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CONFIDENTIAL
FROM SAN FRANCISCO 050255Z MAR 83.
TO IMMEDIATE F C O
TELEGRAM NUMBER 16 OF 4 MARCH
INFO IMMEDIATE WASHINGTON.

FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE'S TALKS WITH SECRETARY REGAN: 4 MARCH.

1. REGAN, WHO WAS IN SAN FRANCISCO FOR THE PRESIDENT'S DINNER FOR THE QUEEN, CALLED ON THE SECRETARY OF STATE AT HIS HOTEL ACCOMPANIED BY A NOTETAKER. SIR O WRIGHT AND I WERE ALSO PRESENT. THE MEETING LASTED A LITTLE OVER HALF AN HOUR.

US ECONOMY

2. MR PYM SAID THAT HE HAD HEARD SOME VERY OPTIMISTIC PREDICTIONS. REGAN SOUNDED A NOTE OF CAUTION BUT ACKNOWLEDGED THAT THE ECONOMY HAD TURNED THE CORNER. THE FEAR NOW WAS OF A ROMAN CANDLE UP AND DOWN SIMILAR TO THAT WHICH HAD OCCURRED DURING THE CARTER ADMINISTRATION. HE WOULD BE GLAD TO SETTLE FOR A LOWER SLOPE TO BRING ABOUT SUSTAINED RECOVER. IT COULD BE DONE: IT WAS SURPRISING HOW QUICKLY INFLATION HAD BEEN BROUGHT RIGHT DOWN. BUT TOO MUCH BULLISH TALK ON THE PART OF THE ADMINISTRATION

BUT TOO MUCH BULLISH TALK ON THE PART OF THE ADMINISTRATION
HE MENTIONED THAT THE PRESIDENT HAD A DILEMMA HERE, GIVEN HIS
NATURAL DESIRE TO CAPITALISE ON GOOD NEWS) WOULD MAKE IT HARDER
TO MAINTAIN TIGHT FISCAL POLICIES.

OIL PRICES

3. REGAN SAID THAT FORCES HAD BEEN SET IN MOTION THAT WOULD NOT
BE UNDONE FOR MANY YEARS TO COME. IT WAS WORTH ASKING WHETHER
WE MIGHT GET BACK TO THE DOLLARS 12 TO 14 RANGE, BUT HE HAD
ASKED HIS PEOPLE TO WORK OUT THE IMPLICATIONS OF PRICES AT 25, 20
AND 15 DOLLARS, HE ADMITTED THAT TOO SHARP A FALL WOULD CAUSE
PROBLEMS, BUT WAS INCLINED TO DISCOUNT THEM APART FROM WHAT
HE REGARDED AS THE SPECIAL CASE OF MEXICO (SEE BELOW). THE
OUTSTANDING DEBT OF THE COUNTRIES WHO WOULD BE MOST AFFECTED
(HE MENTIONED NIGERIA, INDONESIA, VENEZUELA, PERU, ECUADOR AND
EGYPT) WAS COLLECTIVELY NO GREATER A PROBLEM THAN GOVERNMENTS
AND FINANCIAL INSTITUTIONS HAD PROVED ABLE TO DEAL WITH OVER
BRAZIL. THERE WOULD BE A STRAIN, BUT IT COULD BE HANDLED AND
THE CORRESPONDING BENEFITS WOULD BE THE GREATER. WEALTH WOULD
START SHIFTING BACK TOWARDS THE OIL CONSUMING COUNTRIES.

INTERNATIONAL BANKING SYSTEM

4. REGAN SAID THAT ONE OF THE LESSONS OF THE RECENT DEBT CRISES IN
LATIN AMERICA HAD BEEN THE LACK OF KNOWLEDGE ON THE PART OF
INDIVIDUAL BANKS OF WHAT OTHERS WERE LENDING TO THE SAME COUNTRY.
THE DITCHLEY GROUP WAS THE BEGINNINGS OF A CLEARING HOUSE WHICH
SHOULD PREVENT THIS HAPPENING AGAIN. WHAT WAS TO BE
AVOIDED WAS THE SORT OF PIE IN THE SKY SUPER-CENTRAL BANK
SOLUTION WHICH FOUND FAVOUR WITH THE G77 AND SOME OTHERS.
THE SECRETARY OF STATE AGREED THAT WE SHOULD WORK ON THE BASIS OF
THE INSTITUTIONS WE HAD.

MEXICO

5. REGAN SAID THAT ANY FURTHER LOWERING OF OIL PRICES WOULD INCREASE THE MEXICAN FOREIGN EXCHANGE SHORT-FALL. IT WAS REASONABLE FOR THE INTERNATIONAL COMMUNITY TO EXPECT THE UNITED STATES TO PLAY THE MAJOR ROLE, GIVEN ITS PARTICULAR POLITICAL CONCERNS, BUT THE UNITED STATES COULD NOT DO IT ALL. THEY WOULD HAVE TO LOOK AT THE BIS FOR COLLECTIVE HELP AND ANOTHER OPERATION MIGHT BE NEEDED THIS SUMMER.

WILLIAMSBURG SUMMIT

6. REGAN SAID THAT HE HAD DELIBERATELY HELD OFF PREPARATORY MEETINGS OF FINANCE MINISTERS UNTIL THE POLITICAL SITUATION IN THE PARTICIPATING COUNTRIES WAS CLEARER. HE AGREED WITH MR PYM THAT THE MAJOR COUNTRIES WOULD HAVE TO WORK IN THE SAME DIRECTION TO SECURE A SUSTAINABLE RECOVERY. NEITHER THE UNITED STATES NOR ANYONE ELSE COULD DO IT ALONE, BUT IT WAS DIFFICULT TO THINK IN TERMS OF CONVERGENT POLICIES UNTIL WE KNEW THE RESULTS OF THE GERMAN ELECTIONS AND WHICH WAY FRENCH POLICY WOULD TURN. FINANCE MINISTERS WOULD MEET IN WASHINGTON IN APRIL AND THEN ONCE MORE BEFORE THE SUMMIT. HE SUGGESTED THAT THE SECRETARY OF STATE MIGHT WISH TO DISCUSS WITH SHULTZ THE POSSIBILITY OF A JOINT PREPARATORY MEETING OF FINANCE AND FOREIGN MINISTERS IF THIS SEEMED LIKELY TO BE HELPFUL NEARER THE TIME. THE SUMMIT SHOULD LOOK AT TWO SPECIFIC POINTS:-

(1) PROTECTIONISM: WERE WE CONTENT WITH SLOGANS OR WERE WE PREPARED TO TAKE ACTION? AT THE MOMENT THE US WAS BEING PUSHED BY THE FARM LOBBY INTO SOME VERY ABRASIVE ACTIONS. BOTH SIDES HAD FACTS THAT COULD POINT TO. IT WAS ESSENTIAL THAT POLITICAL LEADERS PUT INTERNATIONAL CO-OPERATION ABOVE THE FARM VOTE. THE FACT THAT BOTH US AND THE FRENCH GOVERNMENT WERE SUBSIDISING SUGAR BEET FARMERS WAS WASTEFULLY EXPENSIVE AND SERVED AT THE SAME TIME TO RUIN THE

WASTEFULLY EXPENSIVE AND SERVED AT THE SAME TIME TO RUIN THE ECONOMIES OF COUNTRIES (E.G. COSTA RICA) WHOSE STABILITY WAS IMPORTANT. US FARMERS WERE BY NO MEANS POOR, BUT WERE POLITICALLY IMPORTANT. MR PYM EMPHASISED THE IMPORTANCE OF AVOIDING A TRADE WAR AND SAID THAT THE TALKS BETWEEN THE US AND THE EC OFFERED THE WAY FORWARD ON AGRICULTURAL TRADE. BEGAN SAID THAT EVEN IF THE US WON A TRADE WAR IT WOULD PROVE A PYRRIC VICTORY: THE US NEEDED THE EC MARKET FOR ITS AGRICULTURAL PRODUCTS.

(11) THE INDUSTRIALISED COUNTRIES SHOULD ASK THEMSELVES WHETHER THEY COULD IN EFFECT ACT AS THE LOCOMOTIVE OF RECOVERY FOR THE WORLD ECONOMY. IF THEY COULD NOT, HOW WOULD WE DEAL WITH THE COUNTRIES WHO COULD NOT GENERATE GROWTH BY THEMSELVES? ONE POSSIBILITY MIGHT BE TO EXPAND THE WORLD BANK, OR TO DO MORE THROUGH THE IDA.

FCO PASS WASHINGTON

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