

Ronald Reagan Presidential Library
Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: Platt, Alexander H.: Files
Folder Title: United Kingdom “Sherpa” Meeting,
03/07/1986-03/09/1986-Brockett Hall-
Hertfordshire
(Binder) (2 of 4)
Box: 90981

To see more digitized collections visit:

<https://reaganlibrary.gov/archives/digital-library>

To see all Ronald Reagan Presidential Library inventories visit:

<https://reaganlibrary.gov/document-collection>

Contact a reference archivist at: reagan.library@nara.gov

Citation Guidelines: <https://reaganlibrary.gov/citing>

National Archives Catalogue: <https://catalog.archives.gov/>

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name PLATT, ALEXANDER: FILES

Withdrawer

DLB 1/4/2007

File Folder UNITED KINGDOM "SHERPA" MEETING 03/07/1986-
03/09/1986 - BROCKETT HALL - HERTFORDSHIRE
(BINDER) (2 OF 4)

FOIA

F02-071/3

Box Number 90981

COLLINS

43

ID	Doc Type	Document Description	No of	Doc Date	Restrictions
31781	MEMO	ROZANNE RIDGWAY TO UNDER SECRETARY WALLIS, RE: YOUR MARCH 7-8 SHERPA MEETING: POLITICAL ASPECTS R 8/4/2008 F02-071/3	2	3/3/1986	B1
31782	PAPER	DRAFT GENERAL STATEMENT ON THE OCCASION OF THE TOKYO SUMMIT R 8/4/2008 F02-071/3	3	1/1/1986	B1
31783	CABLE	DRAFT, NO NUMBER, RE: COMMENTS ON JAPANESE DRAFT POLITICAL STATEMENT R 8/4/2008 F02-071/3	2	3/3/1986	B1
31784	PAPER	MACROECONOMIC AND STRUCTURAL DEVELOPMENTS R 8/4/2008 F02-071/3	2	ND	B1
31785	PAPER	FOREIGN EXCHANGE MARKETS AND INTEREST RATES R 8/4/2008 F02-071/3	3	2/28/1986	B1
31786	PAPER	G-10 AND G-24 REPORTS ON THE INTERNATIONAL MONETARY SYSTEM R 8/4/2008 F02-071/3	2	ND	B1
31787	PAPER	U.S. DEBT INITIATIVE R 8/4/2008 F02-071/3	1	ND	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
- B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

5

1



United States Department of State

5

Washington, D. C. 20520

31781

DRAFT

NOT FULLY CLEARED

BRIEFING MEMORANDUM

SECRET/SENSITIVE S/S

TO: Under Secretary Wallis
FROM: EUR - Rozanne L. Ridgway
SUBJECT: Your March 7-8 Sherpa Meeting; Political Aspects

This memo provides an update on where we stand regarding political preparations for the Tokyo summit in the following areas: east-west/arms control, terrorism, narcotics control, and the Japanese draft political statement. Background on each of these issues is attached.

We understand that the Japanese plan to chair a meeting of Summit Seven Political Directors on April 18. We would welcome any further information from the Japanese sherpa regarding time, place, agenda and arrangements. We presume Political Directors will also join Sherpas for a discussion of the Japanese draft political statement. You might inform Teshima that I would welcome an opportunity to meet bilaterally with Director General Watanabe in advance of that proposed meeting to compare notes on agenda/statements. I will be in touch with Watanabe directly.

East-West relations and arms control: East-West and arms control issues may well be the most prominent topic at the summit. We expect the President to use this opportunity to consult with our closest Allies on the prospects for East-West relations and the next U.S.-Soviet Summit. We do not wish to make at this early date detailed comments on draft summit language regarding East-West relations and arms control, although we obviously hope it will support our efforts and demonstrate Western unity.

Terrorism:

Under skillful Japanese leadership, the February 18 counter-terrorism experts meeting in Tokyo saw progress in terms of identifying six relevant issues for counter-terrorist purposes. The UK considers this list a vehicle for seeking agreement on a work program for the experts that might help move cooperation forward among the Seven. Sir Armstrong will propose that Sherpas instruct the experts to develop specific

~~SECRET/SENSITIVE~~

DECL: OADR

DECLASSIFIED

NLRR F02-071/3#31781

BY WJ NARA DATE 8/4/08

proposals on future work in these areas that could be considered by heads of government. Such proposals might be included in a Sherpas report on terrorism to be given to heads of government. You should support this proposal. It is not clear, however, whether the French will block any such effort to expand counter-terrorism cooperation within the Summit framework.

Narcotics: There appears to be agreement that this issue should be discussed at Tokyo, although you should confirm that. Your January Sherpas meeting left unclear, however, the status of further pre-summit experts meetings to refine earlier proposals. Assistant Secretary John Thomas met informally with his Summit Seven counterparts recently in Geneva. Those discussions revealed strong support for inclusion of this issue at the Tokyo Summit but left open the issue of whether last year's expert report was a sufficient basis for that discussion or whether Sherpas should instruct experts to prepare refined recommendations. We believe further expert work would be useful. We have not made a decision on whether and how hard to press for a public statement on this issue since Chancellor Kohl did address it last year on behalf of the Seven.

Japanese Draft Political Statement: The Japanese draft takes as its theme the need for cooperation between Atlantic and Pacific nations as we move toward the 21st century. As a concept the theme proposed by the Japanese is a good one, however we feel the text is abstract and lacks focus. I am sending some preliminary comments to Director General Watanabe. The message is still being coordinated with the NSC.

Attachments:

- ~~Tab 1 - East-West/Arms Control~~
- ~~Tab 2 - Terrorism~~
- ~~Tab 3 - Narcotics~~
- Tab 4 - Japanese Draft Political Statement
- ~~Tab 5 - Cable on Summit Political Issues~~

Drafted:EUR/RPM:KKenney
3/3/86, 647-3198 (PMP-256)
Cleared:EUR:CThomas
EUR/RPM:RCaldwell
INM:RHesse
S/CT:EBailey
EAP/J:WCorbett
P:DCurran

Draft General Statement on the occasion
of the Tokyo Summit

January 1986

1. We, the Heads of State and Government of seven major industrial democracies located at both ends of the Pacific and the Atlantic, have assembled in Tokyo overlooking the Pacific Ocean and reviewed the world situation looking forward toward the 21st Century now less than fifteen years away.

2. We note the dynamic development of Asia-Pacific nations facing the Pacific Ocean, fostered through free exchange on the basis of their rich and diverse heritages. We also note that West European countries facing the Atlantic are expanding the scope of their unity and solidarity on the basis of their long history and tradition of freedom and democracy and respect for humanity, and are advancing towards further development with renewed vitality.

We stress the significance for the nations both facing the Atlantic and the Pacific to join their energy, through mutual trade and exchanges, with the aim of shaping a new world rich and full of vigor.

3. In promoting such cooperation between the regions of the Atlantic and the Pacific, we underscore the importance of the following:

DECLASSIFIED
NLRR F02-071/3#31782
BY LDT NARA DATE 8/4/08

(1) Peace and Disarmament

We affirm that the basic prerequisite for opening such a global prospect is a world of peace where free initiatives can be brought into full play. Thus, we share the recognition that between the East and the West efforts for a constructive dialogue and for an advance in arms control negotiations should be indispensable if our earth were to be rescued from the abysmal catastrophe posed by nuclear and other weapons of mass destruction. In doing so, we reaffirm the significance of coordination and solidarity among free and democratic nations who share the common ideal of respect for freedom and human rights, democracy and lasting peace.

(2) Healthy Environment and Search for a New Civilization

We agree to use our wisdom and harness the advance of science for the purpose of passing on to our succeeding generation the earth in an environment green and healthy, turning the world in the 21st Century rich, both spiritually and materially, and envisaging a new civilization to be marked by genuine respect for humanity as well as by man's creativity and diversity on the basis of Eastern and Western civilizations. To this end, we note the importance

of the promotion and exchange of science and technology, of education and culture in and among individual countries. We, in particular, share the view that education for the next generation shouldering the 21st Century holds a critical key to the solution of various difficulties in their advance into the next century.

(3) Freedom from Hunger and Poverty

We further share the view that in the world of today characterized by ever-increasing interdependence, there can be neither stability nor prosperity for the North without stability and prosperity for the South, and neither can we construct a prosperous world toward the 21st Century. We, therefore, agree to reinforce cooperation between the North and the South so that the developing nations may overcome with renewed dynamism and vitality a multitude of difficulties in their efforts for development and advance in their nation-building and, especially, so that those fellow members of mankind who are even today suffering from hunger or dire poverty so remote from the prosperity of others may be freed from such hardships and enjoy together with us a sound and bright outlook for all.

DECLASSIFIED

31783

NLRR F02-07113#31783

BY LJ NARA DATE 8/4/08

~~SECRET~~

EUR/RPM: MKLOSSON
3/03/86 EXT.78050 {PMP-262}
EUR:RRIDGWAY

EAP/J:THUBBARD
S/CT:RBOAKLEY
EUR/RPM:GFWARD
NSC:

E:SBROWN
P:DCURRAN
EUR:MPALMER
S/S:

IMMEDIATE TOKYO

NODIS

E.O. 12356: DECL: OADR

TAGS: PREL

SUBJECT: COMMENTS ON JAPANESE DRAFT POLITICAL STATEMENT
FOR TOKYO ECONOMIC SUMMIT

AUTH
DRFT

1	2
3	4
5	6
7	8

1. ~~SECRET~~ - ENTIRE TEXT

2. PLEASE CONVEY TEXT OF MESSAGE PARA 3 FROM ASSISTANT SECRETARY RIDGWAY TO MOFA DIRECTOR GENERAL KOJI WATANABE IN HIS CAPACITY AS SUMMIT POLITICAL DIRECTOR. THE MESSAGE PROVIDES USG COMMENTS ON THE JAPANESE DRAFT POLITICAL STATEMENT FOR THE TOKYO SUMMIT. IF POSSIBLE, THESE COMMENTS SHOULD BE CONVEYED BEFORE THE MARCH 7-9 SHERPA MEETING. THERE WILL BE NO SIGNED ORIGINAL.

3. DEAR MR. WATANABE:

THANK YOU FOR THE OPPORTUNITY TO COMMENT ON THE DRAFT OF THE GENERAL STATEMENT ON THE OCCASION OF THE TOKYO SUMMIT. THE UNITED STATES AGREES ON THE DESIRABILITY OF ISSUING A STATEMENT THAT HIGHLIGHTS THE OPPORTUNITIES AND CHALLENGES BEFORE US AS WE MOVE TOWARD THE 21ST CENTURY. SUCH A STATEMENT SHOULD PRESENT OUR VISION OF A BETTER WORLD AND CONVEY A SENSE OF OPTIMISM, BASED ON THE COMMON VALUES WE SHARE AND CONFIDENCE IN OUR DEMOCRATIC, FREE ENTERPRISE

~~SECRET~~

SYSTEMS. YOUR DRAFT TOUCHES ON SOME OF THE IMPORTANT QUESTIONS THAT SHOULD BE ADDRESSED AND PROVIDES A GOOD BASIS FOR DISCUSSION.

OVERALL, WE BELIEVE THERE SHOULD BE GREATER EMPHASIS ON THE POWERFUL APPEAL OF LIBERTY THROUGHOUT THE WORLD -- THE TREND TOWARD POLITICAL AND ECONOMIC SELF-EXPRESSION. THE MOST DRAMATIC EXAMPLE HAS BEEN THE PHILIPPINES, BUT THERE IS COMPELLING EVIDENCE IN LATIN AMERICA AS ELSEWHERE. THIS TREND MIGHT BE HIGHLIGHTED IN THE SECOND SECTION OF THE DRAFT STATEMENT.

WITH REGARD TO THE SECTION ON PEACE AND DISARMAMENT, EVEN WHILE RECOGNIZING THE SENSITIVITY OF SUCH ISSUES, WE BELIEVE THERE SHOULD BE GREATER EMPHASIS ON THE MAINTENANCE OF SECURITY THROUGH DEFENSE AND DETERRENCE. WE WILL MAKE MORE SPECIFIC COMMENTS IN THE LIGHT OF EAST-WEST DEVELOPMENTS CLOSER TO THE DATE OF THE TOKYO SUMMIT.

WITH REGARD TO THE SECTION ON THE ENVIRONMENT AND VALUES, WE BELIEVE THE IDEA OF REDUCING BARRIERS BETWEEN SOCIETIES AND PROMOTING OPENNESS SHOULD BE INTRODUCED AS A COMPLEMENTARY THEME. AND WITH REGARD TO THE LAST SECTION ON HUNGER AND POVERTY, GREATER EMPHASIS SHOULD BE PLACED ON CREATING CONDITIONS WHICH UNLEASH INDIVIDUAL ABILITY AND PROMOTE ECONOMIC FREEDOM.

THESE COMMENTS ARE WITHOUT PREJUDICE TO THE POSSIBILITY THAT AS WE GET CLOSER TO THE SUMMIT THE PARTICIPANTS MAY WISH TO CONSIDER SUBSTANTIVE, PUBLIC COMMENTS ON OTHER POLITICAL ISSUES -- EITHER SEPARATELY OR AS PART OF A MORE COMPREHENSIVE STATEMENT SUCH AS YOUR GOVERNMENT HAS PROPOSED. FOR EXAMPLE, ON THE QUESTION OF TERRORISM, THE UNITED STATES BELIEVES THE EMPHASIS AT THE SUMMIT SHOULD BE ON SUBSTANTIVE DISCUSSION, AIMING TOWARD AGREEMENT ON PRACTICAL MEASURES. A BRIEF STATEMENT OF RENEWED RESOLVE TO COMBAT TERRORISM MIGHT NEVERTHELESS PROVE VALUABLE.

WE LOOK FORWARD TO COMMENTING ON YOUR NEXT DRAFT. PERHAPS THE MOST EFFICIENT APPROACH FOR REVIEWING THE STATEMENT IN DETAIL WOULD BE A COMBINED MEETING OF PERSONAL REPRESENTATIVES AND POLITICAL DIRECTORS IN APRIL, AS WAS DONE LAST YEAR. WITH BEST WISHES, ROZANNE L. RIDGWAY.

44

BACKGROUND PAPERS

1

.)

NLRR F02-071/3#31784

BY LDT NARA DATE 8/4/08

31784

Macroeconomic and Structural DevelopmentsBackground

The outlook for industrial country growth, inflation and employment has improved substantially with recent oil price declines. Assuming that the average oil price for 1986 will be considerably lower than expected in earlier forecasts, and that the decline is fully passed on to oil consumers, OECD growth will be solidly above the 1985 average of 2.7 percent (preliminary estimate). A key assumption here is the policy response in OECD countries to the decline: no change (in reaction to the fall in oil prices) of monetary growth targets and tax and expenditure plans previously made. With a \$20/bbl average 1986 oil price, OECD real growth could be 3-1/2 to 4 percent; inflation could be just under 3 percent. Japan and Europe (except the U.K.) will be the biggest gainers since the fall in dollar oil prices will be magnified by the rise over the past year in local currencies against the dollar. For Japanese growth in particular, the oil price decline will help offset part of the growth-depressing effects of yen appreciation on Japanese exports.

Stronger growth in Europe should help reduce unemployment in some countries, although much remains to be done in the structural area to improve the response of labor and capital markets to changes in economic circumstances. In an environment of stronger growth and lower inflation, it might be easier politically to change policies that have contributed to poor job creation, such as restrictions on layoffs and firings.

There have been no major developments in macroeconomic policy in the past few months, except for the introduction of a new Canadian budget which cuts the public sector deficit from 6% of GNP in 1985 to 4.7% in 1986, largely by raising taxes. Market response to the new budget has not been favorable. The Japanese are due to release the Maekawa group's study on the structure of the Japanese economy in late March. Nakasone has told the Diet that a package of economic programs to offset the deflationary impact of the yen's rise will be ready in April. The research stages of the tax reform process are underway. The British will announce their FY 86/87 budget in mid-March; the size of possible tax cuts is still unclear.

The short term impact of the oil price declines will be a reduction in the U.S. current account deficit and an increase in the Japanese and German surpluses. It is imperative that Japan and Germany take full advantage of the oil price decline to strengthen domestic demand in order to improve the pattern of external imbalances. At present, exchange rate changes are working in favor of adjusting imbalances but growth differentials between the United States on one side and Europe and Japan on the other are not.

Macroeconomic and Structural Developments

Talking Points

- Oil price decline is biggest factor influencing outlook at present.
- Expect it to improve growth, inflation and employment in most industrial countries, provided consumers are able to reap full benefits.
- Stronger growth in Europe and Japan is critical to improving pattern of external imbalances.
 - o Need growth differentials working in same, not opposite, direction as exchange rate changes to reduce divergences in external imbalances.
 - o Without such improvement, sustainability of world expansion is threatened.
- Thus important to discuss implications for economic policy of oil price developments.
- What is likelihood that gains from lower oil prices in Japan may turn up as higher profits for utilities or oil companies, rather than being fully passed on to consumers?
- Should tax reform process in Japan be accelerated to address savings/consumption imbalance in order to get biggest boost from oil price decline?
- Could see negative inflation in Germany this year with decline in oil prices. Doesn't this provide additional room for maneuver in fiscal and monetary areas, especially regarding interest rates?
- Would structural reforms in Europe be easier to undertake in an environment of lower oil prices promoting stronger growth, lower inflation and gains in employment?

DECLASSIFIED

NLRR F02-071/3 #31785

BY LOT NARA DATE 8/4/08

~~CONFIDENTIAL~~

2

31785

Foreign Exchange Markets and Interest Rates

A. Summary of Developments Since Plaza Meeting

The dollar has depreciated substantially since the September 22, 1985 G-5 meeting. As of February 28th it was down 13.7 percent on a trade-weighted basis, 23.1 percent against the German mark and 25.7 percent against the yen. There has been an equally sharp decline in yields on long-term U.S. Treasury securities. Long-term yields on foreign securities (except French) have declined much less, the effect has been to significantly reduce the long-term interest rate differentials in favor of the dollar. Short-term differentials also moved in favor of the DM and sterling, but not vis-a-vis the French franc and yen for the period as a whole.

After the dollar declined sharply following the September G-5 announcement, additional depreciation was induced in October by sizeable intervention dollar sales (to resist upward movements) and a sharp hike in Japanese interest rates. There was limited dollar intervention in November as the dollar continued to ease amid widespread expectations of sluggish U.S. economic growth and a discount rate cut by the Fed. Passage of the Gramm-Rudman amendment was interpreted as providing more flexibility for the Fed to ease and encouraged further dollar sales. In addition, the sharp increase in the U.S. trade deficit increased corporate demand for foreign currencies.

B. Developments Since mid-January G-5 Meeting

The dollar has declined further since the January 18/19 G-5 meeting despite interest differentials' moving in favor of the dollar. Official comments, and actions, were interpreted as suggesting reduced concern over continued dollar depreciation. U.S. Trade officials indicated that additional dollar easing was needed to address the U.S. trade deficit, and U.S. monetary officials suggested that additional declines would be welcome. Officials abroad were believed somewhat uncomfortable about the further strengthening of their currencies but, given the U.S. view, reluctant to take measures that would strengthen the dollar. The sharp oil price decline raised expectations of growth abroad and may have reduced perceived discomfort over the dollar's trend. The continued improvements in the U.S. stock and bond markets (effectively offsetting the impact of the dollar depreciation for foreign holders of long-term dollar denominated assets) also appeared to reduce apprehensions that officials would need to act to prevent a precipitous dollar decline. These factors appeared to more than offset the movement of short-term interest rate differentials in favor of the dollar.

~~CONFIDENTIAL~~
DECLASSIFY: OADR

The sharp downward move in oil prices also raised concern over possible implications for U.S. banks exposed to heavily indebted oil exporting countries and acted to dampen dollar demand.

Trading conditions have generally remained good throughout the recent decline, although there were occasional choppy periods, especially following reports (often initially misleading) of comments by senior officials.

DM

The DM has firmed against other EMS countries as optimism about German economic prospects increased and concern over possible German action to counter the weaker dollar declined. Comments by Bundesbank officials, reinforcing market perceptions that an easing of monetary policy is unlikely, encouraged DM purchases. Speculation over possible EMS realignment induced flows into DM, and there were large scale sales of DM by other EMS members attempting to limit the DM's rise against their currencies.

French Franc

The French franc eased against the DM in late January as speculation increased that the French franc would be realigned downward following, or possibly before, the March election. Euro-franc rates rose sharply and the French intervened to sell DM and dollars. Pressure subsequently eased as did Euro-franc rates. The French have also acted to lower domestic interest rates, cutting their money market intervention rate on February 20 by 1/4 percent to 8-1/2 percent. Long-term franc rates have also declined, partly in response to an easing of inflationary expectations.

Yen

The yen has appreciated strongly since mid-January, approaching record highs against both the DM and the dollar. Comments by Finance Minister Takeshita shortly after the January G-5 meeting indicating that Japan would accept a ¥190 level induced widespread yen buying. A subsequent cut in the discount rate by 1/2 percent to 4-1/2 percent was widely expected and did little to slow the yen's rise. Its impact was blunted further when Bank of Japan Governor Sumita indicated the move had not been made to affect the exchange rate. The yen paused around the ¥190 level; traders became reluctant to acquire substantial amounts of yen as expectations grew of strong Japanese measures to resist further dollar rises. When no further measures were adopted, and amid public debate between the Bank of Japan and the Finance Ministry about an additional discount rate cut, the dollar rapidly declined to trade around ¥180.

~~CONFIDENTIAL~~

- 3 -

Sterling

While appreciating against the dollar since the January G-5 meeting, sterling has eased against other currencies. The sharp fall in oil prices and political problems associated with the Westland affair depressed demand for the currency in mid-January and early February. Later, sterling firmed following a well received speech by Prime Minister Thatcher and on some reassessment of the impact of lower oil prices on the U.K. economy. Although differentials since the mid-January meeting have shifted in favor of the United States, this reflects a decline in U.K. interest rates from temporary peaks induced by the authorities in mid-January in response to the emerging weakness of sterling. Sterling interest rates continue to be relatively high and have been attracting inflows.

Attachments

- interest rate differentials

IMO:AM
2/28/86

~~CONFIDENTIAL~~
~~DECLASSIFY:OADR~~

Movement in Interest Rate Differentials and Currencies

	<u>Sept. 20, 1985-</u> <u>Jan. 17, 1986</u>	<u>Jan. 17, 1986</u> <u>Feb. 27, 1986</u>	<u>Sept. 20, 1985-</u> <u>Feb. 27, 1986</u>
<u>Increase in Differential</u> <u>of U.S. minus Foreign Rate</u> percentage points (+ = move in favor of \$)		
Short-term			
Frankfurt	-0.22	+0.00	-0.22
Tokyo	-0.39	+0.40	+0.01
London	-1.54	+0.36	-1.18
Paris	+0.27	+0.17	+0.44
Long-term			
Frankfurt	-1.21	-0.67	-1.88
Tokyo	-1.24	-0.51	-1.75
London	-1.86	+0.28	-1.58
Paris	-0.53	-0.11	-0.64
 <u>Increase in \$ Exchange Rate vs.</u> percent (- = dollar depreciation)		
DM	-13.2	-10.1	-22.0
Yen	-15.4	-10.8	-24.5
Sterling	-4.4	-2.1	-6.3
Franc	-12.6	-9.9	-21.2

Interest Rates and Currency Movements Among G-5 Countries

	<u>Sept. 20,</u> <u>1985</u>	<u>Jan. 17,</u> <u>1986</u>	<u>Feb. 27,</u> <u>1986</u>	<u>Change</u> <u>Sept. 20-Feb 27</u>
Interest Rates				
Short-term	(%)	(%)	(%)	(percentage points)
U.S.	7.97	7.80	7.60	-0.37
Germany	4.60	4.65	4.45	-0.15
Japan	6.31	6.53	5.93	-0.38
U.K.	11.44	12.81	12.25	+0.81
France	9.44	9.00	8.63	-0.81
Long-term				
U.S.	10.64	9.17	8.14	-2.50
Germany	6.54	6.28	5.92	-0.62
Japan	6.38	6.15	5.63	-0.75
U.K.	11.00	11.39	10.08	-0.92
France	11.02	10.08	9.16	-1.86

Exchange Rates				(percent)
DM	2.8390	2.4648	2.2158	-22.0
Yen	238.95	202.25	180.45	-24.5
Sterling	\$1.3745	\$1.4373	\$1.4675	-6.3
Franc	8.6600	7.5655	6.8200	-21.2

Interest Rate Differentials	U.S. Rate Minus Foreign Rate (+ = favor of U.S.) (...percentage points...)			
Short-term				
vs. Frankfurt	3.37	3.15	3.15	-0.22
vs. Tokyo	1.66	1.27	1.67	+0.01
vs. London	-3.47	-5.01	-4.65	-1.18
vs. Paris	-1.47	-1.20	-1.03	+0.44
Long-term				
vs. Frankfurt	4.10	2.89	2.22	-1.88
vs. Tokyo	4.26	3.02	2.51	-1.75
vs. London	-0.36	-2.22	-1.94	-1.58
vs. Paris	-0.38	-0.91	-1.02	-0.64

Note: Rates Used

	Short-term	Long-term
U.S.	90-day CD	10-yr. govt.
Germany	90-day interbank	10-yr. govt.
Japan	90-day Gensaki	10-yr. govt.
U.K.	90-day interbank	10-yr. govt.
France	90-day interbank	10-yr. govt.

3

1

Talking Points on U.S. Economic Outlook

Domestic Outlook

The U.S. economy is now in its fourth year of expansion. Strong real growth and moderate inflation are projected for 1986 and beyond.

- o Official economic forecast for 1986 projects 4 percent real growth (Q4/Q4) reflecting continued strong fixed investment and inventory rebuilding. Consumption will rise somewhat more slowly than income.
- o Much has been made of slowdown over last year and a half in U.S. real growth. But largely an inventory phenomenon. Real final sales (GNP less inventory investment) have shown great stability, rising 3-1/2 to 4-1/2 percent during each of the past three years of the current expansion.
- o Expect this underlying stability to continue while inventory investment picks up some. Flattening out of net exports in real terms will also contribute to GNP growth in short term.
- o Private economic forecasts have shown real growth in the 3 to 3-1/2 percent range for 1986. Falling oil prices and strong employment gains are causing upward revision.
- o Short-term interest rates are down more than 1 percentage point and long-term rates by about 3 full percentage points in the last year. This should help to stimulate interest-sensitive sectors of the economy.
- o Inflation remains relatively subdued. The fixed-weighted GNP deflator rose 3.5 percent during 1985, consumer prices rose 3.8 percent and wholesale prices rose 1.8 percent. Wholesale prices fell sharply in January and a disinflationary process is still underway in energy, agriculture and other sectors of the economy. Wages are rising slowly and there are few signs of any emerging inflationary pressures.
- o The money supply has been rising strongly. M1 rose 12 percent during 1985 and M2 was up 8-1/2 percent. Velocity has been very sluggish. Some stimulating effect on economic activity from the recent pace of monetary growth is likely to be experienced this year.
- o I might just take a moment to elaborate on Gramm-Rudman.
- o As you know, the Gramm-Rudman-Hollings Act provides a mechanism for reducing Federal spending and the deficit and is designed

to produce a balanced budget by 1991.

- o In the current fiscal year, Congress set a limit of \$11.7 billion for the 7 months remaining of the fiscal year after the sequestration order is to go into effect on March 1 (equivalent to a \$20 billion annual rate). This would get the deficit down to \$203 billion in FY 1986.
 - In future years, the deficit must be reduced to \$144 billion in FY 1987 and lowered further in steps of \$36 billion until it reaches zero in 1991.
- o The President's FY 1987 budget meets or exceeds the GRH targets. In FY 1987, the budget deficit would be reduced to \$143 billion (3.2 percent of GNP). The deficit would be reduced steadily, falling below 1 percent of GNP by 1990 and reaching balance by 1991.
 - Outlays would continue to grow in absolute terms along the path projected in the new budget, but the rate of advance would be reduced significantly. Federal outlays would decline steadily as a ratio to GNP from 24 percent in 1985 to about 19 percent in 1991.
 - Receipts would be growing strongly as the economy itself grows, but receipts would remain close to a 19 percent ratio to GNP -- slightly above historical experience.
 - With receipts growing normally and outlay growth restrained to a lower path, the budget would move into balance by 1991.
- o The President's budget is carefully drawn to meet the GRH targets while preserving essential programs of the highest national priority. The only alternatives to domestic spending cuts along the lines indicated in the President's budget are to raise taxes, to lower defense spending, or to cut social security benefits, none of which is acceptable.
- o A three-judge panel has recently ruled that one of the GRH procedural provisions is unconstitutional and the issue must go to the Supreme Court for resolution. There are fallback provisions in the GRH legislation and it is unclear at this stage how significant an adverse legal decision would be in practice. The general presumption is that the spirit of GRH would live on and effective steps would be taken by Congress to reduce the deficit.

External Sector

Turning to external sector,

- we now expect the 1985 trade deficit to total about \$125 billion (b/p basis); current account deficit will be \$120

billion.

- o We believe the trade deficit has peaked and will gradually improve this year.
- o For the year 1986 as a whole, we project equal trade and current account deficits of about \$125 billion -- \$20 billion lower than we estimated last fall. This improvement comes despite the adverse short run J-curve effect.
- o For 1987, the trade deficit is expected to decline further -- by perhaps \$30 billion, to \$95 billion. This improvement reflects continued lower oil prices and growing favorable impact of exchange rate changes through end of February 1986.
 - However, while the current account deficit is also reduced, it falls by about \$5 billion less than the trade gains -- to about \$100 billion. This less full improvement reflects the effects of cumulative external deficits on our net investment position.
- o The outlook is heavily dependent on assumptions as to (a) growth rates at home and abroad and (b) exchange rates.
 - Exchange rate changes to date are the major factor in projected reversal of U.S. trade and current account.
 - Current forecasts suggest that growth effects are running counter to adjustment effects. Our 4 percent expansion will -- in the absence of policy changes abroad -- be stronger than European or Japanese growth.
- o Improved growth outlook for some industrial countries only keeps pace with our strengthened outlook for 1986. And substantial external imbalances persist -- particularly in Japan and Germany where surpluses will rise, partly due to oil price effects.
- o Only two ways adjustment can occur:
 - reverse the "growth gap" -- both in OECD partners and in LDCs
 - additional exchange rate adjustment over time.
- o Prefer to use both to adjust imbalances.
- o If external imbalances don't adjust, growth prospects will be damaged.

4)

Preparations for New Multilateral Trade Negotiations

ISSUE

Sherpa discussion of the new round is likely to center on the preparatory process now underway in Geneva. Our objective for this general discussion is to reaffirm Summit country support for the GATT Preparatory Committee's work and encourage active outreach to developing countries throughout the coming months in order to ensure completion of the Preparatory Committee's work by mid-July and a successful Ministerial meeting in September. We also should use this opportunity to press our trading partners for their active support for inclusion of the important trade-related issues of investment and intellectual property on the new round negotiating agenda.

TALKING POINTS

A. General Discussion

-- We are pleased that the GATT Preparatory Committee is up and running. Discussion in the first three meetings centered on possible subject matter for the negotiations, based on the 1982 GATT Work Program and proposals by GATT countries. We anticipate that the Preparatory Committee will complete this phase of the discussion at its next meeting (March 17-20).

-- The next step will be for the Committee to consider the overall negotiating objectives, based on the subject matter deliberations. The final phase of the Committee's work will be to prepare a draft declaration for ministerial approval. This work is to be completed by mid-July. Close consultations among Summit countries throughout this process will be critical to its success.

-- In our view, one of the main reasons the Preparatory Committee is up and running is because of the efforts made by the Summit countries in advance of the GATT meeting in November to ensure that a broad consensus for the establishment of the Preparatory Committee. We believe that these efforts should be continued throughout the spring as the PrepCom goes about its work.

-- Specifically, we need to do a great deal of work with many developing countries to communicate our objectives for negotiations in such fundamental areas as safeguards and agriculture, as well as services. In addition, we need to reach a broad international consensus about the elements that should be contained in the draft ministerial declaration.

B. Investment

-- Many developed countries, and the Summit countries in particular, have worked for the past two decades to establish greater international discipline on investment issues in the OECD and bilateral investment treaties. (There are over 200 bilateral investment treaties currently in force.) The work done in the OECD on issues such as performance requirements has been quite useful, but it only applies to OECD countries and is non-binding. We believe the time has come to see this effort bear fruit in the GATT.

-- GATT work on non-tariff barriers during the Tokyo Round largely ignored the trade-distorting impact of government investment policies, yet these policies directly affect international trade and, consequently, the future viability of the GATT. We believe that the use of such trade-related non-tariff barriers needs to be addressed by the GATT and made subject to effective multilateral disciplines.

-- Freer international trade and investment increases trade opportunities, the efficiency of resource-use, creates jobs and raises the level of national and global income. The strong relationship between foreign investment and trade is evidenced by the fact that almost one third of all U.S. exports and imports are associated with U.S. direct investment abroad. We would expect the same type of relationship exists for other Summit countries as well.

-- There is no doubt that the use of trade-distorting measures, such as performance requirements, are aimed at influencing trade flows in a manner that contravenes the GATT. In our view, it is time that the GATT begin to address the trade-related problems of investment as part of the new round if it to continue to be an effective organization.

-- There is sound historical precedent to address investment issues in the GATT. The original charter for the International Trade Organization (ITO) -- from which the GATT emerged -- contained important provisions on investment. Moreover, in 1955, the GATT Contracting Parties adopted a resolution on treatment of investment in member countries. This 1955 resolution recognized that import restrictions are the net result of restrictions on direct investment.

-- I believe that if Summit countries join together to take action to discipline the use of another form of non-tariff barrier, we will open the door to expanded world trade, to the benefit of all GATT members.

C. Intellectual Property

-- Inadequacies in laws, regulations and enforcement practices on intellectual property protection create serious trade distortions. In other cases, the absence of national laws or lack of protection for foreign nationals under existing laws have similar trade-distortive effects.

-- The absence of adequate protection for intellectual property rights precludes or limits authorized trade in products and services that utilize or incorporate innovations. This reduces both the volume of world trade and the net benefits derived by all nations from international commerce. It diminishes the incentives for innovation and creativity worldwide. It is now time for the GATT to address these issues to reduce these trade dampening distortions.

-- Intellectual property is not new to the GATT. There are four important references to intellectual property rights in existing GATT Articles: Article XXX:3(C)III; Article XVIII:10 and 20; and, Article XX(D). The GATT has also acquired expertise in the trade-related aspects of commercial counterfeiting in its work in the proposed GATT Counterfeit Code. Future negotiations in the GATT might involve further interpretations or clarifications of existing references to intellectual property.

-- The trade distortions arising from different levels of intellectual property protection are in some ways similar to the trade distortions we discussed during the Tokyo Round with respect to product standards. While the GATT is not the principle international organization responsible for either intellectual property or product standards, trade distortion in these areas can seriously inhibit international commerce. There is thus a legitimate role for the GATT to play in evolving international rules to ensure that these trade-distorting effects are minimized. One possibility might be along the lines of the Tokyo Round discussions which resulted in the negotiation of the standards code.

-- Existing international conventions on intellectual property administered primarily by the World Intellectual Property Organization provide a foundation for the kinds of protections needed in today's rapidly changing world.

-- But, the standards they set are inadequate in some respects and their dispute settlement procedures are considered ineffective by companies engaged in international trade.

-- Consequently, the trade-distortive effects of intellectual property protection problems should be addressed in the GATT as part of the New Round. Just as the GATT has cooperative relations

with a number of other international organizations (such as the ISO and the CCC), an effective approach for dealing with this issue could include cooperative efforts with those organizations with expertise in intellectual property matters.

-- The U.S. is aware of the opposition of certain developing countries to dealing with intellectual property matters in the GATT and their preference for dealing with such matters in WIPO, the secretariat for major worldwide agreements.

-- Developing countries derive benefits from new technologies which are fostered by adequate protection of intellectual property rights. Trade accelerates dissemination of new technologies to LDC's, spurring further advances. Often this takes the form of investment in local plants. For a developing economy foreign investment can reduce expenditures of scarce foreign exchange and increased foreign currency earnings. This kind of trade increases domestic resources, expands domestic production and employment.

USTR:KFHauser

clearances: USTR: CBlum

USTR: DEiss/ESimon

3/4/86

Attachment: Status Report on New Round

NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS

Status Report

The ninety member countries of the General Agreement on Tariffs and Trade (GATT) have begun a formal preparatory process leading to a new round of multilateral trade negotiations. At their annual meeting in November, 1985, the GATT members established a Preparatory Committee to determine the objectives, subject matter and organizational details for the new trade talks. The Preparatory Committee has met three times since January and has set out an intensive schedule of meetings through mid-July. At that time, the Committee is to make recommendations on the subject matter and organizational details, perhaps in the form of a ministerial declaration, and forward them to a ministerial-level meeting of GATT members for action. It was agreed that the ministerial meeting will take place in September.

We are pleased that the 90 members of the GATT have taken this important step towards strengthening the trading system. Although just a first, largely procedural step, it is an essential part of the process and will pave the way for Ministers in 1986 to take a formal decision on negotiations.

While the U.S. worked very hard to ensure this outcome, the decision by the GATT to establish a Preparatory Committee should not be seen as an achievement just for the United States. It is a victory for the GATT system itself, because reducing trade barriers and strengthening the disciplines in the GATT will benefit all countries. The 90 members of the GATT have joined together by consensus in a step that recognizes the need to repair and restore the multilateral trading system.

In the U.S. view, the initiation of a new round of multilateral negotiations is the best way the 90 member countries of the GATT can achieve fairer trade, increase access for exports, provide more effective dispute resolution, and strengthen the fabric of the international trading system. All trading countries have an important stake in developing a comprehensive agenda to reform the GATT, make it relevant to the problems of today's trading environment, and ensure its capacity to deal with new problems as they arise.

Key negotiating objectives for the United States include:

Dispute Settlement

One of the major functions of the GATT is to resolve disputes between its member countries. The existing dispute settlement process has settled or helped settle a large number of disputes. However, some conspicuous failures particularly in recent years, have undermined public confidence in the system. Any dispute

settlement mechanism cannot substitute for a sound framework of rules, nor can it repair a faltering international consensus. However, a good dispute settlement process is a necessary element in the trading system.

As part of the new negotiations, we seek some specific improvements in the procedures of the dispute settlement process to ensure that countries have every opportunity to resolve their differences in a timely manner through consultation, mediation or arbitration. In those cases where the two countries choose a panel to make recommendations on how to resolve the dispute, we want to ensure that non-governmental panelists can be chosen, that strict time limits are set for each phase of the panel process, and that the panel reports contain clear and concise recommendations for action. In my mind, this is one of the top priorities for the United States in the new round.

Safeguards

The term safeguards refers to the emergency actions taken by governments to protect domestic industries from an influx of imports, thereby giving them time to adjust to competition. This issue has been identified as an issue for priority treatment in the new round, in part because it is a concern of developing countries, and in part because of widespread concern that most current safeguard practices have little to do with the disciplines of the GATT. In fact, the GATT Secretariat staff has identified some 94 safeguard-type actions taken outside the relevant GATT provisions.

In the new negotiations, we seek to develop a comprehensive agreement over the use of all safeguard actions, including voluntary restraint agreements and orderly marketing arrangements. Our major objectives are to ensure that such measures are transparent, remain temporary, and contribute to -- not retard-- adjustment, without shifting the burden of that adjustment on to other trading countries.

Agriculture

It is time that we put an end to the chaos in trade in agriculture. Trying to treat agriculture with a different set of rules from trade in industrial goods has produced nothing but turmoil, inequities, and massive distress for farmers in this country and around the world.

Specifically, we have to eliminate export subsidies and tear down the multiple barriers to agricultural import markets in both developed and developing countries.

Tokyo Round Non-Tariff Barrier Codes

Not surprisingly, the first effort to negotiate meaningful international disciplines over non-tariff barriers was not perfectly satisfactory. What we need to do now is build on our experience with the codes over the past six years, expand participation, update certain provisions, and strengthen and improve their operation. We want to give particular attention to the government procurement, aircraft and subsidies codes.

Market Access

While the primary focus of the new negotiations will be on developing rules and disciplines over trade policies and practices, we anticipate there will also be some of classical swapping of concessions to reduce tariff and non-tariff barriers to trade. We have asked our private sector advisors to provide us with a listing of specific barriers that they want to see eliminated. Once we receive their input, we will develop a strategy to meet as many of their requests as possible.

Let me clearly state that we will not pay again for concessions we made in previous rounds, and we do not intend to distort the overall balance of concessions we have with our trading partners. As a matter of fact, the biggest concession that we are going to be able to make is to maintain an open market in the United States. Our \$150 billion trade deficit speaks for itself in this regard.

Intellectual Property

Piracy, misappropriation and infringement of intellectual property is causing severe trade distortions, and is a growing trade problem. It is a critical issue for the future of world trade because the technologies and innovation that these rights preserve will help determine tomorrow's trade patterns. The GATT has already undertaken work with respect to trademark counterfeiting. We favor completion of this work, but it is only a small part of the larger problem facing us. Deficiencies in protection of patents and copyrights, and protection for new and evolving technologies also must be addressed.

Some have criticized the introduction of these issues into the new round because of concerns about the competence of existing international conventions and the current efforts of the World Intellectual Property Organization. We are not interested in duplicating the very important work of these groups. We do believe, however, that the GATT can make a very important contribution by developing the most effective and enforceable mechanism for disciplining government policies in the intellectual property

area.

Investment

Government investment policies can have a strong dampening and distorting impact on world trade. The trade effects of these measures are comparable to those created by tariffs and non-tariff barriers, such as quantitative restrictions. When government unnecessarily restrict the ability of a firm to establish itself, they deny producers and consumers the benefits of services and goods exports. Like free trade, foreign investment, when responding to actual market conditions rather than distortive government policies, can make the economic pie larger. For developing countries facing long term debt constraints, increased flows of foreign direct investment are essential.

The GATT is the multilateral organization with the necessary membership responsible for a large percentage of world trade. GATT procedures for addressing disputes and principles such as non-discrimination are relevant and important to disciplining the growth of trade distorting investment policies. The GATT's effectiveness in liberalizing world trade in the future requires discussion of this issue as part of the new round.

Services

We also are seeking agreement under the auspices of the GATT on a framework of principles and procedures that would make trade in services as open as possible. Services is the fastest growing segment of our economy and is likely to continue to be so in the future. We need to act now to develop meaningful rules to discipline government actions that restrict or distort services trade.

USTR:KFHauser
3/4/86

5

1

31786

G-10 and G-24 Reports on the
International Monetary System

Background

In the State of the Union Address, President Reagan expressed concern about the effects of exchange rate volatility and directed the Secretary of the Treasury to determine if the nations of the world should convene to discuss the role and relationship of our currencies. Discussions are underway in the IMF Executive Board concerning the G-10 and G-24 reports on improving the functioning of the international monetary system, which will serve as a basis for the Interim Committee's substantive consideration of these reports at its April meeting.

The United States believes that greater stability of exchange rates requires more favorable convergence of economic performance and closer coordination of economic policies among the key currency countries. Progress has been made in achieving these objectives, but much more remains to be done. At this stage, the United States has an open mind with respect to further improvements to achieve these objectives and seeks to keep its options open. In particular, we need to hear the views of others and assess the situation in light of the April Interim Committee meeting before reaching decisions on convening a meeting on the international monetary system.

DECLASSIFIED

NLRR F02-071/3#31786

BY LJI NARA DATE 8/4/08

Talking Points

- The President's State of the Union address reflected concern about the volatility of exchange rates and the need to achieve greater economic coordination.
- The current system has both strengths and weaknesses, but there is a need to improve its functioning.
- The September 22 Plaza Agreement represented a major advance but closer cooperation on economic policies is needed.
- The G-10 report contains useful recommendations to improve the functioning of the system which deserve our support but are only a beginning.
- The United States is open-minded on possible measures to strengthen the system. We will assess the situation in light of the April meetings, before reaching any decisions on convening a meeting.
- At this point, it would be premature to decide how the Summit should address international monetary issues.

6

1

NLRR 102-07113#31787

BY LOS NARA DATE 8/4/08U.S. Debt Initiative

31787

- Has been some concern that debt initiative proposed in Seoul (a) is languishing; (b) isn't sufficient to address commodity/oil price decline problems of major debtors.
- Summit could help by emphasizing initiative as positive framework for addressing problems of oil exporting debtors.

Status of Initiative

- Baker initiative is already being implemented through individual debtors' negotiations with the IMF/World Bank.
 - o No need to look for formal endorsements by debtors.
 - o Some countries will need to draw on all elements of the initiative (Mexico, Argentina); others have IMF program, bank rescheduling, will focus on securing additional World Bank resources (Ecuador, Colombia, Ivory Coast).
 - o Adoption of credible reforms, in turn, should trigger increased commercial bank lending.
- Important to give more thought to ways to encourage return of flight capital and increased investment.
 - o Debt/equity swaps, privatization may help.

Impact of Oil Price Decline

- Believe debt initiative is sufficiently flexible to meet current needs through traditional means:
 - o Those gaining from oil price decline will need less financing; permit more for those adversely affected.
 - o Don't anticipate need for major additional financing or extraordinary debt relief measures.
- Most LDCs will benefit from the combined impact of oil price decline and indirect effects due to stronger OECD growth and lower interest rates.
- If oil price averages \$15/barrel in 1986, likely to add 1.3 percentage points to OECD growth, reduce LIBOR interest rates by 1.5 percentage points.
- While major oil exporters will be adversely affected, believe financing gaps for Mexico, Venezuela, and Ecuador can be financed without major difficulty if they adopt sound adjustment programs.
 - o Nigeria, however, may need extraordinary financing measures to meet both debt service and minimum import needs.

BACKGROUND

U.S. Debt Initiative

The international debt strategy pursued over the past three years has been generally successful, but problems emerged which required actions to strengthen the strategy. These problems included: 1) lack of progress in reducing internal imbalances; 2) lack of confidence that current policies would result in improved growth; 3) virtually no new net commercial bank lending to LDCs in 1985; and 4) a clear need for greater emphasis on longer-term structural reforms.

Policy/Objectives

Against this background, Secretary Baker outlined in Seoul a "Program for Sustained Growth" to build upon and strengthen the debt strategy.

The program contains three essential and mutually reinforcing elements:

- First, adoption of growth-oriented economic reforms by the debtor countries;
- second, a continued central role for the IMF in conjunction with net new lending of \$20 billion by the MDBs; and
- third, \$20 billion in net new lending by the commercial banks.

If each of the participants does its part, and the demand for quality lending by the World Bank increases, we indicated that we would also be prepared to look seriously at the timing and scope of a general capital increase for the World Bank.

The response to U.S. debt initiative has been very positive with support from the key industrial countries, the IMF, World Bank, the IDB, and commercial banks in the U.S. and other major creditor countries (i.e., France, Canada, Germany, Italy, Netherlands, Japan, Saudi Arabia, and the U.K.). Moreover, the principal debtors have welcomed the proposal, particularly the emphasis on growth, and recognize the need to undertake fundamental structural reforms for growth.

Implementation of the debt strategy is already well underway. It will occur on a case-by-case basis, depending on the individual situation in each debtor country, and each country's decision to implement the additional growth-oriented measures which are needed.