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VISIT TO WASHINGTON OF SECRETARY OF STATE FOR TRADE AND INDUSTRY,
7/8 MAY.

SUMMARY

1. MR NORMAN TEBBIT PAID A WELCOME, WELL TIMED AND VERY SUCCESSFUL VISIT TO WASHINGTON ON 7/8 MAY. THE TIMING GAVE MR TEBBIT THE OPPORTUNITY TO GAIN IMPRESSIONS IN THE AFTERMATH OF THE BONN ECONOMIC SUMMIT. HE SAW ATTORNEY-GENERAL MEESE AND SECRETARIES BALDRIGE AND BROCK (THE LATTER DESPITE HAVING MOVED OVER TO LABOR WAS ANXIOUS TO SEE HIM). IN ADDITION HE SAW DARMAN (DEPUTY SECRETARY, TREASURY), SMITH (ACTING USTR), SENATOR DANFORTH (CHAIRMAN OF INTERNATIONAL TRADE SUBCOMMITTEE), CONGRESSMAN GIBBONS (CHAIRMAN OF HOUSE TRADE SUBCOMMITTEE) AND WAS GIVEN LUNCH WITH OTHER CONGRESSMEN BY CONGRESSMAN BONKER. MR TEBBIT ALSO MET OTHER MEMBERS OF CONGRESS, THE ADMINISTRATION AND SENIOR AMERICAN BUSINESSMEN AT MY HOUSE OVER DINNER. HIS DISCUSSIONS COVERED MAINLY TRADE POLICY ISSUES IN RELATION TO THE US BUDGET AND TRADE DEFICITS, THE DOLLAR, NEW TRADE ROUND, PROTECTIONISM AND JAPAN.

DETAIL

2. MR TEBBIT PRESSED ON HIS INTERLOCUTORS THE NEED FOR THE AMERICANS NOT TO TAKE OUT ON OTHERS THE CONSEQUENCES OF DOMESTIC POLICIES WHICH HAVE LED TO THE HIGH BUDGET DEFICIT, THE HIGH DOLLAR AND VAST TRADE DEFICIT. THIS MESSAGE FOUND A WIDE ECHO: ALL RECOGNISED THE URGENT NEED FOR A SUBSTANTIAL REDUCTION IN THE BUDGET DEFICIT. MOST SAW THIS AS NECESSARY FOR TRADE AS WELL AS DOMESTIC ECONOMIC REASONS ALTHOUGH SOME (WALLIS, STATE DEPARTMENT AND TREASURY OFFICIALS) TOOK THE VIEW THAT THE HIGH DOLLAR WAS LARGELY DUE TO THE RELATIVE ATTRACTIVENESS OF THE US ECONOMY. BALDRIGE SAID THAT THE PRESIDENT WOULD HAVE TO INVOLVE HIMSELF PERSONALLY ON HIS RETURN FROM EUROPE TO GET THE TEN OR SO EXTRA REPUBLICAN VOTES THE ADMINISTRATION NEEDED TO GET A REDUCTION PACKAGE THROUGH THE SENATE. BUT HE APPEARED GLOOMY ABOUT THE EVENTUAL OUTCOME GIVEN THAT THE DEMOCRATS (WHO CONTROL THE HOUSE) WOULD WANT A LOWER DEFICIT REDUCTION (DOLLARS 30 BILLION) COMBINED WITH A TAX INCREASE (DOLLARS 20 BILLION). HE THOUGHT THE PRESIDENT MIGHT WELL BE FACED WITH A DIFFICULT DECISION ABOUT WHETHER TO VETO WHATEVER EMERGED FROM CONGRESS. (BALDRIGE SAID ALSO THAT HE HAD QUOTE GOT INTO TROUBLE UNQUOTE WITH THE WHITE HOUSE FOR SAYING - MY TELNO 1493 - THAT US GROWTH THIS YEAR WOULD BE THREE AND A HALF PERCENT AND IMPLIED THAT IT WOULD IN FACT BE LOWER.) DARMAN AT THE TREASURY WAS ON THE OTHER HAND CONFIDENT THAT THERE WOULD BE A DEFICIT REDUCTION OF THE RIGHT SIZE, ALBEIT WITH THE WRONG DISTRIBUTION. HE SAW LITTLE CHANCE OF THE PRESIDENT DOING BETTER THAN A 0/3/3 PERCENT REAL INCREASE IN THE DEFENCE BUDGET OVER THREE YEARS, BUT THIS ALONE WOULD PRODUCE A REDUCTION OF DOLLARS 100 BILLION ON THE ORIGINAL REPUBLICAN PACKAGE.

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3. MR TEBBIT'S CONTACTS WERE CLEAR THAT THE ADMINISTRATION'S COMMITMENT TO RESISTING PROTECTIONISM WOULD NOT CHANGE. BUT THEY WERE CONCERNED THAT PROTECTIONIST SENTIMENT ON THE HILL WOULD BE STRONG ENOUGH TO OVERRIDE A PRESIDENTIAL VETO. CONGRESSMAN GIBBONS (ECHOED SEPARATELY BY CONGRESSMAN SHULTZE) SAID THAT THE MOOD IN THE HOUSE WAS SUCH THAT ANY PROTECTIONIST LEGISLATION OF ANY KIND WOULD BE VOTED THROUGH. AS CHAIRMAN OF THE TRADE SUBCOMMITTEE, HE REGARDED HIS TASK AS TO SIT ON SUCH LEGISLATION AND PREVENT OR SPIN OUT HEARINGS. BUT HE DID NOT KNOW HOW LONG HE COULD GO ON DOING THIS. HE WAS SITTING ON A TIME BOMB. IN THE SENATE DANFORTH TOOK A SLIGHTLY DIFFERENT LINE: ALTHOUGH PROTECTIONIST SENTIMENT WAS STRONG, IT WAS NOT THE PREVAILING MOOD IN THE COUNTRY. THAT WAS RATHER A DETERMINATION TO SECURE THE SAME ACCESS TO OTHERS' MARKETS AS OTHERS HAD TO THE US MARKET. THE US SHOULD ENFORCE THIS RECIPROCITY ON ITS TRADING PARTNERS: RETALIATION TO OBTAIN MARKET ACCESS WAS NOT PROTECTIONISM BUT PROMOTING FREE TRADE. THE CONGRESSMEN AND BUSINESSMEN MR TEBBIT MET ATTACHED URGENT PRIORITY TO ACTION TO BRING DOWN THE DOLLAR THROUGH REDUCING THE BUDGET DEFICIT AND THROUGH A MORE ACTIVE APPROACH TO THE PROBLEM OF EXCHANGE RATES. DANFORTH CLAIMED THAT TREASURY SECRETARY BAKER'S SUGGESTION OF A MONETARY MEETING IN WASHINGTON HAD BEEN BOTH A TACTIC (MISTAKEN) VIS-A-VIS FRANCE AND AN ATTEMPT TO DEFUSE DOMESTIC POLITICAL PRESSURE ON THIS ISSUE: IT WAS NOW PROVING USEFUL IN THE CONGRESS.

4. ON THE OUTCOME OF BONN, MR TEBBIT'S ADMINISTRATION AND CONGRESSIONAL INTERLOCUTORS RESPONDED WELL TO HIS THESIS THAT THE IMPORTANT THING WAS NOT THE SETTING OF A DATE (WHICH WAS USEFUL ONLY VIS-A-VIS CONGRESS) BUT THE LAUNCHING OF A PROCESS AND PREPARATIONS WHICH WOULD LEAD INELUCTABLY TO A TRADE ROUND.

5. DANFORTH SAID CATEGORICALLY THAT THERE WAS NOW NO CHANCE THAT THERE WOULD BE AN IMPORT SURCHARGE: THE PRESIDENT WOULD VETO IT BUT IN ANY CASE IT WAS BEING CONDEMNED BY THE ECONOMISTS.

6. THE CONGRESS MEN CONFIRMED THAT THE GATT ROUND WAS VERY LOW DOWN THEIR LIST OF PRIORITIES, ALTHOUGH THEY WERE NOT AGAINST IT IN DUE COURSE AND ONCE THE PRESENT URGENT PROBLEMS HAD BEEN TACKLED. FOR THIS REASON THE ADMINISTRATION WOULD NOT AT PRESENT GET FRESH NEGOTIATING AUTHORITY FOR A NEW TRADE ROUND. ALTHOUGH IN THE TREASURY THERE IS AN APPARENT ASSUMPTION THAT SUCH NEGOTIATING AUTHORITY IS BOTH NECESSARY AND OBTAINABLE, USTR'S OFFICE HAVE NO DOUBT THAT IT WOULD BE IMPOSSIBLE TO GO SUCCESSFULLY TO THE HILL THIS YEAR. MR BROCK'S INTENTION HAD BEEN TO BUILD UP A CONSTITUENCY IN THE COUNTRY AND IN CONGRESS IN FAVOUR OF TRADE NEGOTIATIONS AND THEN GO BACK TO CONGRESS. SMITH ACCEPTED THAT THIS WOULD PRESENT DIFFICULTIES IN NEGOTIATIONS ON TARIFFS, FOR WHICH THERE IS NO NEGOTIATING AUTHORITY AT ALL (WHEREAS AUTHORITY FOR NEGOTIATIONS ON NON-TARIFF ISSUES EXPIRES ONLY IN JANUARY 1988), BUT THOUGHT THE AMERICANS COULD SHELTER BEHIND THE UNWILLINGNESS OF THE NICS TO NEGOTIATE ABOUT THEIR OWN TARIFFS. SMITH SAID THAT THE CABINET WOULD ALSO BE LOOKING AT OTHER OPTIONS THAN A UNIVERSAL TRADE ROUND FOR TRADE LIBERALISATION: WHILE AWARE OF THE DANGERS OF BILATERALISM, THE AMERICANS WOULD BE WILLING TO TALK TO COUNTRIES OR REGIONS WHICH WANTED TO LIBERALISE TRADE, WITH THE DOOR LEFT OPEN FOR OTHERS WHO WANTED TO JOIN IN.

7. THE AMERICANS ALL AGREED THAT TEMPERS OVER THE JAPAN PROBLEM HAD COOLED SOMEWHAT, BUT COULD HEAT UP AGAIN AT ANY TIME. DARMAN TOOK A VERY OPTIMISTIC VIEW OF THE SUCCESS ACHIEVED IN THE MOSS NEGOTIATIONS. BALDRIGE WAS EQUALLY OPTIMISTIC ON TELECOMMUNICATIONS (95 PERCENT SUCCESS) BUT THOUGHT THAT THERE WAS STILL SOME WAY TO GO IN THE MEDICAL AND PHARMACEUTICAL SECTORS AND ALL THE WAY TO GO ON TIMBER. WHAT WERE NEEDED WERE MILESTONES AT 3 TO 6 MONTH INTERVALS TO MONITOR AND INSIST ON PROGRESS. BROCK EXPRESSED THE VIEW FORCEFULLY THAT ADMINISTRATION-INITIATED SECTION 301 ACTION AGAINST JAPAN WOULD BE NECESSARY AND ARGUED THAT THIS WOULD BE ENTIRELY COMPATIBLE WITH THE GATT. UNLESS THE ADMINISTRATION TOOK SUCH ACTION THE SITUATION ON THE HILL WOULD GET OUT OF CONTROL. BALDRIGE ON THE OTHER HAND ARGUED THAT ACTION AGAINST JAPAN WOULD REBOUND ELSEWHERE AND THAT THE BILATERALISM IN US/JAPANESE RELATIONS MUST NOT BE ALLOWED TO BECOME A PRECEDENT FOR TRADE NEGOTIATIONS WITH OTHER COUNTRIES; HENCE THE IMPORTANCE OF A TRADE ROUND.

8. MR TEBBIT RAISED THE DESIRABILITY OF BETTER COORDINATION BETWEEN THE EC AND THE US ON JAPAN. SMITH AT USTR RESPONDED POSITIVELY BUT STRESSED THAT THE US WOULD NOT BE INTERESTED IN ANY QUOTE GANGING UP UNQUOTE OR JOINT ACTION UNDER ARTICLE XXIII OF THE GATT. THE AMERICANS HAD HAD A POOR RESPONSE FROM THE COMMISSION WHEN THEY HAD BRIEFED THEM IN TOKYO AND BRUSSELS ON THEIR TALKS WITH THE JAPANESE, BUT HE AGREED THAT IT WAS WORTH TRYING FOR THE US AND EC TO TALK MORE TO EACH OTHER ABOUT JAPAN. SMITH SAID THAT THE IDEA OF GETTING THE JAPANESE TO ADOPT IMPORT TARGETS HAD BEEN FAVOURED BY SEVERAL AGENCIES, BUT HAD BEEN REJECTED BY THE CABINET, AND COULD NOT BE RETRIEVED.

9. MR TEBBIT ALSO DISCUSSED A NUMBER OF OTHER ISSUES, INCLUDING SOME OF BILATERAL INTEREST (STEEL, ANTI-TRUST, MFA, EXPORT CONTROLS, CHINA/COCOM, TELECOMMUNICATIONS, NORTH SEA PROCUREMENT POLICY) WHICH WE ARE REPORTING SEPARATELY AND/OR WHICH WILL BE COVERED IN THE RECORDS.

COMMENT

10. I HOPE MR TEBBIT FOUND THE VISIT USEFUL IN GIVING HIM PERSONAL IMPRESSIONS OF THE TRADE SCENE IN WASHINGTON AND THE CURRENT STATE OF THE U.S. ECONOMY. IT WAS CERTAINLY IN-VALUABLE TO ME THAT HE SHOULD CONVEY SO VIGOROUSLY TO HIS INTERLOCUTORS BRITISH VIEWS ON CURRENT TRADE ISSUES TO REINFORCE OUR OWN EFFORTS ON ALL THESE FRONTS.

11. FCO PLEASE ADVANCE TO ROBERTS, HUTTON, LANE (DTI), SHEPHERD (FCO).

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