokyo Summit is taking place when the prospects for non-inflationary global growth are brighter than at any time since the annual summit meetings began. It provides an excellent opportunity for the governments of the countries represented at Tokyo to set their policy-making on a clear course to capitalise on developments both in markets and in international cooperation in the year since the Bonn Summit, and to pursue new initiatives which will consolidate the greater scope for non-inflationary expansion in the years ahead. Their leadership will be critical in three main areas: enhancing international cooperation in the design and implementation of national economic policies; encouraging the indebted developing countries to pursue the path of economic adjustment towards sustainable growth; and launching a coordinated effort to promote reform and further liberalisation of international trade. The ICC, representing international business, makes the following recommendations directed to each of these crucial requirements.

## International Economic Policy Cooperation

Since the Bonn Summit exactly a year ago, significant developments have taken place whose net effects seem likely to be beneficial for the world economy as a whole. The most far-reaching events have, of course, been the sharp fall in the price of oil, and the significant reductions in interest rates and in the external value of the dollar. While the oil price fall poses very severe problems for several states whose economies are heavily dependent on oil exports, it has come as a major boon to the larger number of countries in both the industrialised and developing worlds which are net importers. In particular, the three events together have considerably improved the potential of Japan and Western Europe to attain faster rates of non-inflationary growth than for many years. This prospect is most important at a time when the expansion of the US economy, which has until recently been the driving force behind international recovery, has slowed down to a rate comparable with those of other major economies.

Further on the positive side, governments have taken a number of major initiatives since Bonn which hold out the promise that they are at last beginning to tackle certain deep-seated problems in the world economy about which the ICC has expressed much concern in its statements for both Bonn and previous summits.

The ICC has warmly welcomed the coordinated efforts begun last autumn by the Group of 5 countries to reduce the misalignment of exchange rates among the US, Japanese and European currencies. Despite the short-term success of those efforts over the past several months, we believe that much remains to be done to improve the economic fundamentals which underlie currency exchange rate movements and which are at the root of the present large imbalances in the trade and current accounts of the major industrialised countries. What essentially is required is greater cooperation among the latter to pursue economic policies which



are both mutually consistent and conducive to faster and more stable global growth. To these ends, the ICC recommends the following actions by Summit governments:

- The US Government should continue to take measures to cut its budget deficit and increase incentives to saving in the US as the keys to reducing its large net external financing requirement and in order to bring the current account of its external payments into better balance.
- The governments of the European countries and Canada should reduce the burden of government regulation and taxes on their economies, further liberalise labour and capital markets, and work towards removing other structural obstacles to sound, sustainable growth and fuller employment.
- The Japanese Government should take steps to bring about a better balance between Japan's saving and investment rates in order to promote more domestically-driven growth and to diminish the size of its capital exports and current account surplus. It should also develop more effective policies to encourage portfolio and direct investment in Japan.
- All governments should work together in the months ahead to improve the effectiveness of international institutions concerned with economic, monetary, and trade policy cooperation. Such institutional improvements should have as their main objectives: i) to strengthen procedures for multilateral surveillance of domestic economic policies as the principal vehicle for enhancing policy consistency among those countries most responsible for the functioning of the international system; ii) to promote greater discipline and symmetry in the international balance of payments adjustment process; iii) to increase the attention paid to the exchange rate implications of economic policy decisions; iv) to further liberalise capital markets; and v) to examine the developing roles of the main currencies within a liberalised regime of international capital flows and investment opportunities.

#### International Debt Strategy

The ICC very much welcomed the proposal put forward by the US Treasury Secretary at last October's IMF/World Bank meeting to increase the flows of external finance to indebted developing countries pursuing determined adjustment programmes. It has, however, become concerned by the lack of concrete progress since then and the apparent loss of political momentum. Many private companies, in addition to the banks, have commercial relations - and payment arrears - with indebted countries, and they are increasingly worried by the uncertainties surrounding developing-country indebtedness. Those uncertainties, and the continued reluctance of some developing countries to implement policies conducive to new private investment, constitute an inhibition to the willingness of business firms to continue to trade with and invest in the indebted countries on the scale the latter's circumstances require.



The ICC believes that positive action on Secretary Baker's proposal would send a much-needed, encouraging signal to the non-bank private sector of business. It has therefore called upon all the parties directly involved in that initiative (including the developing countries) to implement an agreed programme of action on a case-by-case basis in order to strengthen the confidence of business that the economic positions of heavily-indebted countries can be improved through effective cooperation.

The ICC urges the governments of the major industrialised countries represented at Tokyo:

- To work together through the IMF and World Bank to impress upon individual debtor countries in the Third World the urgent need for domestic reforms which would have the effect of reversing capital flight, encouraging domestic and foreign investment, and promoting sustainable growth.
- To commit themselves to increase as and when necessary the capital of the World Bank and other multilateral development institutions in order to provide adequate financial support to indebted countries which implement effective adjustment programmes conducive to long-term growth.
- To commit themselves to ensure that adequate resources are made available to, and used by, official export credit guarantee agencies in the developed countries.

#### International Trade Reform

The health of the world's trade, financial and monetary systems are intrinsically interrelated. The ICC has repeatedly called upon governments to pursue a parallel approach to the problems of each (though this certainly does not mean that progress in one has to wait upon progress in the others). Particularly welcome, therefore, is the decision of the GATT's Contracting Parties to establish a Preparatory Committee with a view to launching a new round of multilateral trade negotiations next September.

In recent years, the ICC has watched with mounting concern the growth of protectionist sentiment in many countries, and the emerging danger that unilateral and bilateral actions might seriously undermine the multilateral system. It believes that there must now be a resolute and concentrated effort to imbue the GATT discussions with a new spirit. This, however, will require both a much firmer lead - in deeds rather than words - from the major trading countries and a clearer recognition by the developing countries that they would suffer most in the longer run if multilateralism were to collapse.

The ICC earnestly hopes that the GATT Preparatory Committee will produce a clear and broad agenda for a new trade round and that the meeting of Ministers in September will agree on an early starting date for substantive negotiations. The



objectives of a new round must be to produce a lasting reversal of protectionist measures, to liberalise trade in agricultural products, to restore GATT disciplines in other sectors where they have been weakened, and to reduce barriers in newer areas of trade (such as services) which are not currently subject to international rules.

The process of negotiating the many complex issues in a new round may well take a long time. Meanwhile, it remains urgent to restore the authority of the machinery of the GATT with the aim of ensuring that countries observe more strictly the obligations they have accepted under international agreements. This task cannot be delayed to await the conclusion of negotiations without a serious risk that, by then, the trading system itself will have been irretrievably damaged. The ICC therefore urges all governments, but especially those meeting in Tokyo, to give immediate and much more serious consideration to some of the recommendations in the Leutwiler Report commissioned by the Director General of the GATT which need not wait upon the outcome of a new round. In particular, there should be established a mechanism for the continuous and authoritative survey of, and regular reporting on, developments in the policies of governments which affect international trade so as to raise public awareness of the potential damage some of these policies may do.

The ICC calls upon the participants in the Tokyo Summit:

- To underline their firm desire to see a new round of multilateral trade negotiations launched at the GATT Ministerial meeting in September.
- To affirm their determination to resist protectionist pressures, to examine seriously potential schemes for coordinated action to roll-back protectionist measures adopted in recent years, and to work closely together to remove other barriers which inhibit trade and investment among themselves and with other countries.
- To agree to manage trade disputes among themselves in ways that avoid new restrictions or practices which reduce access to each other's markets.

-:--:--:--:--:--:--



6/7 25/4 pl.

Carbais.

FROM: ROBERT CULPIN  
DATE: 18 APRIL 1986

MR BUTT

cc Mr Wynn-Owen  
Sir G Littler  
Mr Lavelle  
Mr Fitchew  
Mr Odling-Smee  
Mr Sedgwick  
~~Miss O'Mara~~ *Wynn-Owen*  
Mr Pickford

AGRICULTURAL SUBSIDIES IN JAPAN

At the OECD yesterday, the Chancellor followed broadly the speaking note I gave him. He used all the figures for agricultural subsidies in other countries. They are reproduced in today's Wall Street Journal (attached) and were on the radio this morning.

2. While we have cash estimates for spending in Europe and the United States, we only have a qualitative measure for Japan - subsidies are a third of output. Can we get a cash estimate before the Toyko Summit?

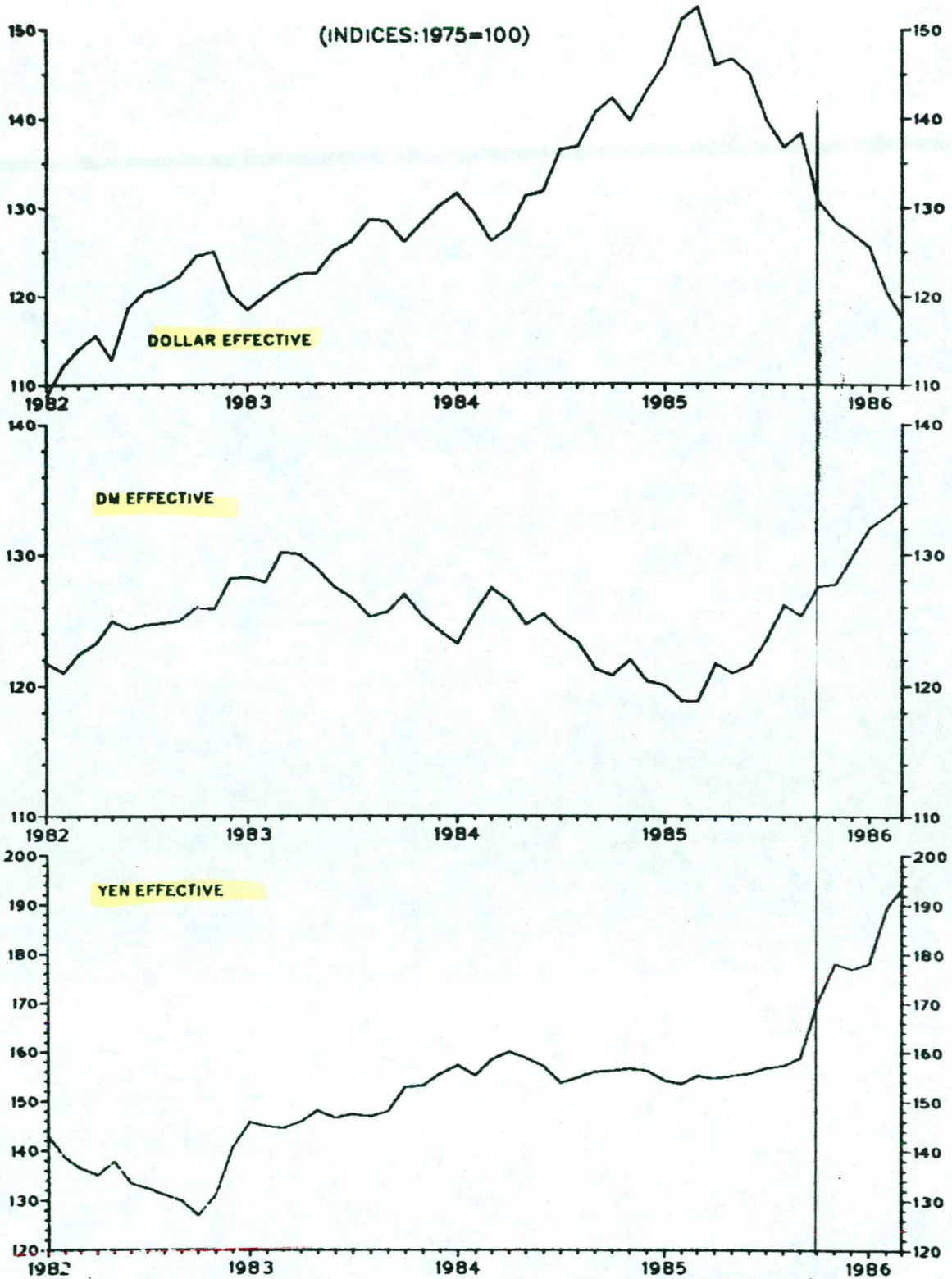
3. Can we also get a short note on the method of agricultural support in Japan?

4. If need be, it would be a great help if you could ask our Embassy in Toyko. I shouldn't be surprised if the threat of an agricultural trade war comes up at the Summit, and a page of key facts would be a godsend.

ROBERT CULPIN



# EFFECTIVE EXCHANGE RATES 1982-1986



Plaza agreement



## Main Issues for Discussion

20 April 1986 1610 hours

## I. Introduction

1. Through recent Summit meetings, a broad consensus has been formed that sound domestic policies promoting convergence of economic performance towards sustained non-inflationary growth among the Summit countries are a prerequisite for realizing lasting world economic expansion. As a result of policy implementation in accordance with this consensus, substantial progress has been made toward producing favourable economic performance.

Taken as a group, the Summit economies are entering their fourth year of expansion. Inflation in the Summit countries as a whole fell below four percent in 1985, a level not seen since the late 1960s, with a significant narrowing of differences among countries. Interest rates have come down substantially.

The recent oil price decline offers better prospects for world economic growth overall, although it is detrimental for certain oil producing areas.

2. Since Bonn, the Summit countries have further strengthened the spirit of cooperation, which has resulted in several important favourable developments, such as:

- = significant realignment of exchange rates of the major currencies better reflecting the economic fundamentals, facilitated by co-ordinated action by our Governments;
- = cooperative efforts to lower interest rates;
- = a major initiative to strengthen the international debt strategy;
- = steady progress towards the launching of the New GATT Round.

Domestically, during the same period, significant progress has also been achieved in implementing sound and credible macro-economic and structural policies with a view to promoting convergence of economic performance. The United States has established a framework for eliminating its budget deficit; Japan has adopted various measures to improve access to its market and strengthen domestic demand; in Europe domestic demand has been strengthening and is becoming the major force for growth and job creation; growth in Canada, especially of investment, has resulted in a higher rate of job creation.

3. While these developments are certainly to be welcomed, a number of serious problems and imbalances still cloud the outlook for the world economy.



They include:

- = persisting high unemployment, especially among youth in most countries;
- = large fiscal deficits in several Summit countries;
- = continuing large current account imbalances;
- = uncertainty about the future behaviour of exchange rates;
- = persisting trade barriers and protectionist pressures;
- = continuing difficulties for developing countries, with particularly severe debt problems for some;
- = uncertainty about the medium-term prospects for the levels of energy prices.

## II. Basic Tasks for the Tokyo Summit

4. The Summit countries should give careful consideration to the interrelated and structural character of current global economic problems, and seek policies consistent with medium- and long-term perspectives; promptness and flexibility may be required in addressing urgent problems.

With these considerations in mind, the basic tasks for the Tokyo Summit are:

4.1. To consider how to maintain the momentum of our co-operative action and to consolidate the favourable developments, arising out of the policies outlined in Bonn, and thus to contribute to securing a brighter prospect for the world economy;

4.2. To focus our deliberations on the following main objectives:

- = to reinforce the underlying trend for sustained non-inflationary growth of our economies, while at the same time redressing external and domestic imbalances, through appropriate macro-economic and structural policies;
- = to improve the functioning of the international monetary system;
- = to enhance the partnership with developing countries, in particular by supporting policies in those countries for sustainable growth and structural adjustment;
- = to reinforce and extend the multilateral trading system.

## III. Main Issues for Discussion

### 5. Sustained growth and redress of imbalances

Main objectives: to maintain and reinforce the momentum for economic expansion through the individual and collective efforts of all Summit countries. To continue to implement sound and compatible policies that will promote sustained non-inflationary growth and restore external and domestic balances.

- Have sufficient efforts been made in all our countries to reduce



budget deficits and to control public spending?

- Given the prevailing low inflation rates, is there scope for interest rates to fall further?
- Can we rely on exchange rates alone to produce a sustainable pattern of current account balances?
- What role can structural policies play in promoting growth, employment, the functioning of markets and the integration of domestic economies into the world economy?
- How can we maximize the economic benefits of the recent oil price decline (pass them through to the consumers, or use part of them to increase fiscal revenues)? What are the risks for long-term energy policies?

6. Improvement of the functioning of the international monetary system

Main objectives: To attain a more stable and efficient functioning of the international monetary system, desirable for the steady expansion of world trade and investment.

- Does close policy coordination, supplemented in appropriate circumstances by co-ordinated intervention, continue to be indispensable for attaining a pattern of exchange rate which better reflects economic fundamentals?
- Should multilateral surveillance in the existing fora be strengthened?
- How can discussion of the improvement of the functioning of the international monetary system best be carried forward, having regard to the G-10 report and the discussions in the IMF Interim Committee?

7. Increased support for sustainable growth of developing countries

Main objectives: To emphasize the need for developing countries to pursue policies which promote sustainable growth and structural adjustment, thereby attracting financial flows and encouraging the repatriation of flight capital. To support their efforts by increased financial flows and expansion of trade, as well as by creating a favourable economic environment through stronger growth, lower interest rates, improved market access and promotion of structural adjustment on the part of the industrialized countries. To make special efforts to address the needs of the poorest countries.

- In order to deal with the debt problem,
  - = Do we agree that the objectives of policy in dealing with indebted countries should be the establishment of normal relations between those countries and financial markets and institutions?



- = Do we support the cooperative debt strategy, as developed at the recent meetings of the IMF and IBRD, as the most effective way of achieving this objective?
  - = In this process, what are the responsibilities of debtor and creditor countries, of the international financial institutions and of private banks?
  - = What are, and will be, the impact of the recent decline in oil prices on oil-exporting and oil-importing indebted countries?
- Do we agree to reaffirm our willingness to expand financial flows to developing countries, through:
- = increasing ODA, particularly for poorer countries, while at the same time improving the effectiveness and efficiency of aid?
  - = strengthening the financial base of the international financial institutions. What should be the amount of the eighth replenishment of the IDA? How should we deal with the question of a general capital increase for the World Bank?
  - = promoting private financial flows, in particular, direct investment, including further efforts to establish the Multilateral Investment Guarantee Agency, accompanied by efforts on the part of developing countries to improve the environment for foreign investment and repatriation of flight capital?
- How could we, recognizing the adverse effect of price fluctuations of oil and most non-oil commodities on the economies of many exporting developing countries, support their efforts for further processing of commodities and diversification of their economies?
- Is there a continuing need to extend emergency aid to some, and to cooperate further for the medium- and long-term economic development of all, sub-Saharan African countries, through:
- = steady implementation of measures identified in the Report on Aid to Africa prepared after the Bonn Summit?
  - = priority for these countries in the use of IDA VIII and its cooperation with the Structural Adjustment Facility of the IMF?
  - = continued cooperation with the Special Facility for sub-Saharan Africa?
  - = active participation in the UN Special Session on Africa?

#### 8. Strengthening of the multilateral trading system

Main objectives: To redouble efforts by all countries to resist the growing protectionist pressures, and to strengthen and extend the multilateral trading system.



- we reaffirm our commitment to halting and reversing protectionism, reducing and dismantling trade restrictions, and promoting further trade liberalization?

- Noting with satisfaction the progress of the preparatory process in the GATT, are we ready to make a firm political commitment to the launching of the New Round?

- How can the GATT be made more responsive to new developments in world trade and in the international economic environment?

9. Other matters

9.1. With regard to science and technology, we take note, with appreciation, of the final report of the Technology, Growth and Employment Working Group, which has fulfilled its mandate, having launched a number of valuable joint research projects now in progress under relevant auspices. Reference could also be made to the Manned Space Station Programme, the activities of the European Space Agency and the Third Conference on Life Sciences and Mankind.

9.2. With regard to environmental policies, the importance of international cooperation among industrialized countries as well as with developing countries towards preservation of the global environment could be re-emphasied and, in this connection, the proposals of the Ad-hoc Group on Improvement and Harmonization of Environmental Measurements could be welcomed.



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RWD

CH/EXCHEQUER	
REC.	23 APR 1986
TO	SIR G. HITTLE
	MR LAURE
	MR KITCATT
	MR MOUNTFIELD
	MR CULPIN

21/4/86 ✓  
24/4 ✓

Ref. A086/1210

MR POWELL

Tokyo Economic Summit: Political Issues

At the last meeting of Personal Representatives in preparation for the Economic Summit from 18 to 20 April, the Personal Representatives agreed final drafts of a general political statement, for which the suggested title is "Looking Forward to a Better Future", and of a statement on international terrorism. I attach copies of the drafts herewith.

General Declaration

2. The only argument of substance turned on what should be said about the arms control negotiations at Geneva (paragraph 3 of the General Declaration). As always, the problem was to find forms of words which went far enough for the United States and not too far for the French, who are not prepared to subscribe to a declaration which "supports" the United States position in the negotiations, on the ground that they wish to be even-handed on the substance of negotiations to which they are not parties. The form of words which now appears in the last sentence but one of the third paragraph was acceptable to both the United States and the French Representatives.

International Terrorism

3. The French Government were prepared to come further towards a willingness to take part in discussions of international terrorism than on previous occasions. They are still reluctant formally to acknowledge that terrorism is a subject which can or should be dealt with in a Summit group; but they have agreed that the ambit of the 1978 Bonn declaration should be extended,

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SMTAAK



so that it covers all forms of terrorism affecting civil aviation and not just hi-jacking; and I think that they are now ready to co-operate with Summit colleagues individually or in a group in discussing terrorism in other international organisations which have a competence to deal with the problem. The last sentence of the declaration thus represents a significant step forward in the willingness of the Economic Summit to address the problems of international terrorism.

Agenda for Political Discussion

4. It is proposed that Heads of State or Government should consider the two declarations as first business at their meeting on Monday 5 May. As they have been discussed extensively and in turn beforehand, it is hoped that the discussion at the Summit will not need to go on for too long. It is proposed that they should be issued to the press at lunch time that day.

--- 5. Political directors agreed a list of topics for discussion by Heads of State or Government and Foreign Ministers; I attach a copy of the list herewith. It is envisaged that, at dinner on Sunday 4 May, Heads of State or Government should discuss the order of business for the Summit, East/West relations and arms control issues, and (if there is time) international terrorism (which covers Libya). Regional issues would probably be discussed at the meal which Heads of State or Government and Foreign Ministers take together.

6. A determined effort was made to keep South Africa included as a separate topic. The main source of this proposal was the United States representative who said that both the President and the Secretary of State would wish to have a clearly focused discussion on the question with other leaders, as well as in their bilateral meetings with the Prime Minister and Foreign and Commonwealth Secretary. The Americans were, however, persuaded to drop their idea of a Summit statement on South Africa; and we



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succeeded in broadening out "South Africa" as an item for discussion into a heading entitled "Southern Africa". When this item is discussed among Foreign Ministers, it will be introduced by the Canadian Foreign Minister; we are trying to make sure that his introduction does not rock the CEGP boat.

7. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

RA

ROBERT ARMSTRONG

21 April 1986



Noon, 19 April 1986

TOKYO DECLARATION

LOOKING FORWARD TO A BETTER FUTURE

1. We, the Heads of State or Government of seven major industrial nations and the representatives of the European Community, with roots deep in the civilizations of Europe and Asia, have seized the opportunity of our meeting at Tokyo to raise our sights not just to the rest of this century but into the next as well. We face the future with confidence and determination, sharing common principles and objectives and mindful of our strengths.
  
2. Our shared principles and objectives, reaffirmed at past Summits, are bearing fruit. Nations surrounding the Pacific are thriving dynamically through free exchange, building on their rich and varied heritages. The countries of Western Europe, the Community members in particular, are flourishing by raising their co-operation to new levels. The countries of North America, enriched by European and Asian cultures alike, are firm in their commitment to the realization in freedom of human potential. Throughout the world we see the powerful appeal of democracy and growing recognition that personal initiative, individual creativity and social justice are main sources of progress. More than ever we have all to join our energies in the search for a safer and healthier, more civilized and prosperous, free and peaceful world. We believe that close partnership of Japan, North America and Europe will make a significant contribution toward this end.



3. We reaffirm our common dedication to preserving and strengthening peace, and as part of that effort, to building a more stable and constructive relationship between East and West. Within existing alliances, each of us is resolved to maintain a strong and credible defence that can protect freedom and deter aggression, while not threatening the security of others. We know that peace cannot be safeguarded by military strength alone. Each of us is committed to addressing East-West differences through high-level dialogue and negotiation. To that end, each of us supports balanced, substantial and verifiable reductions in the level of arms; measures to increase confidence and reduce the risks of conflicts; and the peaceful resolution of disputes. Recalling the agreement between the United States and the Soviet Union to accelerate work at Geneva, we appreciate the United States' negotiating efforts and call on the Soviet Union also to negotiate positively. In addition to these efforts, we shall work for improved respect for the rights of individuals throughout the world.



4. We proclaim our conviction that in today's world, characterized by ever increasing interdependence, our countries cannot enjoy lasting stability and prosperity without stability and prosperity in the developing world and without the co-operation among us which can achieve these aims. We pledge ourselves afresh to fight against hunger, disease and poverty, so that developing nations can also play a full part in building a common, bright future.

5. We owe it to future generations to pass on a healthy environment and a culture rich in both spiritual and material values. We are resolved to pursue effective international action to eliminate the abuse of drugs. We proclaim our commitment to work together for a world which respects human beings in the diversity of their talents, beliefs, cultures and traditions. In such a world based upon peace, freedom and democracy, the ideals of social justice can be realized and employment opportunities can be available for all. We must harness wisely the potential of science and technology, and enhance the benefits through co-operation and exchange. We have a solemn responsibility so to educate the next generation as to endow them with the creativity befitting the twenty-first century and to convey to them the value of living in freedom and dignity.



Noon, 19 April 1986

(Final Draft)

## Statement on International Terrorism

1. We, the Heads of State or Government of seven major democracies and the representatives of the European Community, assembled here in Tokyo, strongly reaffirm our condemnation of international terrorism in all its forms, of its accomplices and of those, including governments, who sponsor or support it. Terrorism has no justification and serves no purpose. It exists and spreads only by the use of contemptible means, ignoring the values of human life, freedom and dignity. It must be fought relentlessly and without compromise.

2. Recognizing that the continuing fight against terrorism is a task which the international community as a whole has to undertake, we pledge ourselves to make maximum efforts to fight against that scourge. Terrorism can be fought effectively only through determined, tenacious and patient action combining national measures with international cooperation. Therefore, we urge all like-minded nations to collaborate with us, particularly in such international fora as the United Nations, the International Civil Aviation Organization and the International Maritime Organization, drawing on their expertise to improve and extend countermeasures against terrorism and those who sponsor or support it.



3. The Heads of State or Government agree to intensify the exchange of information in relevant fora on threats and potential threats emanating from terrorist activities and those who sponsor or support them, and on ways to prevent them.

To pursue these ends they agree to make the 1978 Bonn Declaration more effective in dealing with all forms of terrorism affecting civil aviation ; and they are ready to promote bilaterally and multilaterally further actions to be taken in international organizations or fora competent to fight against terrorism in any of its forms.



April 18th, 1986

(DRAFT)

(TOKYO SUMMIT)

Suggested Topics for Discussions

(Topics)	(Level of Discussions)	(Possible Lead-offs) ("B" only)
1. General Statement	A	
2. East-West Issues	A → B	F.R.G.
(1) Assessment of new Soviet Leadership and its Foreign Policy		
(2) East-West Relations including Arms Control		
3. Regional Issues	B → AB	
(1) Asia (including the Philippines, Korean Peninsula, Cambodia)		Japan (US)
(2) Afghanistan		U.K.
(3) Middle East Peace Process Lebanon Iran-Iraq Conflict		E.C. France Italy
(4) Africa <del>South Africa</del> Southern Africa Horn of Africa UN Special Session on Africa		Canada Italy France
(5) Central and South America		U.S.
4. International Terrorism	A → B	
5. United Nations	(B)	Japan
6. Narcotics Issue	A	

NOTE:

- A: Discussions by Heads of State and Government  
 B: Discussions by Ministers for Foreign Affairs  
 AB: Discussions by Heads of State and Government and Ministers for Foreign Affairs



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*1-11 2-12p*

**From: MRS D C LESTER**  
**Date: 21 April 1986**

**SIR G LITTLER**

- cc
- Mr Lavelle
- Mr Fitchew
- Mr Mountfield
- Mr S Matthews
- Mr Culpin
- Mr Wynn Owen

**ECONOMIC SUMMIT**

This is to confirm that No. 10 have cancelled the meeting about the Tokyo Economic Summit which was to have been held on Wednesday 23 April at 3pm.

*Debbie Lester*

**MRS D C LESTER**





cc Sir P. Middleton  
S.R.T. Burns  
S.A.G. LITLER

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

The Hon James A Baker III  
Secretary of the Treasury  
Room 3330  
Main Treasury Building  
15th & Pennsylvania Ave NW  
WASHINGTON DC 20220

22 April 1986

A handwritten signature in dark ink, appearing to read 'Jim Baker'.

**DRAFT COMMUNIQUE : INTERNATIONAL ECONOMIC POLICY COORDINATION**

I have reflected on the note you gave me last week and our short discussion of it. My conclusion is that I could broadly accept it - and I would hope that others would take the same view - provided that you can sell it to the main complainant. I am sure it would be best if you could do this before we next meet.

I have two or three suggestions which might help get the note accepted. Your nine points appear to give much more to one group than to the other. To get a more even match I suggest:

- run (4) and (5) together as a single point; for the first five words of the present (5) substitute "and directed that"; and in the third line recast as "their individual forecasts should be reviewed in relation" etc;

- similarly run (6) and (7) together, simply inserting the word "and".

As you know, I do not like the last three lines of the present (5) which you have in square brackets, and I think others may object also. Finally, I think it would be better to convert (9) into a separate and shorter rounding-off paragraph: "They invited their Finance Ministers to report progress to their next Summit Meeting".

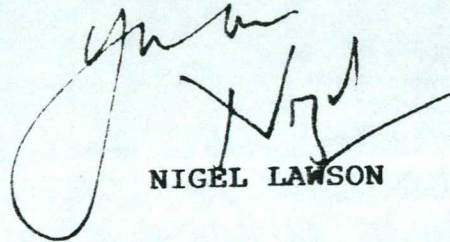
I also have a couple of other drafting suggestions, where I think we could find more easily acceptable language, although I do not press them:





- for (1)(b) I would prefer: "improving the operation of markets to provide incentives for employment and worth-while investment";

- in (1)(d) I think "predictability" is a hard target; you might like to consider a formula derived from Plaza such as: "encouraging less volatile exchange rates which reflect fundamental economic conditions".



NIGEL LAWSON





Foreign and Commonwealth Office

London SW1A 2AH

23 April 1986

b/f 29/4  
(Spec RLA Culpin)

24/4

CH/EXCHEQUER	
REC.	23 APR 1986
<del>ACTION</del>	SIR G. LITTLER
COMES TO	MR CULPIN
	MRS KESTER

Dear Rachel

Economic Summit, Tokyo: Badges/Passes

I attach a breakdown of the complicated Japanese system of allocation of badges and passes for the Economic Summit in Tokyo.

At the separate sessions the Chancellor may be accompanied by an Assistant at meetings of Finance Ministers, while a Liaison Officer waits in the Liaison Officer's Room.

I should be grateful for confirmation that the Chancellor will wish to be accompanied by Sir Geoffrey Littler and that Mr Lewis will be the Liaison Officer.

Yours ever,

*(Signature)*

(R N Culshaw)  
Private Secretary

Yellow  
Badge  
+ S d/f/b  
Green  
Badges

Mrs Rachel Lomax  
PS/Chancellor of the Exchequer  
HM Treasury

Ry Sheila  
Wagon  
210 6373  
(or Betty Davis)



ECONOMIC SUMMIT, TOKYOAllocation of Badges/PassesBadges

Gold Silver	Accesss to all venues	Prime Minister Secretary of State Chancellor of the Exchequer Sir R Armstrong (non transferable)
Red	1st/2nd Floors Akasaka Palace Delegation House zones A, B & C	1 Liaison Officer (Mr Powell) (non transferable) 1 Security Officer (Supt Waller) (transferable)
Sky Blue	1st/2nd Floors Akasaka Palace Delegation House zones A, B & C (separate sessions only)	2 Assts to Secretary of State (non transferable) 2 Assts to Chancellor (to be named) (non transferable)
Green (for officials)	1st Floor Akasaka Palace Delegation House zones A, B & C	5 at any one time exchanging yellow badge below for green (transferable)
Green (for "support staff")	1st Floor Akasaka Palace Delegation House zones B & C	2 detectives 1st Floor 1 aide (? Mrs Ryder) 1 Embassy technician (transferable)
Yellow	Delegation House zones B & C	10 (ie the rest of Official Delegation) (transferable)
Yellow	Delegation House zones B & C	For support staff 7 allocated 4 more requested (transferable)

Passes

White Red Stripe	Access to Akasaka compound only with extra badge	Whole Delegation
White Green Stripe	Access zones B & C outside areas only	Detectives



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ACCESS TO AKASAKA PALACE/DELEGATION HOUSE

Akasaka Palace

Access to Second Floor

Plenary Sessions      Prime Minister  
                            Secretary of State  
                            Chancellor of the Exchequer  
                            Personal Representative  
                            Liaison Officer (C Powell)  
                                    (in Liaison Officer's Room)

Separate Sessions      Prime Minister  
                            Personal Representative  
                            Liaison Officer (C Powell)  
                                    (in Liaison Officer's Room)  
                            Secretary of State  
                            Assistant  
                            Liaison Officer  
                                    (in Liaison Officer's Room)  
                            Chancellor of the Exchequer  
                            Assistant  
                            Liaison Officer  
                                    (in Liaison Officer's Room)

First Floor                      5 officials at any one time (green badges  
  exchanged for yellow badge below)

Delegation House              10 official members of Delegation  
  (yellow badge)

7 Access to Akasaka Palace by "Support Staff"

0 1st & 2nd Floor              Liaison Officer for              Red badge  
  Head of Delegation  
  (Mr Powell)  
  Supt M Waller

1st Floor only                      Supt A Eames  
  Chief Insp T Butler  
  1 Aide-de-Camp                      Green badges  
  (? Mrs C Ryder)  
  1 Embassy technician

Delegation House              Seven support staff              Yellow badges  
  and 4 extra  
  required (see list below)

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5 Secretarial Assistants  
2 Duty Clerks  
2 Conference Officers  
1/2 Embassy Liaison Officers/Staff

NB - Royal Military Police will be allowed in to collect and deliver classified material wearing their White with Red stripe pass only.



ADMISSION TO MAIN BUILDING AND DELEGATION HOUSE OF AKASAKA PALACE\*

A. . . II

		Plenary Session	Separate Session			Badges	
Main Building	Second Floor	Head of Delegation Foreign Minister Finance Minister Personal Representative	Session for the Heads of Delegation Head of Delegation Personal Representative	Session for the Foreign Ministers Foreign Minister Assistant to the Minister	Session for the Finance Ministers Finance Minister Assistant to the Minister	Head of Delegation: Gold (non-transferable) ****(1) Minister & P.R.: Silver (3) (non-transferable) Assistant to the Minister: Sky-blue** (2) (non-transferable)	
		Liaison officer (in the Liaison Officers' Rooms)	Liaison officer	Liaison officer	Liaison officer	Liaison officer for the Head of Delegation: Red (1) (non-transferable) Liaison officer for the Minister: Sky-blue** (2)	Supporting staff etc. Security officer (Personal interpreters)***
	First Floor	When requested by the Principal Members of Delegation, officials not exceeding 5 may come from the Delegation House				Green (transferable) (5)	Personal interpreters *** (≤3) 2 security officers Doctor Private secretary to the Head of Delegation Aido-do-camp
Delegation House	10 officials of whom 5 are admitted to the first floor by changing their yellow badges to the green badges at the doorway passage of the third floor leading to the Main Building				Yellow (transferable) (10)	* 3 members of supporting staff	Yellow (3) (transferable)

\* Access to Akasaka Palace is allowed to those who wear lapel badges in addition to delegation passes. The Head of Delegation, Ministers and P.R. are given the access by wearing lapel badges only.

\*\* The sky-blue badges are valid only during the Separate Session.

\*\*\* When the presence of personal interpreters is considered necessary, they are given access to the second floor by changing the green badges to the red badges at the side of the stairs in the entrance hall.

\*\*\*\* Figures in parentheses indicate the number of badges to be given.

\* Not enough for support staff to gain admittance to offices in Delegation House



24/4/86

✓  
24/4

CH/EXCHEQUER	
REC.	24 APR 1986
ACTION	Sir G. LITTLE
COPIES TO	Mr LAUELLE
	Mr FITCHEN
	Mr COLPIN

Ref. A086/1222

MR POWELL

Tokyo Economic Summit 1986

I am sending you a separate minute about the political aspects of the Economic Summit. This deals with the economic aspects, following the meeting of Personal Representatives last weekend.

2. The Japanese "game plan" has been to construct a thematic paper as a basis for discussion among the Personal Representatives, and out of that eventually to distil an "annotated agenda" for Heads of State or Government. At the weekend, therefore, we were presented with two draft papers: a revised thematic paper, and a document entitled "Main Issues for Discussion" which was intended to be the annotated agenda. Both documents bore all the marks of having been translated from the original Japanese.

3. Style apart, the paper on "Main Issues for Discussion" proved to be something of a disappointment. In structure, and in much of the language, it was modelled closely on the thematic paper: the main difference was that points which in the thematic paper were presented positively were turned into questions in the "main issues" paper, which as a result looks rather like an examination paper. To many of the questions there is likely to be only one answer, and the paper does not distinguish between those questions on which Heads of State or Government need not spend time and those on which they could usefully spend discussion time. I fear that the paper may not really help to focus the discussion at the Summit. Nonetheless, that is the paper which Mr Nakasone will be formally sending to his colleagues later this week.



4. Personal Representatives went through the Japanese draft of the "main issues" paper, and the version which Mr Nakasone will --- send - an advance copy of which I attach - has been gone through in detail and textually agreed by the Personal Representatives. But we also went through in detail and textually agreed the thematic paper. I think that that paper may be more useful for briefing and preparatory purposes, and I also attach a copy of --- that.

5. Nothing in the discussion led me to expect that the Summit itself would produce any surprises. There are no disagreed texts, or "square brackets" in either draft; and, though there are of course some differences on policy issues and differences of emphasis among the countries participating in the Summit, I do not think that it will be too difficult to accommodate them at the Summit itself without too much tension.

6. The position of the French Government at Tokyo will be interesting; and the fact that both Monsieur Mitterrand and Monsieur Chirac will be there will affect the course of discussion and of drafting. When Heads of State or Government meet on their own, the French chair will be occupied by the President; in plenary meetings he will be accompanied by Monsieur Chirac and Monsieur Raimond. The understanding between the President and Monsieur Chirac is said to give the President primacy on foreign policy, defence and international economic affairs; and Monsieur Chirac primacy on domestic economic and financial (and other) policies. But the President will not put his name to any published document at the Summit which might seem to imply his endorsement of his Government's domestic policies. One consequence of this is that it will not be possible to include in this year's declaration a section describing the economic policy and prospects of each country represented, since it would be impossible for the French to produce a paragraph which would be acceptable both to Monsieur Chirac and Monsieur Mitterrand. There will be other



sensitivities too, no doubt: some of them emerged at the discussion among Personal Representatives, but there may be more to come.

7. The general feeling was that the position of and prospect for the world economy in general, and the industrialised countries in particular, was really not too bad. This was in considerable measure because all the Summit countries had been pursuing the general objectives prescribed at previous summits (Versailles onwards) of reducing the rate of inflation, pursuing prudent fiscal and monetary policies, and going for sustainable non-inflationary growth. The Summit countries as a whole are now in their fourth year of growth; and the process is being further sustained, at the point when it might otherwise have been in danger of losing some of its impetus, by the decline in the price of oil (and the relatively low prices of many other commodities).

8. Against this background, the main themes for discussion of the Summit seem likely to be:

1. The importance for the world economy (for the developing countries as well as for the industrialised countries) of the Summit countries continuing to pursue the same general lines of macro-economic policy as in the past four years.

2. The need to reduce fiscal deficits where they are excessive (ie the United States and Italy, but without naming them), and maintain control of public spending.

3. The desirability of further reductions in interest rates, which should be made possible by the continuing fall of inflation and the pursuit of prudent fiscal and monetary policies.



4. The problems of unemployment and job-creation in the Summit countries: best dealt with by maintaining sustainable non-inflationary growth, and by policies of "structural adjustment" (which includes the encouragement of new and high-technology industries; deregulation, particularly of small businesses; improving the functioning of markets, particularly capital and labour).

5. Excessive payments imbalances: particularly the United States deficit, and the Japanese surplus. This will be the heading under which Mr Nakasone will present his Government's proposals and intentions to encourage consumer spending and increase the Japanese propensity to import, in the light of the recently published Maekawa Report.

6. A reaffirmation of the need to fight protectionism, to reinforce and extend the open multilateral trading system, and to launch a new round of multilateral trade negotiations in the GATT. The French will continue to resist a commitment to a specific date for launching the new round, and will be supported by the European Commission; the United States, Canada and Japan would like a commitment to launch the new round at the Ministerial meeting of the GATT in September 1986, but are unlikely to fight very hard for that at the Summit, in the belief that when it comes to the Ministerial meeting of the GATT the French will not stand in the way of formally launching the new round, if their other objectives are met. The United States may press for a reference in the declaration to the need for the new round to cover trade in services, barriers to investment, and intellectual property rights; other countries will resist suggestions that the Summit should try to define the contents of the new round and will want that to be decided in the GATT.



7. The increased compatibility of the economic policies of the main industrialised countries - the result of the fact that the United States and European countries have on the whole faced similar problems and developed similar policies - and the greater degree of convergence of their economic performance, which together with closer co-ordination (eg the Plaza agreement) have produced a significant realignment of the pattern of exchange rates which now better reflects fundamental economic conditions.

8. Endorsement of the continuing progress of international discussion on possible improvements to the functioning of the international monetary system, and agreement that this discussion should continue within the institutions of the International Monetary Fund. We may hear more about the G5/G7 controversy, but probably in the margins rather than in the main meetings.

9. A reiteration of the exhortation to developing countries to pursue domestic economic policies (macro-economic and "structural") which will attract financial flows from the commercial banks and the international financial institutions and will encourage repatriation of flight capital; a renewal of the pledge of maintained and where possible increased official development assistance to the poorest countries; special attention to the problems of sub-Saharan Africa.

9. There will have to be the usual references in the declaration to the importance of protecting the environment, to the final report of the Working Group on Technology, Growth and Employment and to space programmes. The Summit will be able to take note of the report on drugs commissioned at the Bonn Summit, but there seems to be no prospect of any further initiatives on that subject.



10. The United States representative was very clearly put on notice that the climate at the Summit would be seriously damaged if the United States Administration carried out its threat to institute on 1 May measures in reprisal for the alleged costs to the United States of the enlargement of the European Community. I had the impression that the United States understood this perfectly well, but that the matter had still to be decided by the President. On the other hand there was considerable interest in the longer-term problems which agriculture faces all over the world, as a result of the tendency to over-production which is likely to be increased by developments in bio-technology which will greatly increase yields per acre. The United States representative had noted with interest some observations on this made by the Foreign and Commonwealth Secretary at the Ministerial meeting of the Organisation for Economic Co-operation and Development last week, and was thinking of suggesting this to the President as an issue which might be raised for private discussion among Heads of State or Government once the economic declaration had been agreed and cleared for publication.

11. As in the last three Summits, the draft of the declaration will be worked on by Personal Representatives overnight after the formal sessions on Monday 5 May, for discussion at the plenary meeting on the morning of Tuesday 6 May. If the draft can be cleared fairly quickly, there could well be time for raising other issues for general discussion: these could include not only the longer-term problems of agriculture, but also the fiscal and economic problems created by the need to provide social services - both social security and health care - for an increasingly large proportion of elderly people in the populations of the industrialised countries (though this may now be delicate for the French Government), Mr Nakasone's thoughts about education, and possibly the Japanese MITI initiative for a "human frontier programme".



12. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

RA

ROBERT ARMSTRONG

23 April 1986



CONFIDENTIAL



(X) (A)

10 DOWNING STREET

23 April 1986

From the Private Secretary

Dear Rachel.

TOKYO ECONOMIC SUMMIT

X ( Sir Robert Armstrong's minute of 23 April to me described the way in which the Japanese Government proposed to handle discussion of the economic issues at the Tokyo Economic Summit. It would indeed be helpful to have a speaking note as suggested.

I am copying this letter to the Private Secretary to the Foreign and Commonwealth Secretary and to Michael Stark (Cabinet Office).

Yours sincerely  
Charles Powell

CHARLES POWELL

Mrs. Rachel Lomax,  
H.M. Treasury.

CONFIDENTIAL

✓ 24/4

\*ADVICE BY 30/4 PLEASE

CH/EXCHEQUER	
REC.	24 APR 1986
ACTION	SIR C. LITTLE*
COMES TO	MR LAVELLE
	MR FITCHER
	MR CULPIN



CH/EXCHEQUER	
REC.	24 APR 1986
ACTION	Sir G. LITTLE
COMES TO	Mr LAVELLE
	Mr FITCHEN
	Mr CUPPIN

Ref. A086/1243

MR POWELL

---

Tokyo Economic Summit

I understand that Mr Nakasone envisages that the first business to be taken by Heads of State or Government at their first formal meeting on the morning of Monday 5 May should be the two "political" declarations - the general declaration and the declaration on international terrorism.

2. He would then turn straight to economic issues. He envisages that the discussion would start with a tour de table, with a contribution from each Head of State or Government in turn, setting out briefly his or her view of the economic situation and prospects for his or her own country, and on the prospects for the world economy. He would like these contributions to be kept as short as possible - his Personal Representative mentioned five minutes each - so as to leave time for the tour de table to be followed by a more general exchange of views.

3. I expect that you will want to ask the Treasury to provide you with a speaking note for the Prime Minister's contribution to the tour de table.

4. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

REA

ROBERT ARMSTRONG

23 April 1986



#  
262405 TRSY G  
MOF J24980

APRIL 24 1986

THE RIGHT HONOURABLE  
NIGEL LAWSON, P.C. MP  
CHANCELLOR OF THE EXCHEQUER  
H.E. TREASURY  
LONDON

H/EXCHEQUER	
REC.	24 APR 1986
FROM	SIR G LITTLER
ADDRESSES TO	MR WILPIN
	MR KUCZYK
	MRS LESTER

*1. let Mr  
discuss  
this with  
POM &  
CJL.*

DEAR CHANCELLOR LAWSON,

1. I LOOK FORWARD TO SEEING YOU AT THE ECONOMIC SUMMIT IN TOKYO BEGINNING 4 MAY.

2. WITH RESPECT TO THE SCHEDULE OF THE DISCUSSIONS OF FINANCE MINISTERS, I WILL CONSULT WITH YOU AT THE DINNER ON SUNDAY EVENING, BUT I WOULD LIKE TO SUGGEST THE FOLLOWING AS A TENTATIVE ONE.

3. WE SHALL HAVE ONE MEETING, WITH THE POSSIBILITY OF HAVING ANOTHER SHORT MEETING, AND THREE MEALS TOGETHER.

4. I SUGGEST THE FOLLOWING AGENDA:

**SUNDAY DINNER**

- A. OUTLINING AND CONFIRMATION OF PROGRAMME
- B. MACRO-ECONOMY (WORLD ECONOMIC DEVELOPMENTS, ECONOMIC SITUATION OF OUR COUNTRIES, AND ECONOMIC POLICIES)

**MONDAY MORNING MEETING (ACCOMPANIED BY A DEPUTY)**

- A. INTERNATIONAL MONETARY SYSTEM
- B. DEBT PROBLEM

**MONDAY LUNCH**

**TRADE**

**MONDAY DINNER**

NO FIXED AGENDA

**(TUESDAY MEETING)**

5. I REGARD ALL ITEMS LISTED ABOVE AS IMPORTANT. HOWEVER, ON THE OCCASION OF THE MONDAY MORNING MEETING, I HAVE BEEN CONSIDERING CONCENTRATING ON THE INTERNATIONAL MONETARY SYSTEM AND THE DEBT PROBLEM.

WITH MY BEST REGARDS,

SINCERELY YOURS,

NOBORU TAKESHITA

MINISTER OF FINANCE  
MINISTRY OF FINANCE  
JAPAN

END#  
262405 TRSY G



REF 330

~~CONFIDENTIAL~~

CONFIDENTIAL

FM BONN

TO PRIORITY FCO

TELNO 355

OF 251905Z APRIL 86

INFO PRIORITY WASHINGTON, TOKYO, PARIS, UKREP BRUSSELS

INFO ROUTINE OTTAWA, ROME

TOKYO ECONOMIC SUMMIT

1. CHANCELLOR KOHL LEAVES BONN TOMORROW 26 APRIL. HE WILL VISIT INDIA AND THAILAND ON THE WAY TO TOKYO.

2. TELTSCHIK, WHO WILL ACCOMPANY HIM, TOLD ME TODAY THAT KOHL WAS CONTENT WITH THE AGENDA WHICH HAD BEEN CIRCULATED TO COVER THE ECONOMIC SIDE. ON THE MAIN POINT, MANAGEMENT OF THE WORLD ECONOMY, THE FIGURES SHOWED THAT THE FRG HAD MORE THAN DISCHARGED THE UNDERTAKINGS IT HAD GIVEN IN BONN IN 1985. WITH GROWTH IN 1986 LIKELY TO BE NEARER 4 PERCENT THAN 3 PERCENT, KOHL WAS CONFIDENT OF BEING ABLE TO RESIST ANY PRESSURE (NOT THAT TELTSCHIK EXPECTED IT) ON HIM TO "DO MORE". JAPAN WAS A DIFFERENT STORY, AND KOHL MIGHT WELL URGE THE ADOPTION OF SIMILAR CATALOGUES OF NATIONAL UNDERTAKINGS THIS YEAR, SO AS TO ENSURE THAT THE GOALS IN THE MAEKAWA REPORT WERE ADOPTED AS JAPANESE GOVERNMENT POLICY. TELTSCHIK ESPECIALLY DREW MY ATTENTION TO THE CURRENT ISSUE OF WIRTSCHAFTWOCHE, A SERIOUS ECONOMIC WEEKLY, WHICH HAS A HEADLINE "GERMANY'S NEW ECONOMIC MIRACLE!" COVERING A STORY THAT THE PROGNOS INSTITUTE IN BASLE IS ABOUT TO PUBLISH A STUDY PREDICTING STEADY ECONOMIC GROWTH FOR THE FRG UNTIL THE YEAR 2010 AT LEAST, WHEN GERMAN GDP IS CALCULATED AT NEARLY DOUBLE WHAT IT WAS IN 1985.

3. ON THE POLITICAL SIDE, TELTSCHIK HAD NO COMMENT EXCEPT TO SAY THAT HE HAD HEARD OF AN AMERICAN VARIANT OF THE PROPOSAL FOR A MARSHALL PLAN FOR THE MIDDLE EAST, WHICH HE FOUND LESS CONVINCING THAN THE ORIGINAL ISRAELI PROPOSAL, LINKED AS THIS HAD BEEN TO CONCRETE PROJECTS INVOLVING ISRAEL WITH EGYPT AND IF POSSIBLE JORDAN. IT WAS CLEAR TO THE GERMANS, HOWEVER, THAT SUCH A PLAN MIGHT REINFORCE A PEACE SETTLEMENT BUT COULD NOT OBTIATE THE NEED FOR A POLITICAL FRAMEWORK IN WHICH IT COULD BE SET.

BULLARD

~~REPEATED~~ AS REQUESTED

ECONOMIC SUMMIT

STANDARD (~~PALACE~~)

ERD  
ECONOMIC ADVISERS

FED

NAD

ECDs

TRED

SOVIET D

EED

UND

MAED

SCD

MR MAUD

MR WILSON

— SIR D MIERS

MR REEVE

ADDITIONAL DISTRIBUTION

ECONOMIC SUMMIT

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 OF 252145Z APRIL 86  
 INFO ROUTINE TOKYO

*Phil Phil (51)  
 on 12/2*

TOKYO SUMMIT: UNITARY TAXATION

1. OUR TELNO 1044 OF 22 APRIL COMMENTED THAT UNITARY TAXATION WAS A SUBJECT WHICH MIGHT USEFULLY BE RAISED WITH THE WHITE HOUSE PARTY IN THE MARGINS OF THE TOKYO SUMMIT.
2. WE HAVE RECEIVED SOME FURTHER INFORMATION WHICH WOULD STRONGLY SUPPORT SUCH AN INTERVENTION. PROGRESS ON THE FEDERAL LEGISLATION TO REFORM UNITARY TAXATION HAS BEEN EXTREMELY SLOW SINCE THE TREASURY DEPARTMENT INTRODUCED A BILL INTO CONGRESS SHORTLY BEFORE CHRISTMAS. HEARINGS IN THE SENATE, ORIGINALLY SCHEDULED FOR 16 MAY, HAVE BEEN CANCELLED. IN THE HOUSE, THE OUTLOOK IS LITTLE BETTER. WE UNDERSTAND FROM A REPRESENTATIVE OF FORD MOTOR CORPORATION WHO HAS SPOKEN TO ROSTENKOWSKI (CHAIRMAN OF THE HOUSE WAYS AND MEANS COMMITTEE) THAT THE LATTER WOULD BE PREPARED TO HOLD HEARINGS ON THE BILL SHOULD HE RECEIVE A DIRECT APPROACH ON THE MATTER FROM BAKER OR THE WHITE HOUSE. ROSTENKOWSKI'S PERCEPTION, ACCORDING TO OUR SOURCE, IS THAT THE ADMINISTRATION HAS DONE VERY LITTLE TO PROMOTE ITS OWN LEGISLATION - THE LETTER WHICH BAKER SENT TO ROSTENKOWSKI (AND PACKWOOD) EXPLAINING THE PURPOSE OF THE PROPOSED LEGISLATION IS REGARDED AS QUOTE LITTLE MORE THAN A FORMALITY UNQUOTE.
3. THIS ASSESSMENT FROM FORD ACCORDS WITH OTHER INTELLIGENCE WE HAVE RECEIVED. UNTIL THE ADMINISTRATION DECIDES TO MAKE A MOVE (AND BAKER GAVE NO INDICATION OF MOVEMENT IN HIS RECENT BILATERAL WITH THE CHANCELLOR), THERE SEEMS LITTLE MORE WE CAN DO THROUGH THE UTC LOBBYISTS, OR JOINT EFFORTS WITH OTHER EMBASSIES, TO CARRY THE PROCESS FORWARD. WE ARE IN A STALEMATE SITUATION. WE WOULD THEREFORE STRONGLY RECOMMEND THAT THE MATTER IS RAISED WITH REGAN AND/OR BAKER, AS OPPORTUNITY ARISES. IN PARTICULAR, THE NEED FOR HEARINGS - BOTH ON THE SENATE AND HOUSE SIDE - SHOULD BE URGED.
4. FCO PLEASE COPY TO PS/CHANCELLOR, PS/FINANCIAL SECRETARY, LITTLER (TREASURY), BRAITHWAITE (FCO) AND TAYLOR THOMPSON (INLAND REVENUE).

WRIGHT

UNITARY TAXATION

LIMITED

ERD  
 ECD(E)  
 NAD

MR BRAITHWAITE  
 MR MAUD  
 MR DAVID THOMAS

COPIES TO:-

MR BICKFORD

MR FAWCETT

MR TAYLOR THOMPSON

PS/CHANCELLOR

PS/FINANCIAL SECRETARY

MISS SINCLAIR

MR COOKE OT2 DTI(VICTORIA STREET)

LEGAL ADVISERS

INLAND REVENUE

INLAND REVENUE

TREASURY

TREASURY

TREASURY

**CONFIDENTIAL**





Foreign and Commonwealth Office

London SW1A 2AH

25 April 1986

CH/EXCHEQUER	
REC.	28 APR 1986 ✓ 28/4
<del>ADMITTED</del>	SIR G. MITCHELL
COPIES TO	Mr CULPIN
	MRS LESTER

Dear Charles

Economic Summit, Tokyo: Welcoming Ceremony

I attach a note and diagram about the UK Welcoming Ceremony in Tokyo on Sunday 4 May.

I am copying this letter to Rachel Lomax (Treasury) and Michael Stark (Cabinet Office).

Yours ever

(R N Culshaw)  
Private Secretary

C D Powell Esq  
PS/10 Downing Street



ECONOMIC SUMMIT, TOKYO  
WELCOMING CEREMONY, SUNDAY 4 MAY

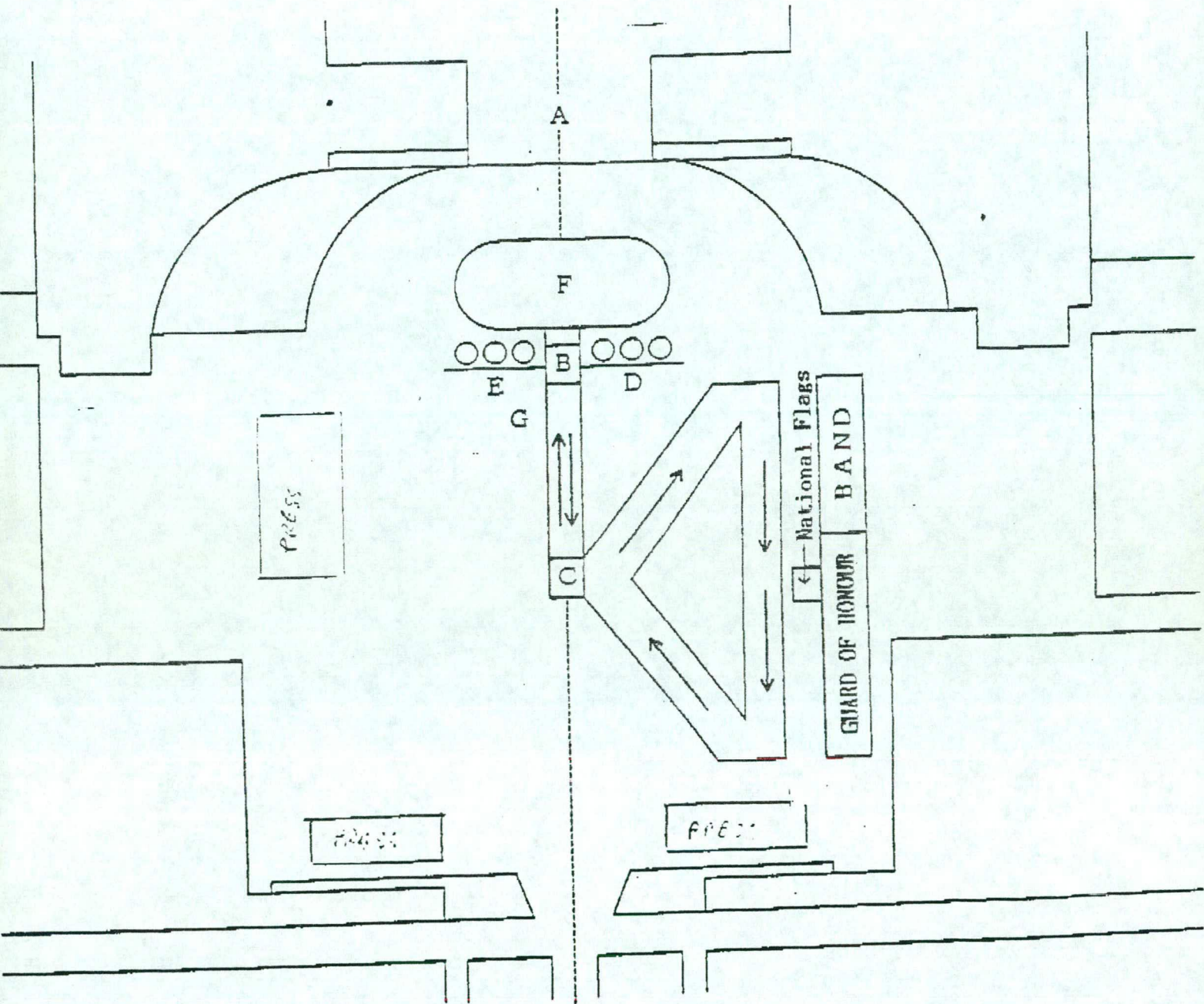
UK Welcoming Ceremony begins at 15.46 and ends at 16.01 on 4 May. The Prime Minister, Secretary of State and Chancellor will leave the Hotel at 15.43.

Outline of the Ceremony is as follows: (references on plan attached)

- (i) Motorcade arrives at G.
- (ii) Chief of Protocol (Mr Ishii) escorts the party to F.
- (iii) Mr Nakasone, Abe, Takeshita greet the Ministers at F.
- (iv) Chief of Protocol leads the two Prime Ministers to B.
- (v) Two Prime Ministers stand behind the platform at B.
- (vi) Other UK Ministers stand at E.
- (vii) Japanese Ministers stand at D.  
(one detective for each Minister and one interpreter if required is allowed to stand behind the line at E.)
- (viii) Playing of the fanfare.
- (ix) Two Prime Ministers stand on the platform at B.  
UK and Japanese National Anthems.
- (x) Chief of Protocol leads two Prime Ministers to C.
- (xi) Two Prime Ministers stand on platform at C to receive Salute of Guard of Honour.
- (xii) Two Prime Ministers inspect the Guard following the direction lines.
- (xiii) Two Prime Ministers return to C and stand on platform.  
Receive Salute of Guard of Honour.
- (xiv) Chief of Protocol leads two Prime Ministers to A followed by other Ministers.
- (xv) Superintendent of the Palace leads the party to the salon for a short courtesy meeting of the six Ministers.  
(Detectives will wait outside).
- (xvi) Superintendent will lead the whole party to the entrance where cars will be waiting.
- (xvii) Return to New Otani Hotel.



Welcoming Ceremony  
(For fine weather)





Tony

X's the outcome of some rather tense negotiations on Friday.

From: SIR PETER MIDDLETON

Date: 25 April 1986

I have discussed with G. Little, who will ensure that none of the papers you

CHANCELLOR are ready to want cc Sir G Littler  
Mr Culpin  
Mr Porteous

in figure are overclassified  
I hope you can live with this.

Rh.  
2874

Markus.  
The very little stuff  
that is sensitive (Lima)  
I will read (Lima)  
I will go: otherwise  
have for it will  
Economic stuff  
can  
Clerk  
st classify

TRAVEL TO MOSCOW

I have been told that you are planning to travel to Tokyo via Moscow on an Air France flight.

2. If you do this, there are a number of restrictions which must be observed. First, the official boxes and briefcases should be given diplomatic immunity. This does not prevent you gaining access to the papers inside. Second, one of the company - Mr Culpin - must be given courier status and diplomatic immunity. This is quite straightforward. Both of these used to be normal practice for overseas flights and should become normal practice again so long as the security instructions remain as they are.

X  
2. Third, any particularly sensitive papers should stay sealed in their bags throughout the flight. You and the others in the party can however read other papers en route, provided they are not classified above 'confidential' and provided they do not include anything which would prove disastrous if compromised during the journey. This should not unduly restrict your reading.

3. Have a nice flight.

We will put all the "political" stuff in a sealed bag, if necessary.  
But I very much doubt any of the economic stuff will be this sensitive.

PEM

P E MIDDLETON

'Confidential' or  
Secret.  
I have asked  
Tom  
have the  
John  
etc.





Foreign and Commonwealth Office

London SW1A 2AH

25 April 1986

CH/EXCHEQUER	
REC.	25 APR 1986 25/4
ACTION	SIR G. LITTLER
COMES TO	MR LAVELLE
	MR F. E. R. BUTLER
	MR KITCATT
	MR MOUNTFIELD

Dear Charles,

I enclose five copies of the brief for the Prime Minister's meeting with President Reagan in Tokyo on 4 May before the Economic Summit. The brief covers the following subjects:

Libya/Terrorism  
 Arab/Israel  
 East/West relations  
 Arms Control  
 Northern Ireland  
 EC/US relations  
 South Africa.

I am copying this letter (with a copy of the brief) to Rachel Lomax (Treasury) and Michael Stark (Cabinet Office).

Yours ever,

Colin Budd

(C R Budd)  
Private Secretary

C D Powell Esq  
 PS/10 Downing Street



## TOKYO ECONOMIC SUMMIT 4-6 MAY 1986

PRIME MINISTER'S BILATERAL MEETING WITH PRESIDENT REAGAN

## I UK OBJECTIVES

Libya/Terrorism

To discourage further request for use of UK bases.

To encourage the President to work for concerted non-military pressure on Qadhafi.

Arab/Israel

To persuade President Reagan of the need to revitalise a Middle East peace process in support of moderates (Peres and King Hussein).

East/West

To discuss prospects for East/West relations, especially for the next Reagan/Gorbachev summit.

Arms Control

To reinforce message on US compliance with arms control agreements; and to underline emphasis in earlier contacts on need to show imagination in handling SDI at Geneva.

Northern Ireland

To reinforce the US Administration's determination to see the Supplementary Extradition Treaty ratified by the Senate.

To maximise the cash element in the eventual US contribution to the International Fund, and to minimise the conditions on its use.



## I UK OBJECTIVES (Cont'd)

EC/US Relations

To persuade US to negotiate with EC over their alleged trade loss through EC enlargement, instead of taking unilateral restrictive action against EC exports.

South Africa

To enlist President Reagan's continued support for a policy of dialogue and suspension of violence not economic boycotts, or UN mandatory sanctions.



## II ARGUMENTS TO USE

Libya/Terrorism

- Domestic political cost from use of bases.
- Luxembourg agreement useful as far as it goes. (Review implementation - reduction in People's Bureaux; deportation of students.)
- Keeping up pressure on EC partners to go further (Greeks difficult).
- Need to tackle root causes of ME tension especially Arab/Israel dispute.
- Need for continuing assessment of strength of Qadhafi's position, consultations on most effective ways of dealing with him.

Arab/Israel

- Situation very difficult. Peace process stalled. But need to encourage moderates. Peres and King Hussein's consistently constructive approach deserves support.
- Must take advantage of Peres' last months in office. Peres looking for movement on conditions in occupied territories.
- Will explore this during my visit to Israel. Will concentrate on conditions in Occupied Territories. Seek to encourage devolution of powers to Arab inhabitants.
- Active US role vital. Must not let it appear that we are preoccupied by fight against terrorism. Palestinian grievances must be addressed.



## II ARGUMENTS TO USE (Cont'd)

East/West

- Soviet response to raid on Libya relatively restrained. Postponement (but not cancellation) of Shultz/Shevardnadze meeting the least Russians could do in circumstances: ritual gesture. Prospects for rearranging this meeting?
- Gorbachev has not ruled out summit in 1986, but likely to continue to press for "practical results". Ultimately in his interest to fulfil his November 1985 commitment, keep US/Soviet dialogue alive; but this year?
- Agree dialogue must not rest solely on arms control: regional questions (eg Afghanistan) and human rights affect confidence, must not be forgotten. No sign at Soviet Party Congress of relaxation of ideological defences or on human rights/emigration.

Arms Control

- Told you in recent message that you should not let your hands be tied publicly now about action in autumn; should continue to abide by existing agreements; repeat warnings about Soviet fulfilment of their obligations.
- Hope Soviets now drop public gambits and engage in genuine negotiations at Geneva and elsewhere.
- Sent you my views in February on giving Soviet Union greater reassurance about possible development of SDI: strengthen/refine ABM Treaty; extend period of notice for withdrawal; commitment about phases of defensive programmes. All contribute to greater predictability and allow for strategic reductions.

Northern Ireland

- Very grateful for Administration's efforts to secure Senate ratification.



## II ARGUMENTS TO USE (Cont'd)

- Senate refusal would be a severe disappointment to us. It would be clearly inconsistent with US stand against terrorism. It would give a boost to PIRA and its sympathisers.
- For the Fund to make an impact on Northern Ireland the cash element will need to be significant.
- Regret that the sums being discussed in the Senate Foreign Relations Committee are getting smaller (the Chairman, Senator Lugar is talking of \$10m a year).
- Already some political opposition in the UK (from unionists and from some members of the Conservative Party) about the conditions contained in the House Bill. Clearly, the smaller the US contribution the more unacceptable the conditions will seem.

EC/US Relations

- Very concerned that US plans to take unilateral action against EC exports over alleged US loss of agricultural trade resulting from accession of Spain and Portugal to EC.
- Contrary to basic tenet of open trade system which provides in the GATT a method of resolving differences by negotiation rather than protectionist action.
- EC ready for immediate negotiation, but US action would seriously damage chance of settlement: EC bound to take equivalent action to defend interests. Tit-for-tat worst possible approach to new GATT round.
- Important to remember that US already benefitting from enlargement: reduction of industrial protection, Spanish introduction of VAT, afford tangible economic advantages.



## II ARGUMENTS TO USE (Cont'd)

- Particularly difficult to understand how US could consider action penalising UK far more than any other EC member. Some 70% of UK agricultural exports would be affected, including Scotch whisky.
- How can UK continue to act as moderating influence within EC against such a background?

South Africa

- Situation in South Africa very worrying. Government making gradual reforms. But growing violence, polarisation. Risk of right wing backlash.
- UK and US must work together in supporting sensible, realistic policies to achieve peaceful end to apartheid. Will take time
  - SAG not on verge of collapse.
- Dialogue between SAG and black leaders only way forward. COMGEP one mechanism for this. Welcome US support. Commitment to suspension of violence will be an essential element. Have urged this on all concerned.
- Heavy handed external pressure (ie economic boycotts) counter-productive with SAG. Will increase Afrikaner resistance and harm blacks, South Africa's neighbours and West. US and UK must stand firm, especially in UN Security Council, against such action.



## III PRESIDENT REAGAN'S OBJECTIVES/ARGUMENTS

Libya/Terrorism

To persuade us to keep pressure up on Qadhafi; to keep door open on further use of US bases.

Arab/Israel

Have tried and made concessions. Arabs in disarray, unable to make positive response. Peres ready to talk peace. But no chance of progress until Arabs adopt realistic approach. Must stand firm until they do. Appeasement not the answer. Israelis will never talk to PLO.

East/West Relations

To share their assessment of East/West and US/Soviet relations.

Arms Control

To follow up Nitze's consultation on compliance and explain US approach to Round 5 at Geneva.

Northern Ireland

To assure us of US commitment to the Fund. To point out US budgetary constraints and to the fact that conditionality is not unusual in measures of this kind, and may be the price that the Administration will have to pay to get Congressional approval.

EC/US Relations

To repeat allegations of approx \$1 billion loss of trade.

To stress alleged illegality (under GATT) of Portuguese soybean quotas on and EC reserve of grain market.

To seek compensation for Spanish cereals levies in advance of wider GATT negotiations on overall trade effects of enlargement.



## III PRESIDENT REAGAN'S OBJECTIVES/ARGUMENTS (Cont'd)

South Africa

To point to growing pressure within the US for economic sanctions.



## IV OUR RESPONSE

Arab/Israel

This approach only plays into hands of extremists.

Chances admittedly slender. But need for diplomatic efforts in search for way forward. Keep hope alive. Secure improvements in conditions in occupied territories. Build confidence.

Northern Ireland

We do not doubt US commitment and understand the budgetary difficulties. But British public would find it difficult to understand if President's generous sounding offer turned out to be insignificant when measured against UK public expenditure in Northern Ireland, and hedged about with irritating conditions.

EC/US Relations

Commission and US assessments very different: \$1 billion figure not authoritative. Must be an agreed assessment.

Accepted GATT procedures to determine illegality or otherwise of EC measures: unilateral (and illegal) US action not the answer.

Even 'symbolic' US action would be illegal.

EC willing to expedite GATT Article XXIV 6 negotiations: but unhelpful to impose unrealistic conditions before they start.

South Africa

Continue to believe we must pursue measured approach. Existing EC/Commonwealth/US measures - strong political signal. Further pressure now would only reduce chances for dialogue, increase radicalisation, and damage our substantial common interests in the region.



## V PRESS LINE

Libya/Terrorism

Reviewed measures to counter Libyan-inspired terrorism.

Arab/Israel

Reviewed current situation in Middle East.

East/West Relations

The Prime Minister and the President discussed East/West relations. They agreed on the importance of continuing the high level dialogue between the US and the Soviet Union covering arms control, human rights and regional issues; and that the Soviet Union should take the necessary steps to resume it.

Arms Control

A general discussion of current arms control issues with particular reference to prospects for next round of Geneva Nuclear and Space Talks.



## VI BACKGROUND

East/West RelationsUK/Soviet Relations

No date for Shevardnadze's visit to the UK. But full programme of bilateral contacts in Mr Walker's visit to Moscow in April: Lord Whitelaw to lead IPU delegation to Moscow 23 May-2 June. Plus range of official talks, includes Middle East in May.

Shultz and Shevardnadze had been scheduled to meet on 14-16 May, but following the US raid on Libya, the Russians announced that the meeting was not possible "at this stage".

This year US and Soviet officials have held talks on CSCE (Berne meeting), Africa, bilateral exchange initiatives, chemical weapons and fusion research. Further meetings are planned on Central America and the Caribbean, non-proliferation, Asia, the Middle East and fusion research.

Northern Ireland (US Contribution to International Fund)

Three Fund Bills are under consideration by the Senate Foreign Relations Committee (FRC).

the House of Representatives' Foreign Affairs Committee Bill (sponsored by Tip O'Neill) which would provide \$50m a year in cash for 5 years, plus access to Foreign Assistance Act (FAA) grants and loans, subject to certain conditions. These amount to a requirement that US contributions may only be used for economic and social reconstruction and development; that the President must try to ensure US representation on the Board of the Fund; that the President must certify to Congress that disbursements are non-discriminatory; and that he must report annually to Congress on the degree to which the Fund has contributed to reconciliation and increased respect of human rights in Northern Ireland;



## VI BACKGROUND (Cont'd)

the US Administration's Bill, which would provide for \$20m in cash, and the balance of the \$250m in FAA grants and loans. This Bill sets no conditions; but we think in practice it would be difficult to extract much advantage from the grant and loan element in the package;

a Bill introduced by Senator Lugar (Republican Chairman of the FRC) which provides for only \$10m a year and explicitly links appropriation of funds to ratification of the UK/US Supplementary Extradition Treaty.

The conditions contained in the House Bill were themselves a compromise; the result of efforts by the moderate Irish-Americans in the House to head off attempts by pro-NORAIID elements to impose extremist and totally unacceptable conditions. The conditions and cash sums which emerge in the final Bill will be the result of inevitable Congressional horsetrading and will, we hope, be more acceptable to us.

EC/US Relations

President Reagan announced on 31 March unilateral measures against EC, in response to alleged \$1 billion potential trade loss through transitional measures for Spanish and Portuguese accession:

- Replacement of Spain's import duty on corn and sorghum by a system of variable levies;
- Temporary reservation of 15.5% of Portuguese grain market for EC;
- Temporary quota on soybean imports into Portugal.

Administration claim only the President can put policy into reverse.

EC dispute \$1 billion figure (US pronouncements have been inconsistent): have also demonstrated to US that their trade



## VI BACKGROUND (Cont'd)

will not be in any way affected in the short-term by Portuguese measures.

EC has made clear determination to retaliate against US action on eg whisky, gin, confectionery, by imposing quotas on (among other items) corn gluten feed, soya, ie products which will hurt US. This message is getting through to relevant US lobbies.

US measures could affect 71% of UK agricultural exports and 45% of FRG's, ie the two staunchest opponents in EC of oils and fats tax, prospect of which worries US.

Apparent from disappointing EC/US talks on 19 April that US, fearing row at Summit, not now threatening initial action on 1 May: but may still take action (possibly 'symbolic' ie quotas at levels not affecting EC trade) shortly after Summit.

EC agreed at 21 April Foreign Affairs Council:

- Mandate for GATT Article XXIV 6 negotiations to settle overall balance of trade advantage as a result of enlargement (EC willing to begin negotiations immediately).
- US unilateral action would be met with equivalent action by EC.

#### South Africa

The main strands of US policy towards South Africa are:

Advisory Committee of twenty eminent Americans recently visited South Africa and some of them called on President Botha. Due to submit report to Mr Shultz by December 1986.

Restrictive measures rest with President Reagan's Executive Order of 9 September 1985.



## VI BACKGROUND (Cont'd)

President Reagan wrote to President Botha in April, at the Prime Minister's request, expressing his support for the COMGEP initiative. President Botha replied in terms similar to those of his reply to the Prime Minister.

South African issues less prominent in US in recent months. But signs of pressure for further measures bulding up in Congress and elsewhere. Disinvestment campaign still gathering momentum. White House contacts suggest there may be "little spine" in the Administration to resist further concerted Congressional pressure.

Foreign and Commonwealth Office

24 April 1986



~~Bus JTB~~  
~~say would~~  
~~like bilateral~~  
~~arranged~~

① On as an  
② Shd as draft  
③ yes poss

Mr Tony  
passed all  
these  
messages

CONFIDENTIAL

ch/ 3 points for action  
(see para. 6)

From: Sir G. Littler  
Date: 25 April 1986

CHANCELLOR

- incl minute to  
PM to issue?

c.c. Sir P. Middleton  
Mr Lavelle  
Mr Fitchew  
Mr Mountfield  
Mr Matthews  
Mr Culpin

AWK  
26/4

TOKYO ECONOMIC SUMMIT

A set of briefs will be available next week, as provided for the Prime Minister (some may come round tonight). You will want to look at the steering brief, and perhaps some of the political briefs, but the material in the economic briefs is already pretty familiar to you after Washington and Paris Meetings.

2. The Sherpa preparations on this occasion have been ragged - Sir Robert Armstrong described them as an unique combination of chaos and rigidity. There have emerged: a "Main Issues Paper" to be shown to all participants as an offering by the Japanese host, and a "Thematic Paper" to be held back and used by the Sherpas as background and a quarry for communique-drafting. You may like to glance at Armstrong's long minute of 23 April to which both these papers are attached. Do not waste much time on them!

below

3. The customary P.M.'s briefing meeting (just rearranged for Thursday morning) may still not take place, and you will not be travelling with her. I thought you might like therefore to send a minute now giving your own perspective on the economic agenda.

I attach a draft. We have also been asked in another minute from Armstrong of 23 April to provide an opening speaking note for the

also below



CONFIDENTIAL

P.M. on economic issues. I have drafted one, also attached. You may want to make suggestions on this. It could go to the P.M. with a minute from you (my draft covers this), or I could send it direct to Armstrong to forward.

*— Oh/Which and you prefer? <sup>Am</sup>*

4. For the present, I am not offering any further Summit briefing for you. I hope next week to send you:

- a steering brief and any notes on special points for the discussions among Finance Ministers;
- a separate note on G5/G7 when I have heard again from our US colleagues (we shall need to send this, or a summary version of it, to the P.M. and Foreign Secretary);
- possibly some updating material, if there is need.

5. One last point. Would you like a bilateral with Takeshita? I suggest no need for set-piece bilaterals with others, but I am inclined to recommend one with Takeshita, for two reasons:

- he is reported to be very cross about your public comments on the Yen (he dislikes them in substance and argues that by gentleman's agreement Ministers do not talk of third currency relationships). Perhaps a good thing to give him the chance to complain face to face.
- you could spell out our worries over Japan, and probe what Takeshita's own thoughts are, especially on the fundamental question of savings.

6. Three points for action now:

- to consider whether you want to minute the P.M., on the lines of the draft;

*Yes*  
*C to minute + preparing to send.*  
*2*



CONFIDENTIAL

- to let me know, on Monday please, if you would prefer me to send a draft opening statement for the P.M. direct to Armstrong;
- to let me know during next week whether you want to set up a bilateral with Takeshita.

Yes

let GK know



(Geoffrey Littler)







1. Mr. Culpin  
2. G.S.

Transcript by  
JAMES LEE of:

BRIEFING TO JOURNALISTS BY SIR ROBERT ARMSTRONG,  
SECRETARY OF THE CABINET, AT 12 DOWNING STREET,  
LONDON, ON THURSDAY, APRIL 24, 1986.

SUBJECT: TOKYO ECONOMIC SUMMIT  
=====

SIR ROBERT ARMSTRONG

Perhaps I should just say by way of introduction that we have had the usual four meetings of personal representatives to prepare for the Summit of Tokyo, which has produced a background paper as a basis for discussions by Heads of State or Government and Ministers at the Summit and that is going forward to Heads of State or Government.

The general shape of the Summit itself seems likely to be, in terms of the arrangements, very similar to previous recent Summits. Heads of State or Government, many of them may arrive early in order to give themselves time to get over the jet lag, but the formal arrival will be on the afternoon of Sunday, 4 May. There will be a reception given by the Japanese Government that evening. Heads of State or Government will dine together on their own that evening.

There will be a first formal session of Heads of State or Government on their own on the morning of 5th May, followed by lunch. Then a plenary meeting in the afternoon of that day and then a plenary meeting on the morning of Tuesday, 6th May, if necessary going through to the afternoon, at which final texts of an economic communique or declaration



will be agreed, and there will be a press conference in the middle of the afternoon, the usual general gathering at which the declaration will be read, followed by national press conferences, and then there is a banquet to be given by the Emperor of Japan for Heads of State or Government and Ministers on the Tuesday evening; and that, as I say, concludes the formal proceedings of the Summit.

On the economic side, I think the general picture will be one in which the Summit countries look back on four years of growth in the industrialised countries, of reduced rates of inflation, and they will no doubt be committing themselves to a continuance of these general lines of policy and they will be taking stock of the implications, particularly of the decline in the price of oil, for their macroeconomic objectives.

I think there will continue to be a good deal of importance attached to the maintenance of policies which tend towards sustainable non-economic non-inflationary growth, sometimes known as SNIG and on policies of job-creating and in particular in Europe where the levels of unemployment remain very high - on policies which encourage the development of new businesses, of small businesses and of particularly high-technology businesses and remove rigidities in capital markets and in labour markets.

So far as the international monetary system goes, the programme of work on the improvement of the functioning of the monetary system which was set in hand at the Williamsburg Summit has gone steadily forward, mainly in the Group of Ten and in the Interim Committee of the IMF, and there will certainly be some gains to report on that front, partly with



the development of compatible policies in the main industrialised countries and the convergence of performance, partly with such coordinated approaches as the PLASA (phon.) meeting last September. It will be certainly a British objective to see that process continue within the institutional framework of the IMF into the Autumn meeting of the Interim Committee and so forward.

I would expect the Summit to express a clear political commitment to the launching of a new round of multilateral trade negotiations, for which there is a preparatory meeting - a ministerial meeting of the GATT - in September, which could well indeed, if the various steps could be got through, constitute the meeting at which the Round is launched.

I would doubt if the Summit would get deep into the content of the new round, though there are undoubtedly going to be difficult issues to be discussed there, with proposals for the extension of the GATT into new areas, new fields.

On the developing countries, there will be, I am sure, a reiteration of the case-by-case approach to the problems of the debtor countries, a general endorsement of the Baker initiative, with the stress on the need for the developing countries, and particularly the debtor countries, to pursue domestic economic policies which will help to attract financial flows and will help to attract the return of capital, the repatriation of capital which has gone out from those countries which in some cases I think amounts to some very considerable sums; a reiteration of the need to maintain, and where possible increase, overseas official development assistance for the poorer countries and renewal of the commitment to the need



for special attention for the problems of sub-Sahara and Africa.

Those, I think, will be the main themes in the Economic Summit. In the course of the discussion, there will certainly be some discussion of the problems of the excessive fiscal deficits of two of the Summit countries, of course notably in the United States, but I think it will really take the form of welcome for the measures that are being taken to reduce the deficit, rather than as it were complain or pressure about not enough being done about it.

There will also be, I should guess, some considerable discussion of the payments imbalances, the United States deficit and, in particular, the Japanese surplus. We shall certainly be wanting to use the Summit to maintain the pressure on the Japanese to improve access to the Japanese market and to increase the propensity of the Japanese to import and Mr. Nakasone will formally present the Micarber (phon.) Report to his colleagues and I think can be expected to endorse its general objectives and we shall no doubt be looking to him to say how much he is going to do about it and how fast. That, I think, could be quite an important area and one of the major objectives which we shall have to discuss.

There has been a suggestion that the Summit will be overshadowed by the dispute between the United States and the European Community on the consequences of enlargement. Provided the United States does not take reprisal measures on 1 May, as was at one time suggested, I think that issue is more likely to arise in the margins than in the main meetings and be left to be pursued in the regular



discussions between the United States and the European Community and in the GATT, but I think that there may well be some discussion at the Summit of the longer-term problems created by agricultural overproduction and surpluses, not just in the Community but in the United States, in Japan; the fact that in all these places these levels of production are being supported by high rates of subsidy in one form or another, and by the fact that the development of biotechnologies seems likely to lead to massive increases in agricultural productivity over the coming years so that we all of us face a problem in which we are, in order to look after farming communities, providing levels of support for levels of production which demand does not begin to sustain. This is a general long-term problem, something to which I think both the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer adverted at the OEEC ministerial meeting last week. There was a good deal of interest in what was said on that occasion and I should be surprised if that did not come up at the Summit/for discussion in that context as well.

On the political level, there will no doubt be the usual political discussions of the major questions of East-West relations and the Heads of State or Government will wish to compare notes about the new Soviet leadership and how they experience them and what is the assessment of their aims and intentions and there will, I am sure, be some discussion of the arms control negotiations in Geneva and some wish to hear from the Americans how they see the future for those, and I have no doubt there will also be some discussions about international terrorism, under which heading Libya is bound to



come up as an issue for discussion, and I am sure there will also be, both at Heads of State or Government level, but also particularly at Foreign Minister level, the discussion of the usual regional issues, particularly the issues of southern Africa and Africa as a whole and no doubt Central America and Afghanistan.

Well I hope that, by way of general introduction, will give you the general sort of shape as how, seen from here, the Summit seems likely to develop. You can never rule out surprises, but I think it might be a relatively quiet Summit, in the sense of there not being likely to be any enormously major issues, certainly on the economic side, which are going to be divisive, but such predictions are always dangerous to make and may be proved wrong in the event.

=====



QUESTION

Could I pick up on the international terrorism and Libya?

As you/<sup>may</sup>know, Mr. Schultz was talking on his world net (phon.) surface earlier this afternoon and seemed to be suggesting that the time for yet another declaration was past and that he was going to go to the Summit to look for a further programme of action, though it was not clear whether he expected to go further than the Europeans, whether he was going to put forward a package of concrete ideas. I wonder if you have had any indication as to what the Americans are likely to be bringing.

SIR ROBERT ARMSTRONG

In this field, I think one has to distinguish fairly sharply between what is done and what may be agreed, as it were, in terms of closer cooperation or measures to be taken, not all of which one would wish to announce, and what will be said.

I think there will be a declaration on international terrorism, which I would expect, I think, to go significantly further in some respects than previous Summit declarations on the subject, but it is a group, of course, which consists not just of the United States and the <sup>four</sup>Community countries, but two other countries which are rather on the sidelines, particularly in the case of the Japanese, and it is, to me, a fairly unknown quantity how far the Japanese will want to get involved in strong words, strong condemnation, of Libya. They do not, I think, feel the impact of Libyan terrorism in the same way as the United States and Europe does. I understand they have a Libyan Peoples Bureau or whatever the equivalent is, but it is a fairly small affair and fairly untroublesome. They may



feel their best course is to keep it so, so I think it is a little uncertain. As I say, I think there will be a declaration to which the Japanese will subscribe, which will represent a significant advance on previous Summit declarations. I would be surprised if that went a tremendous long way in being specific about measures to be taken in relation to Libya.

QUESTION

Can I have just a brief follow-up on that? I mean, do you, for example, expect the Americans to try and push the issue of economic sanctions, knowing as they very well do our attitude and the attitude of the Europeans on that?

SIR ROBERT ARMSTRONG

I can only say I have not seen signs of that in my own discussions, but I should guess that the White House and the State Department are only now beginning to prepare the detailed briefs for the President and work out the programme with him, so the fact that the representatives I encountered did not appear to be thinking in that direction is not proof that they will not press for something more. It depends a bit, I suspect, on what happens between now and then. If the provocation, as it were, intensifies between now and then, no doubt that will affect the American attitude and the attitude of the rest of us for that matter.



QUESTION

Turning to regional issues for a moment, you did not mention the Middle East as one of them...

SIR ROBERT ARMSTRONG

I am sorry. That was an accidental omission on my part. Of course, I am sure it will be discussed.

QUESTION

Bearing in mind what Mrs. Thatcher said yesterday, the day before, in the House, on her forthcoming visits to Israel, are there any specific proposals she might discuss with the Group in Tokyo in the Middle East that you are aware of, any specific proposals?

SIR ROBERT ARMSTRONG

I and my Foreign Office colleagues are not aware of any specific proposals that she is likely to discuss. I think she will want to have a general discussion, no doubt particularly with the President, about the possibilities of reviving the peace progress, but I know of no specific proposals.

QUESTION

Will the Prime Minister or the Foreign Secretary be pushing ahead with the so-called action package against Libya, specifically closing the Peoples Bureaus, which Sir Geoffrey Howe has been trying to sell on the Continent?



SIR ROBERT ARMSTRONG

I am sure they will both be seeking to encourage their European partners to go further in that direction than perhaps they have up to now. Whether the Summit itself will be used for that purpose, I think I rather doubt, because there are plenty of other things to do at the Summit and the place to bring pressure on the Europeans may be elsewhere rather than there.

QUESTION

Are there any indications of European countries..(inaudible) ...to go on the way to sanctions if the subject is being brought up by the Americans?

SIR ROBERT ARMSTRONG

No more than we already have. I have no other indications in the Summit context of that, no.

QUESTION

There was at the Sherpas level quite a specific American initiative at one point on terrorism, which began by being..which was very unpopular with the French to start with..and then the French turned round recently and appeared really more or less to accept the idea of a common Summit Seven response to future terrorist acts and I wondered what has happened to that initiative.

SIR ROBERT ARMSTRONG

I think it is true that the French attitude has modified and I do not know how far that is a response to events or how far it is the result of the governmental changes in France, but I think that will be, while still reluctant to see the Summit



grouping institutionalised too far in this context, they will readier than perhaps they would have seemed to be some months ago to take part in further discussions and to work with other Summit countries in other international groupings which have to deal with the question of terrorism.

I think one of the interesting things is going to be the representation of the French Government at this Summit.

QUESTION

Has there been a suggestion in the preliminary discussions that the word "Economic" be dropped from the title of these Summits in view of the way economic issues seem to....(inaudible)

SIR ROBERT ARMSTRONG

No, certainly not of any desire to go further in that direction; rather a tendency to try to reassert that they are economic Summits and that was what they started for and they started, if you remember, as extensions of what I think was called the Library Group of Finance Ministers, and as a place where Heads of State or Government could discuss world economic problems and issues without necessarily feeling that they had to agree on specific solutions round the table there, and I think that element of it has remained strong in the minds of all of them, particularly in the mind certainly of the Prime Minister, it remains strongly one of the benefits of the Summit and that it is an occasion when she can share her viewpoints and insights with her colleagues from the other countries. It has not been seen as a forum in which initiatives were taken and, indeed, the nature of the preparatory process is such that it is unlikely to be so,



but that is by deliberate wish of the participants and there is no change to that.

As you say, at a number of the previous Summits, the meeting has taken place at a time when there was some political issue very much dominant. In one Summit I remember it was Afghanistan, at another it was Poland, and at the time of the Williamsburg Summit it was INF, and there will no doubt be discussion of the Libyan problem in the context of international terrorism at this Summit. I do not see that it will swamp the economic discussion by any means.

QUESTION

Mr. Schultz at his World Net Briefing this afternoon, made further reference to the so-called Marshall Plan for the Middle East, which seems to suggest that some of America's partners stump up cash for Middle Eastern countries that have been hit by the fall in oil prices, not just the oil countries, but those that have traditionally supplied labour and other services to the oil countries.

How would Britain react to this idea?

SIR ROBERT ARMSTRONG

I think Britain would react very cautiously to any programme which suggested a significant increase in the amount of overseas aid to be financed from the British budget.



QUESTION

You have said that most of the economic issues do not seem contentious, but at last week's OECD meeting and more recently in their briefings ahead of the Summit, the Americans have been fairly aggressive in saying that there needs to be much stronger growth in Europe and perhaps there should be relaxation of fiscal and monetary policies in some of the stronger economies.

Are you saying that you do not expect any real discussion or argument about that?

SIR ROBERT ARMSTRONG

I think they will continue to urge on the European countries the case for what they call in the jargon "structural adjustments", changes which remove the inhibitions on industry, changes in the direction of deregulation, changes as I said to encourage the development of new small businesses and new high technology and removing rigidities in labour markets.

I have not seen any signs that the American representatives in the process with which I am concerned are urging any of us to relax fiscal and monetary policies. Have you Geoffrey?

SIR GEOFFREY LITTLER

I think there is a certain concern over Japan because that is the one area - and this came up in both Washington and Paris discussions - one does not really see them getting over their huge current surplus. The Americans are embarked on a process of deficit reduction. We are keeping our fingers crossed, but at least they are plainly moving in that direction. Japanese



forecasts are rather dispiriting for many other countries. This contrasts with Germany, where their forecasts are much more buoyant than they were, so I think there will be a certain amount of common ground in probing what Japanese expectations are and particularly how positive they are going to implement and how quickly some of the recommendations discussed in this Micaber (phon.) Report. On that line, I am sure the Americans will be quite strong in the discussions.

I think some of the growth gap material may be rather for domestic consumption.

QUESTION

The Americans have expressed concern about the effect of falling oil prices on the banking system on the economies of some south-western states. Do you anticipate behind the scenes pressure from the US delegation in any way to restrain production or try and work towards a more stable oil pricing system? What would be the British Government's response?

SIR ROBERT ARMSTRONG

I do not anticipate that from anything that I have heard in my discussions. I am aware that some things were said in Washington which seemed to point in that direction, but they were almost as quickly countered by other statements later.

The British Government has made, I think, quite clear its point of view on any question of restraints on quotas and production or anything of that kind.



QUESTION

The Americans seem to have blown hot and cold on the idea of a special monetary conference on exchange rates. Is there any indication that this will figure at all in the Summit?

SIR ROBERT ARMSTRONG

Well Geoffrey may have ideas about this too. I have not detected preliminaries to a great initiative on that at the Summit. I do not think that absolutely excludes it, but my own judgment is that it is not very likely at this stage.

SIR GEOFFREY LITTLE

I can just add actually, as far as the Americans are concerned, Jim Baker made fairly clear in the Washington meetings that his remit was to consider this subject by the end of the year and that meanwhile he was pushing forward in the IMF Interim Committee where I think a certain amount of progress was made. My impression also is that the French may be in a slightly similar position. This is not the moment. At least at the Elysee reception in Paris, he remarked that he was pleased that the world was now implementing his ideas, which I rather read as wait and see how it goes.

QUESTION

In relation with foreign exchange markets, recently the appreciation of the Japanese yen has, according to the Japanese Government, reached to the point where some kind of a counter-intervention is necessary and indeed the Japanese Bank of Japan has started to buy US dollars in order to stop the further fall



of the US dollar against the Japanese yen. On the other hand, the American government seems to think they still want the Japanese yen to appreciate further. Would you think that this kind of current situation of the foreign exchange market will be discussed in the Tokyo Summit and also could I ask you to describe the UK Government's position on that?

SIR ROBERT ARMSTRONG

Well I would like to ask Geoffrey Littler to respond to that because I should think that most of the discussion about that will take place in the meetings of Finance Ministers rather than Heads of State or Government.

SIR GEOFFREY LITTLER

I think it probably will. I mean, this is now kept under pretty close and continuous review.

I do not think one is or should be in the habit of setting targets. We have said publicly we do not do that. The one comment that we do make about the Japanese situation is that there is a major imbalance to be redressed. Ideally, one would like to see fundamental measures taken affecting the behaviour of the Japanese economic population that would have the right results. If those measures are not taken or not effective, then there would seem to be no alternative but for the exchange rate to appreciate further, and it is some mix of one or more of both that is needed, and I think that is very much the American point of view as well. One is trying to grapple with a genuine problem.



QUESTION

Do I understand you correctly that there will not be much pressure on West Germany to stoke up their economy? Is it just concentrating on Japan or is that a secondary target?

SIR ROBERT ARMSTRONG

I can only repeat that on the latest international meetings we had the impression has been both given and on the whole I think accepted that the prospects for the German economy are looking considerably brighter than they were six months ago, whereas the prospects for the Japanese economy seem, if anything, to have shaded off.

QUESTION

So you do not expect any pushing, reduce your interest rates, and that kind of thing?

SIR ROBERT ARMSTRONG

I doubt whether Summits get into precise details of what you do next week on conjuncture.

SIR GEOFFREY LITTLER

Nor do I think there is likely to be the kind of pressure we saw in the Bonn Summit of 1978, for was it called the locomotive theory? I do not see any likelihood of a revival of pressure on particular countries as it were deliberately to be out in front, to lead a programme of recovery in that way, so I would not expect that.



SIR ROBERT ARMSTRONG

We had not mentioned it before; I am sure there will be a welcome for the reduction of interest rates that has already occurred and keen interest in the pursuit of policies which leave scope for further reductions, which points to continuing fiscal prudence.

QUESTION

Yes, coming back to Libya if I may. You did not say exactly how far Mrs. Thatcher is willing to go to be precise on a statement on terrorists. You said talking about the Japanese position, but you did not say anything about the British position.

SIR ROBERT ARMSTRONG

I do not think she is likely to be one of the ones holding back on what is said in the declaration at the Summit, but I do not think I can really say more than that at the moment.

QUESTION

I want to ask you about the structure of these meetings. Is the agenda put together in such a way that if, say, a question on Third World debt was on the schedule, there was no danger of it being omitted because there was an enormous amount of discussion on terrorism? In other words, could non-economic discussion on an emotional issue like terrorism simply squeeze certain stuff off the agenda?

SIR ROBERT ARMSTRONG

Well the fact is, of course, that people like me may propose



but Heads of State or Government dispose of their time at the Summit and to an extent, when they get together, what determines the priorities and distribution of their time is what is uppermost in their minds and what is uppermost in their interest at the moment, but by and large the endeavour and the convention has been to schedule matters so that the formal sessions used for the economic discussion, including the matters of Third World debt, and the political issues tend to be discussed on the more informal occasions over meals and so on, and that is the general pattern which we foresee on this occasion.

QUESTION

A lot of the Bonn discussion last year was taken up by the question of drugs. Do you expect a lengthy discussion this year?

SIR ROBERT ARMSTRONG

I am sorry I have not mentioned it. The Bonn Summit did spend some time on drugs. Mrs. Thatcher indeed raised the subject at one of the meetings with Heads of State or Government and found a good deal of interest among her colleagues, as a result of which a report was commissioned and I think was sent to the Foreign Ministers in September. Is that right, Alison, they took delivery of it in September when they met in the mountains of the General Assembly?

I am sure that that report will be reported to the Heads of State or Government. I do not at the moment expect any new initiatives on that. I think that they will simply be likely to reiterate their determination to try and reduce and where possible



eliminate both the abuse of drugs and the production and trafficking in narcotics.

QUESTION

Again, this afternoon Mr. Shultz said that the US was in favour of expanding the Group of Five to the Group of Seven, by incorporating Italy and Canada. Do you think this Summit will be the occasion for this and what is Britain's view of that?

SIR ROBERT ARMSTRONG

Geoffrey, would you like to deal with that?

SIR GEOFFREY LITTLER

Well, I can only suppose that since certain countries are represented this is almost bound to be discussed in the margins, but we will have to wait for those discussions.

SIR ROBERT ARMSTRONG

I do not think we are going to oppose or to stand in the way of such a move.

QUESTION

Can I just come back on that, because Sir Geoffrey's answer did seem to be rather reserved, implying that Britain might be opposed to the idea of a Group of Seven rather than a Group of Five



SIR GEOFFREY LITTLER

No, I hope I did not either imply that that was right or wrong. You phrase it "rather than Group of Five". One does not exclude both Group of Seven and Group of Five. There could be all kinds of possibilities and one has to remember that some conferences are best held formally and others informally. I think there is a little array of questions to be discussed about procedure generally and it may be that it will be taken up in the Summit. It is quite likely that discussion will be carried forward there.

QUESTION

The previous Summit at Bonn..there was a big issue of SDI, strategic defence initiative, which ended up rather divisive. Will there be discussion again about the SDI and if so what would be the proportion of it in relation to other topics?

SIR ROBERT ARMSTRONG

I should think there might be some discussion and some general report. I would not expect to, on this occasion, to engage their attention for a long time or to be a particularly divisive issue. I think the positions of people are well established in the matter, and are not likely to change at the Summit.

QUESTION

I am sorry to keep banging on about terrorism.

SIR ROBERT ARMSTRONG

I wish you would not use the words "banging on"!



QUESTION

You have had a lot of questions about terrorism this afternoon but I wonder will Mrs. Thatcher be putting a package of proposals for the tightening of security in Europe, anti-terrorist proposals, and will President Reagan, either inside or outside the meeting, be complaining about the lack of support in Europe for his firm action against Libya?

SIR ROBERT ARMSTRONG

To take the second part first, I think President Reagan's attitude to ... his position on the European attitude is well established in what he has said for himself and he has welcomed the latest changes and no doubt would like to see more.

I think it is very difficult to say more about what anybody's position may be on that because as I understand it there is a meeting even now of European Ministers of the Interior which will no doubt be discussing these subjects and I think we had better see what comes out of that.

QUESTION

The Japanese Government is preparing to launch a new science and technology programme just like the Eureka project in Europe. Has the British Government any intention to participate in this project and what is the position of the British Government on this issue?

SIR ROBERT ARMSTRONG

To tell you the truth, I am not absolutely sure what the position of the Japanese Government is on this. I have seen a



paper about and some representatives of the Japanese Government came round to explain the programme. As I understand it, it is a programme in particular for research in the field of biotechnology and what was contemplated was a ten-year programme to be financed from sources within Japan, but involving scientific and technological contributions from other countries, including Summit countries. I think this will rather be in the margins of the Summit. Certainly, those who have seen the first description of what is proposed, I think they are impressed by the nature of the programme and think that it would be an important initiative if indeed the Japanese Government did decide to take it up. I did not think the Japanese Government had actually decided to take it up yet; I thought that decision still remained to be taken and I should think that the attitude of other members of the Summit would be of interest and support, particularly if the Japanese Government and Japanese industry are going to pay for it all.

QUESTION

Can you tell us whether the Prime Minister has pencilled in a bilateral with President Reagan and if so when it is likely to be?

SIR ROBERT ARMSTRONG

I am sure she will meet President Reagan. I do not know exactly when it will be. These things tend to be arranged when you get there.





*Tokyo*

**FROM: VIVIEN LIFE**  
**DATE: 28 April 1986**

**PS/CHANCELLOR**

*ch/x* seems right. I will include the briefing in your papers for Tokyo

*YH* *PSR* *AWK*  
*30/4*

cc PS/EST  
PS/MST  
Sir P Middleton  
Sir G Littler  
Mr Lavelle  
Mr Fitchew  
Mr Culpin  
Miss Sinclair  
Mr Evans IDT  
Mr Cropper  
Mr Scholar  
Mr Snoxell FCO  
Mr R I G Allen  
(Washington)  
Mr Fawcett IR  
PS/IR x6497

**TOKYO SUMMIT: UNITARY TAXATION**

1. The Financial Secretary has read Mr Fawcett's minute attached below (top copy only) of 28 April.
2. He has commented that he can see the need to press the US on the subject of unitary tax but he doubts the need for any comment by the Prime Minister. He would recommend the Chancellor raising the issue with Baker as more appropriate.
3. He is content with the suggested briefing.

*WFL*

**VIVIEN LIFE**

Enc





FROM: P W FAWCETT

INLAND REVENUE  
POLICY DIVISION  
SOMERSET HOUSE

28 April 1986

1. FINANCIAL SECRETARY
2. CHANCELLOR OF THE EXCHEQUER

TOKYO SUMMIT : UNITARY TAXATION

1. Sir Oliver Wright's telegram of 25 April received this morning, strongly recommending that the subject of unitary taxation be raised with Regan and/or Baker at the Tokyo Summit.

2. Sir Oliver's telegram reports that the hearings in the Senate on the draft federal proposals to deal with unitary taxation scheduled for 16 May have been cancelled, that it is felt that the Administration has done very little to promote its own legislation and that until it does there is little more that the Embassy can do to carry the process further.

3. We strongly agree that the matter be raised at the Tokyo Summit in some form, and attach briefing for your consideration accordingly.

*P. W. Fawcett*

P W FAWCETT

---

cc Economic Secretary  
Minister of State  
Sir P Middleton  
Sir G Littler  
Mr Lavelle  
Mr Fitchew  
Mr Culpin  
Miss Sinclair  
Mr A Wolphin  
Mr Evans (IDT)  
Mr Cropper  
Mr Scholar  
Mr H Davies  
Mr Snoxell (FCO)  
Mr R I G Allen  
(Washington)

Sir L Airey  
Mr Battishill  
Mr Taylor Thompson  
Mr J H Roberts  
Mr Cleave  
Mr J Hall  
Mr Fawcett  
Mr Linford  
Miss Hill  
PS/IR



*Thanks. Jules told.  
In the case of rice, Law  
to ~~the~~ par of the Law  
a ~~progress~~ note showing  
how much this policy  
contributes to the Japanese  
trade surplus @  
the expense of the  
poor countries of  
Asia.*

FROM: R J BONNEY

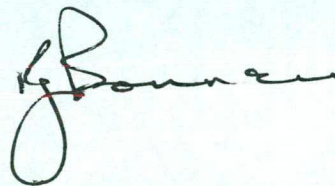
DATE: 28 April 1986

cc: Mr Wynn Owen  
Sir G Littler  
Mr Lavelle  
Mr Fitchew  
Mr Odling-Smee  
Mr Sedwick  
Miss O'Mara  
Mr Butt  
Mr Pickford  
1. Mr Cafolla  
2. ECA

MR CULPIN

AGRICULTURAL SUBSIDIES IN JAPAN

I attach a short note by MAFF on agricultural subsidies in Japan, as requested in your minute of 18 April to Mr Butt. The latest available figures for market support expenditure (broadly equivalent to the FEOGA Guarantee Section of the EC Budget) are in Annex I. The 1984 figure converts to \$11.8 billion at the 1984 exchange rate of \$1 = 237.45 Yen.



R J BONNEY



## AGRICULTURAL SUPPORT IN JAPAN

1. Japanese agriculture considered as a whole has remained highly protected. The ratio of government expenditure on agricultural support to gross agricultural output rose sharply during the 1960s and 1970s from 7.2% in 1960 to 19.0% in 1970, and to 30.3% by 1980. This percentage fell to 29.3% in 1982, reflecting increased budgetary stringency. Annex 1 sets out the Government expenditure on agricultural price policy for the years 1975 to 1984. The Japanese authorities view protection against imports and maintenance of price control as necessary due to the extreme shortage of farm land, given very mountainous conditions and the need, for food security reasons, of improving generally low self-sufficiency rates.

2. As in many other countries, distortions are more marked in the agriculture sector than in other major sectors of the economy;

- For many land-extensive products (eg rice), import restrictions create a substantial gap between the prices facing Japanese consumers, and those on the world market.
- Direct subsidies and monopolistic state trading arrangements often raise the price paid to domestic producers well above the prices paid by consumers.

3. The mechanism and source of agricultural support depends on the product. In the case of rice, imports are virtually excluded and the price of rice to consumers is subsidised so that the wholesale price of rice is less than the government purchase price. For other products imports are generally purchased by a state monopsonist which can then re-sell in the domestic market and use the resulting profits to subsidise domestic output. Wheat is imported by the State Food Agency and then generally resold domestically at a substantially higher price. The profits that result are used to subsidise the relatively few domestic wheat producers. Similar arrangements apply to beef where the difference between import prices and (controlled) domestic prices becomes the trading profit of the Livestock Industry Promotion Corporation (LIPC) and is used to support the domestic beef industry and improve its infrastructure.



Broadly similar arrangements apply to sugar and to dairy products. For other commodities specific policy regimes apply to each product or product group. There is no comprehensive price policy or subsidy policy system as there is in the Community (the CAP). The attached table (Annex II) outlines the main price policies. Japan is the single largest importer of agricultural products in the world (17.1 billion dollars worth in 1983). In contrast it has never been a significant exporter in any major farm products after World War II (exports in 1983 - \$1.5 billion); consequently no specific or strategic export policies such as export credits or export subsidies have been required so far.



Table 18  
GOVERNMENT EXPENDITURE ON AGRICULTURAL PRICE POLICY

(Unit: Billion Yen)

	1975	1979	1980	1981	1982	1983	1984	1984/ 1975
1. Total Agricultural Expenditure	1 918.0	2 819.7	2 925.3	3 020.2	3 027.5	2 926.6	2 792.2	145.6
2. of which on price policies:	850.9	774.3	766.5	767.0	757.7	689.8	658.6	77.4
* Food control	811.5	667.8	652.2	652.0	640.3	572.5	540.3	66.6
Livestock products	22.8	47.9	49.4	49.8	49.7	49.6	51.1	224.1
Vegetables	8.0	15.9	11.2	12.1	12.1	10.9	10.1	126.3
Fruits	0.7	0.2	1.6	0.8	1.6	0.6	0.8	114.3
Soybeans and rapeseeds	1.1	8.8	18.1	16.1	16.7	19.2	21.9	1 990.9
Sugar and sugar crops	5.8	33.7	34.0	36.2	37.3	37.0	34.4	505.9

Source: MAFF, "Explanation on Government Budgets for Agriculture Forestry and Fisheries", various years.

\* The food control law covers Rice, wheat and Barley.



Table 20  
OUTLINE OF THE MAJOR PRICE POLICIES

Commodity	Type of Price Support	Major Characteristics	Regulating Law	Year Commenced	Govt. Expenditure (1984) bill Yen	Related Trade Measures	Statutory Body
1. Rice	State control	Govt. regulates marketing of all commercial based rice. Govt. decides its purchasing and selling prices for Government, marketing rice.	Food Control Law	1942	503	State trading	Food Agency of the Govt.
2. Wheat & Barley	Minimum guaranteed price	Govt. guarantees unlimited purchase at given prices.	Food Control Law	1942 (1952)	25	State trading	Food Agency of the Govt.
3. Beef & Pork	Stabilisation within a price band	Market prices are guided to stay within the stabilisation price band through the market intervention of the statutory body (LIPC)	Law concerning price stabilisation of Livestock products	1961 (Pork) 1975 (Beef)	-	Import quota (Beef) Countervailing duty (Pork)	Livestock Industry Promotion Corp. (LIPC)
4. Manufacturing Milk (Milk Products)	Deficiency payment + market intervention for the products	Difference between guaranteed price to producers and estimated cost price for manufacturers (standard trading price) is paid by the Govt. Prices of milk products are guided to stay around given prices through the market intervention of LIPC.	Temporary Law on Deficiency Payment to Manufacturing Milk Producers	1966	46	State trading (Skimmed Milk powder, butter, etc.) IQ (Milk, Cream, Processed cheese) Automatic Approval(A.A) (natural cheese).	LIPC
5. Soybeans & Rapeseed	Deficiency payment	When market price falls below the base market price, the deficiency is compensated by the Govt. subsidy	Temporary Law for Subsidising Producers of Soybeans and Rapeseed	1961	22	A.A. duty free	
6. Sugarbeet & cane	Minimum guaranteed price for producers + stabilisation of imported raw sugar price within a price band	A statutory body (SSPSC) purchases domestic sugar at given supported prices and sells it at the market price equivalent. Loss generated is offset by the Government subsidies and levies from imported sugar. Import price of raw sugar is regulated through the various measures by SSPSC.	Sugar Price Stabilisation Law	1965	34	Specific duty Domestic variable levy	Sugar and silk Price Stabilisation Corporation (SSPSC)
7. Vegetables	Price stabilisation Fund	Funds assisted by the Govt. compensate for part of damage caused by the price fall below given levels	Vegetable Production & Marketing Stabilisation Law	1966	10	A.A. A.A.	Vegetable Supply Stabilisation Fund (VSSF)

(cont'd)



Table 20 (continued)  
 OUTLINE OF THE MAJOR PRICE POLICIES

Commodity	Type of Price Support	Major Characteristics	Regulating Law	Year Commenced	Govt. Expenditure (1984) bill Yen	Related Trade Measures	Statutory Body
8. 1) Beef calves	Price stabilisation Fund	Funds assisted by the Govt. compensate for part of damage caused by the price fall below given levels	-	1970	3	A.A. Specific duty	-
8. 2) Fruits for processing	Price stabilisation Fund	Funds assisted by the Govt. compensate for part of damage caused by the price fall below given levels	-	1972	1	A.A. (1Q for some products)	-
8. 3) Eggs	Price stabilisation Fund	Funds assisted by the Govt. compensate for part of damage caused by the price fall below given levels	-	1975	1	A.A. Specific duty for eggs without shells	-
8. 4) Formula Feed	Price stabilisation Fund	Funds assisted by the Govt. compensate for part of damage caused by the price fall below given levels	-	1975	4	A.A.	-

SOURCE: OECD COUNTRY  
 REPORT - 31 JANUARY 1986

AGR/TC/WP(86)2  
 AGR/WP1(86)2  
 Annex



## US FARM ACT

1. The US Farm Act (or Food Security Act 1985 as it is properly called) was signed by President Reagan on 23 December. It

- sets out the levels of agriculture price support (within limits) for key commodities (wheat, feed grains, cotton, rice, soya, dairy products, wool, sugar, honey and peanuts)
- establishes acreage reduction and conservation programmes
- requires the Agriculture Secretary to make substantial amounts of export credit available
- makes mandatory the Export Enhancement Programme (EEP), which is, in effect, an export subsidy programme
- reauthorizes and revises rural credit and development programmes.

It is effective until 1990.

2. The declared aims of the Act are

- to begin a transition to a market orientated farm policy (by reducing loan rates)
- to maintain farm incomes during the transition (by high target prices and deficiency payments)
- to restore the competitiveness of the US farmer on world markets (by making the export enhancement programme mandatory and by extensive provision for 'blended' and low-interest credit).

3. The Act sets US agricultural support at its highest ever level at \$52 billion over Fiscal Years 1986/88. However, if the Gramm - Rudman proposals do have a real effect, agricultural spending as a whole could be reduced. The budget for FY 1987 presented to Congress on 5 February proposes setting the budget of the United States' Department of Agriculture at \$46 billion in FY 1987: in FY 1986 it was \$57 billion. Outlays on commodity

/price



price support and related programmes are projected to fall from \$20.4 billion in FY 1986 to \$16.2 billion in FY 1987 but to rise again to \$17 billion in FY 1988 and 1989. Sectors to be reduced include meat and poultry inspection, crop insurance, extension services and child nutrition and food stamps. The Administration expects that the modest reductions in target prices over the latter years of the Farm Act coupled with the anticipated growth in US exports will lead to significant reductions in outlays for federal farm price support after 1989.

4. In the 1986 crop programmes announced so far, the outgoing Agriculture Secretary Block has used his discretion to reduce loan rates and vary acreage reduction programmes to the full. Acreage reductions for wheat and corn have been set at maximum levels (25% for wheat, 20% for corn) with a further 10% voluntary reduction for wheat farmers who planted before the programmes were announced.



CONFIDENTIAL

FROM: B J PORTEOUS  
DATE: 28 April 1986

SIR PETER MIDDLETON

Tony

cc Sir Geoffrey Littler  
Mr Lavelle  
Mr Culpin  
Mrs Lomax ←  
Miss Kelley  
Mr Fox  
Mr Fray

**PAPERS FOR TOKYO**

Further to my minute of 25 April I have now had the benefit of two meetings with FCO Security.

2. I understand from Mrs Lomax that the Chancellor will be entirely agreeable that sensitive material should be sealed in a diplomatic bag for the journey to Tokyo via Moscow (and I well understand the time restraints requiring travel by this route so that the only reasonable alternative would be to charter a plane).

3. I am satisfied that I can advise you to authorise access during the journey to economic briefing material which, although classified CONFIDENTIAL, would not be disastrous in the unlikely event of it becoming compromised during the journey. I understand that this would allow the Chancellor to work on a good deal of his briefing during the journey.

4. Clearly the Chancellor and Sir Geoffrey and Mr Culpin will be aware of the risks and will take care not to risk compromise of sensitive material.

B J PORTEOUS

CONFIDENTIAL



Tany



FROM: CATHY RYDING  
DATE: 28 April 1986

MR CULPIN

**SUMMIT BRIEFING**

The Chancellor was grateful for your minute of 25 April covering a transcript of the annual Ingham/Armstrong/Littler briefing on the Summit. He has commented that the point on pages 4 and 5 that the dispute between the United States and the European Community on the consequences of enlargement is more likely to arise in the margins than in the main meeting is a very different line from that advised by Sir O Wright in his latest telegram. He is sure that Wright is right!

CR.

CATHY RYDING





FROM: CATHY RYDING

DATE: 28 April 1986

~~Tony  
for info~~

RS

SIR G LITTLER

cc Sir P Middleton  
Mr Lavelle  
Mr Fitchew  
Mr Mountfield  
Mr Matthews  
Mr Culpin

**TOKYO ECONOMIC SUMMIT**

The Chancellor has seen and was grateful, for your minute of 25 April on this subject. To confirm the message I gave to your office earlier today, the Chancellor has made a number of amendments to your draft minute from him to the Prime Minister. A copy incorporating these amendments is attached. The Chancellor will send your opening speaking note for the Prime Minister (as drafted) as an attachment to this letter.

2. On your third point, the Chancellor would be grateful if you could set up a bilateral with Takeshita.

C R.

CATHY RYDING





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

PRIME MINISTER

**TOKYO ECONOMIC SUMMIT**

I understand we may be meeting briefly to go over the agenda for the Summit before our separate departures for Tokyo.

But I thought it might be helpful if before that I let you have a few comments in writing; and I am attaching a draft speaking note (by Sir Geoffrey Littler) for your opening statement on the world economy, following the request in Sir Robert Armstrong's minute of 23 April.

As the draft speaking note makes clear, we have a much more buoyant prospect this year than last. We can take credit for the contribution to this made by the policies of Summit countries developed and endorsed at successive Summit Meetings. There have been practical and effective developments in cooperation over exchange rates and interest rates and in handling debt problems.

We need to sustain our policies, and develop them. But we should not be looking for new directions. Points worth discussing should be largely confined to two major worries, and a number of points on which individual countries may try to grind axes and we shall want to fend them off.

The two major worries are:

- Trade and Protectionism: The GATT discussions are under way, but laboriously and without general conviction. Any impetus we can give is worth going for. While the Plaza agreement last September





caused some welcome abatement of protectionist pressures in the US Congress, these are likely to grow again before the year is out. I am also particularly concerned with the imminent danger of an agricultural trade war. The threat of US reprisal measures over the transitional arrangements following the accession of Spain and Portugal is potentially very serious indeed (with the UK particularly at risk), and we must do everything we can to use the occasion of the Summit to dissuade the US and get some constructive US/EEC discussion going. This is of course linked with the absurd and damaging extent of agricultural subsidies and hence over-production throughout the industrialised world. I hope you can pursue the argument against such subsidies and over-production which Geoffrey Howe and I pressed at the recent OECD Meeting. Even though we may have no specific immediate proposal at this stage the time has clearly come to focus critical attention on what is undoubtedly a major problem created by separate but similar strategies over many years in Europe, North America and Japan.

- Japanese Surplus: While other main world imbalances are probably on the way towards being corrected, the Japanese current account surplus begins to look more and more fundamental and persistent. For all the fine words, Japanese actions remain unconvincing and show little result. The trouble is that (unlike Germany) their domestic policies give no ground yet for expecting improvements. They are geared to a high level of savings providing not only cheap finance for their export-orientated industries but also a large excess which has to find its way into





overseas investment and a matching current account surplus. We should therefore take every opportunity of pressing the Japanese on such points as:

- our bilateral trading interests (whisky, etc);
- effective increase of consumer demand for imports;
- less competitive export promotion, including use of tied aid, etc;
- liberalisation of all their markets;
- greater international use of the yen;
- a structure of tax, especially on savings, more consistent with the needs of their situation;
- willingness to accept a higher exchange rate if that is what the market indicates - and one whose effect is not undermined by any form of subsidy to those firms most affected by it.

Since the Japanese are the hosts on this occasion, they may be more susceptible than usual to pressure, provided it is (a) concerted and (b) firm rather than aggressive.

The other points to watch out for are likely to be:

- unemployment, which is of course a major continuing concern, especially in Europe - but we have broad agreement (occasional backsliding by Italy and Commission) that macro-economic stimulus is not the





answer and we must simply press ahead with freer labour markets and better job-training;

- US talk of a "growth gap" between them and all others - they should be persuaded to point the finger clearly at Japan, rather than Europe;
- possible Japanese advocacy of more stable oil prices (to win friends among oil producers and divert attention from the real cause of their surpluses) - our position against this is clear;
- a remotely possible call for an international monetary conference - in fact the IMF Interim Committee now has a positive programme of work on exchange rates and we should leave that to go ahead;
- a possible French initiative on developing countries ahead of the special UN conference on Africa in May - although we have not picked up any specific warning.

Finally, on the tedious questions of G5 and G7, I hope to let you have a separate note shortly, when I learn the fate of a possibly acceptable initiative which the US have been considering.

N.L.

28 April 1986



**CONFIDENTIAL**

**ECONOMIC ISSUES - DRAFT OPENING STATEMENT**

We need not spend as much time this year on some of the major economic issues which have preoccupied us on previous occasions. The general prospect is more buoyant this year than last and we have made important further progress during the past year.

2. In particular:

- Inflation has continued to fall. In most of our countries it will be well below 5% this year, back to rates last seen in the early 1960s.
- Growth promises to be 3% and more for most of us and for the world as a whole, and to be more widely and evenly spread.
- Exchange rates stand in a much better relationship than for several years.
- Interest rates have come down.
- We have made patchy progress in handling the debt situation, but it is progress and there are signs of a more realistic approach to policy by some debtor countries.
- The problems of the poorest countries are formidable but we have been able to launch some initiatives to help them, and especially to help them to help themselves.

3. Our own countries, and many others throughout the world, are benefitting to an important extent from lower commodity prices, and particularly from lower oil prices. But we can take credit and satisfaction ourselves in at least two respects:



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- Our own persistence in advocating and increasingly in achieving sounder financial policies has made a major contribution.
- We have achieved especially during the past year closer cooperation in tackling exchange rate problems, in the management of interest rates, and in our response to the United States initiative last October in developing our strategy on debt.

4. We must reaffirm our basic insistence on sound financial policies. We must carry forward our individual efforts to free our labour and capital markets, to foster better training and work-experience, especially in Europe, where unemployment remains a troublesome and intractable problem.

5. But I do not think we have much to debate in these areas. Our communique should cover them - with a tone of achievement and optimism while still recognising the need to make more progress and guard against some dangers. But our discussion should focus on present difficulties and perhaps on some ideas for the future.

6. I single out two difficulties: the threat of protectionism and the problem of world trade imbalances.

7. Last autumn we faced a major threat of protectionism from the U.S. Congress. We should acknowledge the determination of President Reagan to resist it at the time, and the value of the Plaza agreement on exchange rates in easing the threat. But that threat has not gone away. The latest manifestation has come from the U.S. reaction to conditions for the accession of Spain and



**CONFIDENTIAL**

Portugal to the European Community. We must avoid getting into a trans-Atlantic trade war over that.

8. More generally, we can welcome the progress of discussions in the GATT towards a new round, but it is a painfully slow and difficult process. I hope we can give it some extra impetus. And I hope we might find time to talk together about the appalling problems we are creating - all of us: Europe, North America and Japan - by our various regimes of subsidy and protection in agriculture. They are costly to us. They are inconsistent with all that we say about economic management in other fields. And I believe they damage potential food production in many developing countries and our relations with them.

9. Finally, world trade imbalances. We can expect progress, partly from changed exchange rates, partly from domestic measures affecting the U.S. fiscal prospects and German growth prospects. I remain more worried by the Japanese surplus. I look forward to hearing more of the measures which our Japanese colleagues have in mind, and their likely timing and impact. But I have to say that the Japanese surplus looks like a very persistent problem, which will yield only to substantial and sustained changes in domestic policies and behaviour, in particular a shift from the tradition of very high savings and export-orientated industry, closer towards the freer consumer societies of other industrial countries.

10. I look forward to pursuing these and other questions in our later discussions.



cc Sir P Middleton  
Sir G Littler  
Mr Lavelle  
Mr Fitchew  
Mr Mountfield  
Mr Matthews  
Mr Culpin



28/4/88

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

PRIME MINISTER

*Handwritten notes:*  
a.s./  
16A 8  
(... 3...)  
[Signature]

**TOKYO ECONOMIC SUMMIT**

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I am copying this minute to Geoffrey Howe and Sir Robert Armstrong.

*N. L.*

N.L.

28 April 1986

4

*(Approved by the Chancellor and signed in his absence)*



**CONFIDENTIAL**

**ECONOMIC ISSUES - DRAFT OPENING STATEMENT**

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10. I look forward to pursuing these and other questions in our later discussions.





Foreign and Commonwealth Office

London SW1A 2AH

28 April 1986

CH/EXCHEQUER	
REC.	28 APR 1986
<del>ACTION</del>	SIL & UTTER
COMES TO	MR CULSHAW

*2/4*

*Returned*

*Dear Charles*

Tokyo Economic Summit

Amongst the papers which we sent to you in preparation for the Prime Minister's forthcoming visit to Korea was a new style booklet containing general information on Korea. A similar booklet has been prepared for the visit to Japan by the Prince and Princess of Wales. It has occurred to us that it might also be of background interest to the Prime Minister and other members of her party who are going to the Economic Summit in Tokyo. I enclose copies for you.

It would be helpful to know whether the Prime Minister finds the new format useful. The binding has been prepared in such a way that new sections can be added and any sections which become out of date can easily be revised.

I am copying this letter to Rachel Lomax (Treasury) and Michael Stark (Cabinet Office).

*Yours ever,*

*R N Culshaw*

(R N Culshaw)  
Private Secretary

C D Powell Esq  
PS/10 Downing Street



CONFIDENTIAL



*Long*

**10 DOWNING STREET**

*From the Private Secretary*

28 April 1986

**TOKYO ECONOMIC SUMMIT**

The Prime Minister has so far read only the steering brief for the Economic Summit and the draft speaking note on economic issues. She is disappointed with the latter and wants to see a revised version which is more original, interesting and punchy. It should also be drafted in continuous speech form, not abbreviated. It would be helpful to have a revised version before the briefing meeting on Thursday 1 May.

I also think that the Prime Minister would want a rather fuller brief on a new GATT round with more background on the proposal for the round itself and the history of previous rounds.

I am copying this letter to Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry) and Michael Stark (Cabinet Office).

(Charles Powell)

CH/EXCHEQUER	
REC.	28 APR 1986
<del>ACTION</del>	SIR G. HULLER 28/4
COMES TO	MR LAVELE
	MR MOUNTAID
	MR FITCHAW
	MR CULPIN

A.C. Galsworthy, Esq., C.M.G.,  
Foreign and Commonwealth Office.

CONFIDENTIAL





RF

Ch

TOKYO

2 questions on which we need to respond asap:-

① Takeshita bilateral

— see orange folder  
on your desk ✓

② Wd you object to sharing a helicopter with the Italians, between Narita airport and central Tokyo?

no objection.  
AWK  
1/5





cc Sir G Little  
Ms Colpin  
Ms Kuczyk

*[Handwritten signature]*

CHANCELLOR OF THE EXCHEQUER

FROM: MRS D C LESTER

DATE: 29 April 1986

**ECONOMIC SUMMIT: 3-6 MAY: TOKYO**

You asked about arrangements for the Economic Summit in Tokyo. I ... attach a note of the administrative arrangements.

2. Your travel arrangements are as follows:

*(local times throughout)*

Saturday	3 May	09.30	Depart Heathrow
Saturday	3 May	11.30	Arrive Paris (Charles De Gaulle)
Saturday	3 May	12.25	Depart Paris (Charles De Gaulle)
Sunday	4 May	09.40	Arrive Tokyo (Narita)
Tuesday	6 May	22.15	Depart Haneda Airport
Wednesday	7 May	07.40	Arrive Heathrow

3. On arrival at Narita Airport you will disembark first and transfer to a helicopter; the aeroplane will then taxi on to another point where the remainder of the passengers will disembark. The helicopter will take you to your hotel, the New Otani. Special arrangements are being made for your luggage.

4. Points you should be aware of:-

1. No visa is required.
2. Tetanus and polio inoculations are recommended but not compulsory.



3. Black tie is required for the banquet on Tuesday evening.
4. You must use the attached red labels for your luggage so that it can be removed from the plane first (please let me have back those which you do not use so that I can return them to the Foreign Office).

Debbie

MRS D C LESTER



From : G E Fitchew

Date : 29 April 1986

SIR G LITTLER

cc PS/Chancellor  
 Sir P Middleton  
 Sir T Burns  
 Mr Lavelle  
 Mr Mountfield  
 Mr Kelly  
 Mr Matthews  
 Mr Dolphin  
 Mr Redley

*Chancellor*  
*Note at end*  
*I agree with Mr F's view & will be grateful if you could work on it as per results.*

**TOKYO ECONOMIC SUMMIT : JAPANESE SUBSIDIES**

Your minute of 21 April asked if I could set down the facts about Japanese subsidies given to shelter firms which have been hit by the rapid appreciation of the yen.

2. As you will have seen, I commented on this point in my brief for the Chancellor's meeting with Mr Watanabe last Friday. The Chancellor asked Mr Watanabe whether he could confirm that the loan subsidies introduced by Japan last December would be phased out by the end of March 1987. The Japanese team immediately produced copies of the attached hand-out describing the "Small and Medium Enterprises Special Loan Measure". (I have seen subsequently that they also gave a copy to the Chancellor of the Duchy of Lancaster). They were dismissive of any criticism of the subsidy, which one of them described as "peanuts".

3. It is clear from the Japanese paper that the subsidy is pretty small and has been announced as being temporary. The aid given is in the form of subsidised loans to small and medium-sized enterprises in 128 industrial categories, which have been hit particularly hard by the yen appreciation. The total amount of financing to be provided is 300 billion yen (about £1.2 billion). The subsidy element is, however, costed at only 1.1 billion yen (£4 million) in fiscal 1986. No doubt the full-year cost may be somewhat higher and, in any case, some of the companies being assisted might have difficulty in obtaining finance elsewhere at anything close to market rates. The loan can be used to help finance operating costs (but only up to 60 million yen per firm) and for equipment financing up to 250 million yen for business conversion only. The expiry date of the scheme is shown as 31 March 1987.



4. Mr Lewis has assured me that this is the only measure so far adopted by the Japanese to help companies affected by the exchange rate appreciation. Though there had been rumours that further measures would be contained in the 8 April package, in fact there was nothing new.

#### Comment

5. The advice in Tokyo telno. 473 is that we do not need to press the Japanese on this issue any further at the Summit. I certainly agree that it should not be regarded as a major issue and that it is not necessary to criticise the relatively minor December loan scheme. I would recommend against raising the issue in bilaterals.

6. Nevertheless, it seems quite likely that the fierce US and European reaction to the measure has helped to discourage the Japanese from introducing any further subsidies. The fact that Mr Watanabe's party was so sensitive on this point and had brought copies of the scheme with them is itself suggestive.

7. I think therefore that it would still be worth trying to get into the communique a general prohibition of measures which might offset the effect of recent exchange rate adjustments. (It would be difficult for the Japanese to object to this, since they claim that their present scheme is not such a subsidy).

8. At the OECD communique-drafting session I proposed the inclusion of a sentence on the following lines :-

"The exchange rate adjustments which have taken place should not be offset by domestic subsidies".

This would, I think, have been accepted had it not been for objections by the EC Commission with their eye on agricultural export restitutions and the MCA adjustments following the recent EMS realignment. I think it would still be worth going for a sentence along these lines in the communique, but perhaps with the word "national" substituted for "domestic" in order to meet the Commission's objections. It would probably be worth trying



out this form of words on one of the Commission representatives  
in advance to see if they would buy it.

G E FITCHEW

I agree. I think the suggested Commission sentence  
is worth a try. Shall I work on it in Tokyo.

*John* 29/4




*Prop*

MR LOEHNIS

Copies to:

- GPS
- DGPS
- Mr George
- Mr Flemming
- Mr Price
- Mr Latter
- Mr R N Brown
- Mr Iles
- Mr Webster
- Group 1

*N. Matthews cc ps/Chancellor* 

*cc Sir G. Little*

*cc Kelly*



- 
- Geoffrey Fitchew, HMT
  - Rodric Braithwaite, FCO
  - Simon Broadbent, FCO
  - Michael Lewis, Tokyo

I attach a transcript of a letter sent by J E W Kirby giving a preview of his impressions from his recent visit to Tokyo which will be useful as briefing in advance of the Summit.



International Division H0-3  
 29 April 1986  
 D W Green (4752)

*8/5*



Transcript of letter dated 23 April from J E W Kirby to D W Green

1 In the immediate run-up to the Summit, you might like to have some preliminary and unpolished impressions of the Japanese situation, put together in the plane from Tokyo to New York.

2 The business mood may be broadly characterised as gloomy or, at best, cautious. The profits of large exporters will be badly hit in the first half of the new fiscal year by the effects of the appreciation of the yen. The outlook for investment, in the short-term, is depressed. Many small and medium-sized businesses are undoubtedly suffering. They are extremely vocal in their complaints (although it should be noted that their problems are not, as yet, reflected, in any marked way, in the figures for unemployment or business failures). Such enterprises represent an important source of political support for the LDP who will be seeking to maintain the popularity of the government in anticipation of what now appears to be a strong likelihood of a double election (for both the Lower and the Upper Houses) later in the summer. The government is providing funds to help small exporters restructure their businesses towards a domestic orientation, although whether this will be the result, in practice, is another question. The April package of measures was aimed at offsetting the impact on the domestic economy of yen appreciation, and the recent reductions in interest rates will be claimed as a further contribution towards stimulating domestic demand. There are strong indications, however, that the government is not contemplating any further fiscal action before the autumn when it is likely that there will be a supplementary budget.

3 This partly reflects the government's reluctance to compromise on its policy of fiscal rectitude. More significantly, it reflects the fact that the underlying situation is far from as bad as the public comments of business leaders might suggest and there



is no overwhelming political pressure for further action by the government. Although, after the strong performance in the last quarter of 1984, growth is likely to slip back in the first half of the current year, in the second half the outlook could appear significantly brighter. The major exporters should, by then, be adjusting to the new level for the yen (assuming, perhaps dangerously, that there is no substantial further appreciation in the meantime), the positive effects of the stronger yen (as well as the lower oil price) should be coming strongly through in terms of reduced costs for industry and lower prices for the consumer, real incomes will be rising more rapidly than they have for several years (as a result of wage increases averaging around 4 1/2% and inflation which is expected to fall below 1%) and some suggest that a wealth effect from the booming stock exchange could provide an impulse to spending.

4 For the moment, the private sector, with the characteristic Japanese tendency to accentuate the negative and to look for the dark lining to every cloud has not, I believe, fully taken on board the positive aspects of either the falling oil price or the rising yen. The government itself, for which, admittedly, the oil price brings an unwelcome boost to the current account surplus, has made surprisingly little of the potentially better prospects ahead.

5 It is difficult to put figures to all this. Most private forecasters have updated their projections over the past two months. A couple of reputable institutes have come up with figures for real growth in Fiscal 1986 of around 4%, but most forecasts are in the range of 2 1/2-3%, with the domestic component probably a little higher, although I have no detailed breakdown to hand. My own feeling is that these forecasts could turn out to be on the pessimistic side, for the reasons suggested above and, at the least, that there could be quite a buoyant situation in the second half of the year. But the reservation has to be made that further yen appreciation could act as a dampener and there are views within the government machine, in the EPA for instance, that the depressing effect of even the appreciation which has taken place so far could keep growth below 2%.



6 Yen appreciation, in conjunction with the lower oil price, will, in any case, swell the current account surplus in value terms, from some \$55 bn in Fiscal 1985 to a figure put by most forecasters (on the assumption of a \$17 per barrel oil price) at \$70-80 bn. In volume terms, however, the three quarters ending in March 1986 have seen a steady swing on a year-by-year comparison from positive to negative growth for exports and in the opposite direction for imports. It is generally expected that the J-curve effect of the appreciation which has taken place so far will disappear in the second half of the year when, Nakasone has predicted, the bilateral surplus with the USA will start to show results.

7 Capital outflow to the USA continued at a high level in February and March, although there are signs of a shift in the interest of Japanese investors from bonds to equities. In the first half of April, however, Gyoten in the Ministry of Finance told me that there had been a net reflow of capital from the USA of some \$2 bn. The reason for this is not entirely clear - most people did not anticipate any marked falling off in Japanese investment in the USA in the period ahead - but Inoue, President of the Bank of Tokyo, suggested that Japanese institutions who had made losses on their investments were looking for opportunities to get out and, with a very large current account surplus persisting, the basic trend was for selling dollars and for upward pressure on the yen. The Bank of Japan, while prepared to accept further strengthening of the currency over an undefined period ahead, feel that things have gone too fast and that a period of stability is requested to enable the economy to adjust. They intervened heavily at the beginning of this week to check a rise which seems to have been set off by a statement about currencies from Reagan but the market noted that the Bank of Japan was isolated in its intervention and first reactions were that, although at this stage the rate would probably not reach 160, a new level might be established at around 165. As regards particular rates, it seems to be generally felt that the large companies like Toyota can live with a rate of around 180. An American contact who knows Japanese industry well felt that Toyota would feel real pain at 150.



8 In the middle of all this, the report of the Mayekawa Commission has appeared. I had an interesting session with Mayekawa himself, of which you should have received an account from Michael Lewis, and a discussion with Hosomi, another member of the Commission. The report has had a mixed reception within Japan. While there is, I think, a fairly general acceptance that the surplus has gone too far, that something needs to be done and that the broad thrust of Mayekawa's recommendations is in the right direction, both politicians and bureaucrats have reasons for lack of commitment and the detailed implementation of the recommendations is likely to run into opposition from vested interests at almost every turn. The report is, nevertheless, likely to be adopted by the government. Considerable play will, no doubt, be made of it at the Summit, as it was at Camp David, and some sort of framework for implementing the recommendations is expected to be announced shortly.

9 As to what might be done by Japan's partners to promote the objectives of the report Hosomi, as Miyazaki had in London, suggested that the most helpful line would be "severe but friendly" criticism of the size of the surplus which would show to the domestic public that the Committee's recommendations were in line with international opinion. Too much weight should not be attached to the report in itself but the emphasis should rather be placed on its implementation. Finally, he said that it would be helpful if criticism from Europe could be added to that from America, to demonstrate that concern did not derive from America alone.

10 My own initial reactions to the report have not changed - namely that it provides a most useful lever for exerting pressure on the Japanese government, that we should make it clear to them that we attach great importance to its recommendations as guidelines for the necessary restructuring of the economy and the sort of measures which should be adopted to rectify the current account imbalance, and that we should press them hard for early implementation of the recommendations. ✓

11 There is much to report on developments in the financial system and more detail on the economy itself, but this can wait



until I return. I should be grateful if you would have this letter typed and send copies to Geoffrey Fitchew, Rodric Braithwaite and Simon Broadbent and Michael Lewis in Tokyo. Many thanks for the details of my programme in Washington and New York.



c Sir T Burns

**CONFIDENTIAL**

From: Sir G.Littler  
Date: 29 April 1986

**CHANCELLOR**

c.c. Sir P.Middleton  
Mr Lavelle  
Mr Fitchew  
Mr Mountfield  
Mr Matthews  
Mr Culpin

TOKYO ECONOMIC SUMMIT

+ Sir T Burns, if you wish

Sir Peter Middleton and I are joining you for a talk tomorrow afternoon about the agenda for the meetings of Finance Ministers in the margins of the Summit. Here is a note which may help as a check-list. Perhaps we could also check that you are content with the briefing for other Summit discussions.

**Meetings of Finance Ministers**

2. It is obscure what you will be expected to discuss at the separate meetings of Finance Ministers (three meals for Ministers only; one meeting for Ministers plus one official each). Minister Takeshita has himself suggested as agenda:

- Sunday Dinner: World Economy and Economies of Individual Summit Countries;
- Monday Morning: International Monetary System and Debt (and he has suggested that debt should include a review of some major debtors and warned that he will look to you for remarks on Nigeria;
- Monday Lunch: Trade;
- Monday Dinner: Nothing fixed - it sometimes happens that a remit is picked up from Plenary.



**CONFIDENTIAL**

3. This agenda simply tracks the main Summit economic themes. Most Ministers will surely not want to spend so much time going over ground covered in Washington and Paris earlier this month, There will also be some other subjects needing discussion:

- the G5/G7 problem;
- exchange rates and interest rates;
- "tied aid" credits.

*below* | 4. The Canadian Finance Minister, observing also that the official agenda may be dealt with expeditiously, has said that he would welcome a chance of some informal exchanges about "some of the structural issues pre-occupying us on the domestic policy side". He offers as his own choices: oil and energy policy, tax reform and financial deregulation.

5. If this were adopted, would you like to offer a subject and speak to it? Privatisation might be one that you would enjoy and that would interest several of the others.

**Bilateral with Takeshita**

5. I suggest the following headings:
- exchange rates (he wants to complain; you will want to explain your position);
  - tax treatment of savings (draw on the excellent article you showed me recently and probe for possible action after the Japanese elections);
  - importance of redressing the Japanese surplus;
  - press for action on whisky imports and marketing;
  - bilateral financial negotiations (a reference only).



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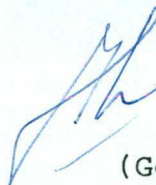
**Main Summit Meetings**

6. Nothing to add to the note you have just sent to the Prime Minister. *below*

**Further Briefing**

7. In addition to the "PMVK" series of main briefs, I shall prepare a small dossier of material including, as well as other points suggested at our meeting:

- debtor countries (update);
- speaking-note on Nigeria;
- "tied-aid" credits;
- G5/G7 (Mulford is now already on his way to Tokyo having left a message that there are no developments but he will call me on his arrival there);
- notes for bilateral with Takeshita (including DTI note on whisky);
- an updating note as necessary on the US/EC trade.



(Geoffrey Littler)



Chancellor 12/2

See  
gulf  
country

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CN RIM116

PSky/Witter / Archer

301435 #/BAKER SEES U.S. PRESSING TRADING PARTNERS

WASHINGTON, April 30 - Treasury Secretary James Baker said the United States will press its trading partners to stimulate their economies at the Tokyo economic summit.

He said the U.S. also will urge them to "be fair with us" in their trade practices or run the risk of the U.S. Congress passing protectionist legislation.

At the summit, "We will insist that our trading partners play fair," Baker said during an interview on a U.S. Information Agency program aimed at overseas audiences.

He said he wants to see U.S. trading partners grow at the maximum feasible rate without sparking renewed inflation.

MORE

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301436 #BAKER SEES #2 WASHINGTON

Baker said President Reagan will continue to fight against protectionist legislation in this country.

"The president is totally committed to his free trade stance," he said.

Baker said he expects summit nations to discuss the possibility of including Canada and Italy in the G-5 group of economic powers.

"We support the creation of a G-7," he said.

REUTER



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30/4/86



CH/EXCHEQUER	
REC.	- 1 MAY 1986
ACTION	SIR G. LITTLE
COPIES TO	MR LAVELLE
	MR FITCHER
	MR CULPIN

1/5

PM/86/024

PRIME MINISTER

Tokyo Economic Summit

1. We shall be meeting tomorrow to discuss our objectives and tactics for the Tokyo Summit. As the Chancellor has pointed out in his minute of 28 April, it takes place against a background of good economic news. The economic arguments underlying Summit communique since Versailles have been translated into policy to a greater or lesser extent in all the Summit countries. I agree with the Chancellor that we should therefore aim positively for an endorsement of the international medium term economic strategy which he advocated to the IMF in April; and for a suitably strong message of support for an early and successful round of trade talks in the GATT.

2. There are however potential difficulties: with the Americans over terrorism and Libya, and over the trade effects of the enlargement of the Community; and with the Japanese over a range of economic issues. The President, with his eye on the November elections and his own place in history, is hoping for a Summit that will show the United States at the head of a Western world united politically and successful economically, in contrast to the political and economic inadequacy of the Soviet system. This East/West contrast is an objective we can share. In the shorter term he will want to mend fences over Libya and to secure a common stance by the Seven against terrorism, including a commitment to take (or urgently study) new concrete measures possibly including a Libyan oil embargo. This general objective is

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one we can not only share, but should promote in our own national interest. Although the positions of the Americans and ourselves on an oil embargo need much careful thought, we shall aim to arrive at the Summit with our own clear proposals for an action programme of the Seven on Libya and terrorism; and with our own draft of a statement on Terrorism which would meet these aims. We shall also want to get due credit for the work done already by the Seven on drugs, and to secure a commitment to cooperate on this through all the proper bodies in future. Other political issues look relatively straightforward now that the US have undertaken not to press for a statement on South Africa.

3. On the trade front, it looks as if - in keeping with Washington's political priorities - any American retaliation against the Europeans over enlargement will now be delayed at least until after the Summit. We and the other Europeans will need to make clear to the President personally that American trade action on enlargement would be unjustified and illegal, and would certainly lead to retaliation by the Community against sensitive American farm interests. There is no sensible alternative to negotiation. I think this point should be put firmly to the President when you see him.

4. As at previous Summits, most of those going to Tokyo will want a good deal out of the Japanese: early reduction of their trade surplus, specific measures to open their markets, longer term structural adjustment of their economy, and a more generous approach to development aid, especially to their share of IDA 8. No doubt there will also be the traditional feeling that the host should be allowed a success on his home ground. The President in particular, who values his personal relationship with Nakasone, will want to avoid anything which could damage Nakasone's hopes for a third term as Prime Minister, especially with an election in the offing. This means that despite the pressure the Americans





have been exerting on the Japanese on trade matters in recent months, the President himself may prefer an emollient approach.

5. Nakasone has taken a more internationalist view of Japan's responsibilities than his predecessors, and has made an effort to change Japanese attitudes to the importation of foreign goods. Against that, his "Action Plan" to increase exports has shown no results after nearly a year. The Maekawa Report, which he commissioned to advise on ways of opening the Japanese economy, is short on concrete recommendations and has not been supported by his colleagues, and he has been criticised for appearing to advocate it to the Americans as Government policy. The rise in the yen, and the pressure of this on Japanese exporters, is causing him increasing domestic problems. In all, Nakasone's chances for a third term are at best doubtful. So the pressure needs to be applied not only to him, but to his rivals and potential successors, Abe and Takeshita, both of whom will be at the Summit. The Chancellor and I will be able to make detailed points to them in our separate sessions. We shall need to balance the necessity of further pressure on Nakasone against the risk of damaging the success of "his" Summit and undermining his incentive to meet our requirements. But he intends to table the Maekawa Report at the Summit, which will open up the discussion, and you will have a further opportunity in your bilateral meeting to impress on him the need to accompany his declarations of good intent with some specific and early measures: British and European aircraft and Scotch whisky would be a good start.

6. The world wide problem of agriculture has attracted increasing attention in recent weeks. At the OECD two weeks ago the Chancellor and I argued that technological change and the resulting increase in productivity means that countries which formerly imported food are now self sufficient or even





net exporters: and that the consequent increase in competitive subsidies to secure diminishing export markets damages us all without tackling the basic problem. The Americans picked up these remarks and the President is likely to pursue the issue in Tokyo. He may make it an occasion for attacking the CAP. But that is not the point. US farm subsidies are bigger than European ones: and the Japanese are as bad as the rest of us. We shall need to ensure in Tokyo that the others understand that the problem is a common, as well as a national or regional one. There is an appropriate speaking note in your briefing; and the Chancellor and I will also be able to pick up the argument in our separate exchanges.

7. I am sending a copy of this minute to the Chancellor of the Exchequer, to the Secretary of State for Trade and Industry, to the Home Secretary and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
30 April 1986







Qz05020

MR POWELL (10 Downing Street)

1/2/86

CH/EXCHEQUER	
REC.	- 1 MAY 1986
ACQUITTED	Sir G. LITLER
COPIES TO	Mr FITCHEL
	Mr CULPIN.

~~£25,000~~  
£70,000

TOKYO ECONOMIC SUMMIT: US/EUROPEAN COMMUNITY TRADE DISPUTE

I attach a note describing what the current US/Community trade dispute over US exports of grain to Spain and of grain and soya products to Portugal is about. The dates for action are 1 May (deferred) for Portugal and 1 July for Spain. The most important points are -

(1) Spain and Portugal are transiting over 7 years from their current import arrangements to those of the Community. By the end of the period

- Spain and Portugal will be applying the Community's full variable levies on imports of cereals. At least in respect of Spain the prospects for US exports of cereals will get worse.

If this were agreed, it would be an element in the GATT Article XXIV.6 negotiation. The situation is less clear for Portugal (current imports controlled by a monopoly) but the United States objects to a transitional arrangement under which Portugal would buy 15.5 per cent of its cereal imports from the Community.

- Spain and Portugal will be applying the Community's import arrangements for soya and soya products. Most US supplies to the EE come in as soya beans. The Community has no tariff and no levy and gives completely free entry for soya beans. The US complaint is about transitional arrangements which the Community believes to be no more restrictive than those applied by Spain and Portugal in a recent period.

- Spain and Portugal have substantial industrial protection which is being phased out as they move to the Community's low industrial tariffs.



- The Commission estimates the ratio of advantages to disadvantages for all US exports to Spain and Portugal as a result of accession at 5 to 1.
- Community has agreed its mandate for GATT Article XXIV.6 discussions with the United States which will cover the global effect on trade of the accession of Spain and Portugal and is keen to get on with them.

In our view the most likely sequence of events is that before the Tokyo Economic Summit the United States will put quotas on certain Community exports at levels which have no trading effect. The Community will respond equivalently. We shall have to find in the period before 1 July some way of keeping down the temperature (eg by acknowledging the US "credit" on cereals exports) while maintaining that the final balance sheet and settlement must cover all trade, both agriculture and industry.

--- Recent Spanish and Portugese import figures on cereals and oilseeds are attached.

I am sending copies to Tony Galsworthy (FCO), Rachel Lomax (Treasury), John Mogg (DTI) and Sir Robert Armstrong.

*D F Williamson*

D F WILLIAMSON

1 May 1986



US exports to Spain

	1982	1983	1984	1985
<u>Cereals</u>				
Milliontonnes	5.87	3.24	2.45	about 2.45
§ million	750	467	364	n.a.

US exports to Portugal

	1984	tonnes quota	
		1985	1986
<u>Soya oil</u>	33,000	40,000	50,000
(for consumption)			

<u>Cereals</u>	
milliontonnes	2.8
§million	4 75



DISPUTE BETWEEN THE EC AND THE US OVER ENLARGEMENT TERMS

The most serious of a series of current trade disputes between the EC and the US concerns the terms of accession for Spain and Portugal in certain agricultural products of interest to the US, namely grain and oilseeds. The US has threatened retaliation within a month against Portuguese measures, and retaliation in July/August against the new Spanish cereals regime.

The Problem

2 On grain, Spain and Portugal, which are both in deficit for feed grain, were previously free to import cereals from any source on the best available terms, including some 3 million tonnes each from the USA of various grains. On oilseeds the Accession Treaty recognises the concern of the Community to maintain the existing price ratio between olive oil and competing vegetable oils pending adjustment of the edible oils acquis.

3 The arrangements which apply for Spain and Portugal therefore are as follows:

Portugal - for cereals the state monopoly of imports will be progressively liberalised by 20% a year from March 1, 1986 to 1991. Customs duties will be abolished and a levy system introduced, applicable equally to imports from Community and third countries, but subject to a margin of price preference for Community cereals, plus an obligation on Portugal to buy 15.5% of its total annual cereals imports from the EC11 from March 1, 1986.

- for oilseeds, import restrictions (which were abolished at the end of 1984) will be reintroduced at a level based on trade in 1980-83. For oilcake contingency provision has been made for restrictions of imports from third countries till December 31, 1992.

Spain - for cereals, full import levies (adjusted by any differences between Spanish and EC10 intervention prices) whose effect will be inter alia to double the cost of US maize.

US Action

4 On 2 April the US, which had protested vigorously but belatedly against these elements in the accession arrangements, on the grounds that they could entail a loss of trade to the US of \$1 billion, announced that public hearings will be held on April 21, following this retaliatory measures will be introduced on or about May 1, 1986 (July 1 in the case of the Spanish cereals levies) under Section 301 of the Trade Act of 1974. The US argues, in essence, that (i) negotiations for compensation under Article XXIV:6 of the GATT should have been completed in the case of the Spanish cereals levies before the levies were introduced; and (ii) the new Portuguese import quotas and the Community preference on cereals are illegal under GATT.



5 The proposed US retaliation takes the form of a dollar value quota for Community white wine, equivalent to the alleged adverse impact on the US of the Portuguese restrictions, on oilseeds; increased duties on a number of products including fruit, fruit juices, biscuits, cakes etc., to match the Portuguese restrictions on grain imports; and increased duties to offset the Spanish levies on grains on a number of products including certain meats, and cheeses, chamois leather, white wine and spirits including whisky.

#### Effect on UK of US list

6 The level and form of US action (quota, increased tariff...) has yet to be specified, but of the products listed, several are highly sensitive (notably whisky - £270m exports, gin, cakes - £9½m, confectionary - £44m and chamois leather). In most of these, the UK is a dominant supplier. The overall structure of US retaliation seems disproportionately detrimental to UK exporters (\$580m worth of exports are vulnerable, compared to \$530m for France and much lower amounts for other Member States).

#### Community View

7 The Community takes the view that the terms of the accession arrangements are legal in GATT, both because Portugal had no bound tariffs for the products in question and because the Community is prepared to negotiate compensation for the levies on Spanish cereals imports as part of the overall negotiation under GATT article XXIV:6 following enlargement. In the Community's view there is no requirement or precedent for compensation negotiations under Article XXIV:6 to be completed before a free trade area is created or enlarged, and the US is in the wrong in insisting that this should be so. Further, the Community considers that in accordance with the strict terms of Article XXIV:6 the consequences of enlargement (losses and gains to trading partners) should be looked at as a whole (the US stands to gain substantially from many Spanish and Portuguese duty reductions though not till later in the transitional period). The US disputes this view also. Within the Community, FRG UK and others have underlined the shakiness of the GATT defence for a minimum import requirement laid on Portugal. But the GATT legality of this and other aspects of the Act of Accession would fall to be addressed, if the US chose, in a separate Article XXIII panel.

8 The Article 113 Committee (full members) discussed the issue on 11 April. They concluded that:

- i) there was no possibility of reopening the terms of the Accession Treaty;
- ii) the Community must insist on a global approach to the XXIV:6 negotiations, taking into account both losses and gains to the US;
- iii) a mandate for the negotiations must be agreed as quickly as possible;



- iv) all possible steps must be taken to prevent the US from introducing the threatened retaliatory measures on May 1;
- v) the most urgent problem was the measures threatened on 1 May in respect of Portugal;
- vi) indicative lists of products for retaliation against the US must be agreed as quickly as possible;
- vii) individual Member States in their bilateral contacts with the US must lend every possible weight in support of the Community position;
- viii) some delegations continued to argue for additional "gestures" designed to conciliate the US, but this approach is regarded with deep suspicion by the Commission and by a majority of Member States.

#### Impact in UK of Community Retaliation

9 The Community's indicative lists are designed above all to focus on products that are sensitive to US Lobbies. But this objective is not easy to reconcile with UK importing interests. The inclusion of some products used by UK industries whose exports are themselves on the US List risks penalising the same sector twice over: for example, British bakers risk losing US supplies of dried fruit and almonds at the same time as losing access to the US market. And up to half of EC imports of some other items (wine and tinned corn) are bought by British consumers.

#### Other Current Problems

10 Most of the other various disputes between the Community and the US (e.g. on steel semis, citrus, VAT on government contracts) are likely to prove containable and capable of being resolved either severally or as part of a wider agreement. The Manufacturing Clause, with the strong US printing lobby defending a long-standing piece of protectionist law, is an exception. But the enlargement issue is different from all of these, partly because it involves agricultural products which are particularly sensitive for the US and partly because it entails some basic disagreements as to the meaning of the GATT. It is common ground that everything possible must be done to head off the threatened US measures; but this may not be possible. Although the US appears almost wholly in the wrong, this will not help the atmosphere for the run-up to the new GATT Round, nor the common front which the developed countries need to present on a number of key issues.

11 It is not even clear how much trade the US will lose from the Community enlargement provisions, since the likelihood is that quotas/where they apply) will be set at levels which will hardly reduce US exports to Spain/Portugal compared with the reference periods.



Conclusions

12 If the present dispute goes on escalating, the implications for UK trade, both in the US retaliation lists and in the draft indicative retaliation lists which the Commission have proposed, are considerable. The implications are that:

- a) the Community should be ready to retaliate quickly if the US introduces the threatened measures;
- b) EC retaliation should be concentrated on sensitive products ;
- c) the Community must defend the principle of a global negotiation in GATT that respects the Acts of Accession;
- d) ways to de-escalate the dispute must still be sought.

This points to the following approaches:

A Line to Take with US:

1. A bilateral squabble now could have very serious consequences for the forthcoming OECD, Summit and GATT meetings.
2. The principle of a global GATT negotiation about the consequences of enlargement is a political sticking-point for the Community. So, too, is the status of the enlargement treaties which represent a series of delicate compromises.
3. The Community has committed itself to speedy Article XXIV.6 negotiations. US should take up this offer, and press for early assessment of level of "debit" on Spanish cereals.
4. [If US emphasise that they are concerned at breaches of GATT law as well as trade effects]. If this is the worry then US must have recourse to Article XXIII procedures : our aim in GATT is to strengthen dispute settlement procedures, not ignore them.
5. On practical trade impact of Portuguese oils regime, US should pin Commission down to continuing consultations. 1986 regime will be unrestrictive.
6. Same is true for Portuguese grains. Need to consult if there is a problem once 1986 results are known.

B Line to Take in Community:

1. Must stand firm on principle of a global negotiation. Must therefore finalise mandate and make an early start on talks.

Now done |



2. Should offer early assessment of XXIV.6 consequences of change in Spanish cereals regime. This will demonstrate good faith and put an end to excessive US estimates.
3. On Portuguese regimes. must be prepared for pragmatic bilateral discussions and must give all possible assurances on likely levels of trade in coming year or so.
4. Must emphasise out ultimate objective to return to EC(10) levels of tariff.

DTI/ITP  
14 April 1986



Nigel  
1/5  
TOKYO

CH/EXCHEQUER	
REC.	- 1 MAY 1986
ACTION	SIR G. LITTLER
COMES TO	Mr FITCHEL
	Mr CULPIN
	Mr MOUNTFIELD
	Mr BONNEL

NOTE FOR THE RECORD

## TOKYO ECONOMIC SUMMIT

The following points emerged at the briefing meeting.

It would be important to press the Japanese hard on IDA replenishment. We should also put them under pressure on Tied Aid Credits. A fuller brief would be provided for the Prime Minister on this. *(now done)*

There was bound to be discussion in the margins of the question of the G5. The Chancellor would discuss the tactic of handling this with the Prime Minister after contacting the Americans in Tokyo. The Americans should be left to take the lead in sorting out the difficulties which they themselves had created.

The Prime Minister would need a much fuller brief on EC/US trade problems. This issue was primarily for bilateral discussion with the United States rather than for raising in the Plenary Session.

We should press the issue of agriculture hard. The Prime Minister should be given a fuller brief on Japanese agricultural subsidies. *(MAFF have provided something)*

There was likely to be discussion of the Soviet nuclear accident. Some possible phrases for use in the final Summit Communiqué should be prepared.

The Prime Minister would wish to refer in the Plenary Session to the issue of drugs on which she had taken an initiative in the last Summit.



I am copying this note to Rachel Lomax (HM Treasury), Tony Galsworthy (Foreign and Commonwealth Office), David Williamson (Cabinet Office) and Michael Stark (Cabinet Office).

CDP

C. D. Powell

1 May 1986