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FM WASHINGTON 150403Z JUL 83 AMENDED DISTRIBUTION 16 JULY
TO PRIORITY FCO [FRAME EXTERNAL]
TELEGRAM NUMBER 1996 OF 15 JULY

MIPTS: MEETING WITH REGAN

BILATERAL TOPICS

1. THE FOLLOWING WERE THE BILATERAL TOPICS COVERED IN YOUR DISCUSSION WITH SECRETARY REGAN.

(A) UNITARY TAX: SECRETARY REGAN SAID THAT THE ADMINISTRATION WAS DEBATING THE POSSIBILITY OF ASKING FOR A REHEARING IN THE SUPREME COURT. SUCH A REQUEST HAD TO BE MADE WITHIN 45 DAYS. IT WAS UNFORTUNATE THAT 15 STATES HAD AN INTEREST IN UNITARY TAXATION TO THE TUNE OF DLRS 900 MILLION. IT WOULD BE DIFFICULT FOR THE ADMINISTRATION, WHILE PROCLAIMING THE 'NEW FEDERALISM' AND STATES' RIGHTS, TO ACT AGAINST UNITARY TAXATION. NEVERTHELESS, HE COULD SAY THAT THE US TREASURY WERE NOT, AT THIS MOMENT, PREPARED TO ACCEPT THE POSITION. DIFFERENT FIRMS WERE AFFECTED IN DIFFERENT WAYS. IN CASES SUCH AS THE A AND P SUPERMARKET GROUP, IN WHICH THERE WERE GERMAN INTERESTS, THERE WAS NO LEGITIMATE CASE FOR THE STATES TO TAX PROFITS ARISING IN GERMANY SINCE THERE WERE NO TRADE FLOWS BETWEEN THE GERMAN AND US PARTS OF THE GROUP. ANOTHER EXAMPLE MIGHT BE LEVER BROTHERS WHICH IMPORTED COCONUT OIL INTO THE US FOR SOAP MANUFACTURE. THERE, THERE COULD BE GENUINE TRASFER PRICING PROBLEMS. ALL THIS NEEDED TO BE CONSIDERED. YOU SAID THAT THE SPREAD OF UNITARY TAXATION AROUSED CONSIDERABLE POLITICAL CONCERN IN POLITICAL AND BUSINESS CIRCLES IN THE UNITED KINGDOM. ACTION BY THE UNITED STATES ESTABLISHED A BAD PRECEDENT FOR LDCS. THE SECRETARY AGREED THAT YOU COULD SAY IN PUBLIC THAT THE US TREASURY SHARED UK CONCERNS ON THE SUBJECT.

(B) PROTECTIONISM: YOU SAID THAT A PARTICULAR REASON FOR THE STRONG UK REACTION TO THE US DECISION ON SPECIAL STEELS WAS THAT IT ESPECIALLY PENALISED THE UK PRIVATE STEEL COMPANIES. WE WERE CONSIDERING WHETHER TO SEEK ACTION UNDER GATT, THOUGH OUR PREFERENCE WAS FOR A MUTUALLY NEGOTIATED SETTLEMENT. SECRETARY REGAN SAID THAT IT WAS WELL KNOWN THAT SECRETARY SHULTZ, STOCKMAN AND HIMSELF HAD LOST THIS ARGUMENT, AND HE ADVISED YOU TO PUT YOUR ARGUMENT STRONGLY TO COMMERCE SECRETARY BALDRIGE, EMPHASISING THAT THERE NEEDED TO BE BETTER PROCEDURES FOR DEALING WITH SIMILAR CASES IN FUTURE. THE PARTICULAR US DIFFICULTY WITH SPECIAL STEELS WAS THE STEEL COMPANIES LACK OF FUNDS TO MOUNT A LEGAL CHALLENGE. THERE HAD THEREFORE TO BE RESORT TO THE QUOTES 201 TECHNIQUE UNQUOTE. ONE POSSIBLE OUTCOME WAS FOR THERE TO BE SOME QUOTA ARRANGEMENT DIVIDING UP THE MARKET.

(C) EAST/WEST TRADE: YOU EMPHASISED THE TWO PRINCIPLES GOVERNING OUR POLICY ON EAST/WEST TRADE: THE NEED TO AVOID ECONOMICALLY DAMAGING INHIBITIONS ON INTERNATIONAL TRADE AND THE TRANSFER OF SENSITIVE TECHNOLOGY TO THE USSR, ON WHICH WE SHARED US VIEWS. IT SHOULD BE POSSIBLE TO WORK OUT A MUTUALLY SATISFACTORY POSITION ON A CASE-BY-CASE BASIS.

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(D) EXPORT

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(D) EXPORT ADMINISTRATION ACT: YOU SAID THAT US ACTION WHICH AFFECTED JOBS IN THE UK WAS SEEN AS A PARTICULARLY INTRUSIVE EXAMPLE OF EXTRATERRITORIALITY. YOU WERE THEREFORE ANXIOUS THAT THE ADMINISTRATION'S LEGISLATION NOW BEFORE THE HOUSE SHOULD NOT BE ALTERED FOR THE WORSE.

(E) AGRICULTURAL POLICY: SECRETARY REGAN COMMENTED THAT THERE WAS A STRONG LOBBY IN THE UNITED STATES OPPOSED TO THE EUROPEAN AGRICULTURAL POLICY WHICH WAS HARMING US INTERESTS. YOU AGREED THAT AGRICULTURAL SUBSIDIES OUGHT TO BE REDUCED. THERE WAS NOW A FRAMEWORK FOR DISCUSSING SUCH A REDUCTION. THE US ALSO HAD A SUBSTANTIAL SUBSIDY PROGRAMME. SECRETARY REGAN, AGREEING, SAID THAT IT AMOUNTED TO SOME DLRS 21 BILLION A YEAR. THE US ACTED AS SWING PRODUCER IN THE GRAIN MARKET RATHER LIKE SAUDI ARABIA DID IN THE OIL MARKET.

(F) IMF BILL: AFTER YOU HAD TOLD SECRETARY REGAN ABOUT THE PASSAGE OF THE ORDER AUTHORIZING THE UK'S CONTRIBUTION TO THE IMF EIGHTH QUOTA REVIEW, THE SECRETARY SAID THAT HE WAS NOW A LITTLE MORE CONFIDENT THAT THE HOUSE WOULD PASS THE IMF BILL NEXT THURSDAY.

(G) UNCTAD: MCNAMAR SAID THEY WERE SORRY THAT THE UK HAD NOT JOINED THE US POSITION AT BELGRADE. YOU SAID THAT WE HAD BEEN CONCERNED TO PREVENT A G77 WALKOUT. BY TAKING THE LINE WE DID, WE HAD ALSO HELPED TO KEEP THE COMMUNITY TOGETHER ON A REASONABLE POSITION.

2. FCO PLEASE REPEAT AS APPROPRIATE ADVANCE TO PS/CHANCELLOR, LAVELLE (TREASURY) KEITH, (INLAND REVENUE), APPELYARD (ERD) AND GILCHRIST (BANK OF ENGLAND).

WRIGHT

[ADVANCED AS REQUESTED]

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ECD(E)

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