Howe. A.

SECRET

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PO -CH /GH/0072

PART A

Chancellor's (Howe) Papers:

VERSAILLES ECONOMIC SUMMIT JUNE 1982

Disposal Directions: 25 Years

26/7/95

PART A

CABINET OFFICE PAPER

The following Cabinet Office papers have been taken off the file. If you require access to these papers please contact the Cabinet Office.

Reference	Date Of Paper
PMVS (82) 8	19 MAY 1982
PMVS (82) 11	19 MAY 1982
PMVS (82) 12 (a)	19 MAY 1982
PMVS (82) 12 (b)	19 MAY 1982
PMVS (82) 12 (c)	19 MAY 1982
PMVS (82) 14 (a)	19 MAY 1982
PMVS (82) 14 (b)	19 MAY 1982
PMVS (82) 14 (d)	19 MAY 1982
PMVS (82) 14 (e)	19 MAY 1982
PMVS (82) 14 (f)	19 MAY 1982
PMVS (82) 14 (g)	19 MAY 1982

CABINET OFFICE PAPER

The following Cabinet Office papers have been taken off the file. If you require access to these papers please contact the Cabinet Office.

Reference	Date Of Paper
PMVS (82) 15	19 MAY 1982
PMVS (82) 19	19 MAY 1982
PMVS (82) 4	20 MAY 1982
PMVS (82) 16	20 MAY 1982
PMVS (82) 3 Revised	21 MAY 1982
PMVS (82) 5	21 MAY 1982
PMVS (82) 10 (Revise)	21 MAY 1982
PMVS (82) 9	24 MAY 1982
PMVS (82) 2	25 MAY 1982
PMVS (82) 3 Revised - Addendum 1	26 MAY 1982

CABINET OFFICE PAPER

The following Cabinet Office papers have been taken off the file. If you require access to these papers please contact the Cabinet Office.

Reference	Date Of Paper
PMVS (82) 3 Revised - Addendum 2	26 MAY 1982
PMVS (82) 17	26 MAY 1982
PMVS (82) 18 Revised	26 MAY 1982

CONFIDENTIAL

cc CST
FST
FST
MST(C)
MST(C)
Sir D Wass
Sir K. Couzens
Mr Middleton
Mr Ryrie
Mr Littler
Mr Lavelle
Mr Bottrill
Mrs Chaloner
Mr Parker
Mr Ridley

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

4 February 1982

The Honorable Donald T. Regan,
Secretary of the US Treasury,
WASHINGTON

Dear Don

Thank you for your message of 26 January about the President's State of the Union Address. I was very interested to read both the full text of the Address and an excerpt from your testimony to the Joint Economic Committee of Congress on 27 January, and I look forward to seeing next week your detailed budget proposals.

I am grateful to you for noting my concern about your Budget deficit and its impact. It has occurred to me that it might be useful if I were to set out my position fairly fully. In spite of G5 meetings we do not for long spells get an opportunity to talk these things out in any detailed way, although you and we are pursuing broadly analogous policies with very similar objectives.

You know that the United Kingdom Government supports fully the President's efforts, and yours, to reduce inflation, public expenditure and the size of the public sector; to improve national productivity; to reward savings and encourage investment; and to exercise firm control over monetary growth. Our policies are in many respects parallel to yours. We greatly wish your policies to succeed: indeed we believe that success is essential to the strength of the free economies.

As I see it, to win the fight against inflation one requires a firm monetary stance supported by an adequate control of the Budget deficit. If fiscal policy does not adequately underpin monetary policy, one of two outcomes can occur. The first is that one may be compelled, because interest rates became intolerable, to slacken monetary policy to match budgetary policy. The second is that interest rates remain very high.

The first would have far reaching consequences for the health of the dollar, and is certainly not an outcome which your friends on this side of the Atlantic would wish to see. But the second would have a very severe impact on interest rates and exchange rates over here: that in turn would produce resentment and strains in the Alliance. Either way the free world would suffer.

/I welcome

I welcome the President's efforts to reduce the estimated Budget deficits for future years. I know, however, that you must be disappointed - as I am - that this year's deficit is likely to be so much larger than your original target, and that the prospects for reducing the deficits in later years now appear less good.

I know that a number of arguments can be advanced to support the proposition that even a rising pattern of deficits can be consistent with success against inflation and lower interest rates. The first is that this year's increased deficit is mainly the product of recession and that in a recession some increase should be tolerated. In 1980-81 our own public borrowing requirement exceeded our target for similar reasons. There is force in the point, provided that the downward trend really is convincingly resumed thereafter. We took action to bring this about in 1981-82, and have achieved it.

A second argument is that excessive preoccupation with Budget deficits is a European phenomenon which does not fit US circumstances, where the federal deficit is a more modest proportion of GDP and the private bond market plays a much larger role. But off-Budget borrowing on public credit ought, I would think, to be added to federal deficits when making comparisons, e.g. with our UK PSBR. More important still, the US savings ratio is well under half that in the UK and other West European countries. I know that you hope to increase savings through your income tax relief programme. But it may be optimistic to rely on much sustained increased in savings from tax reliefs which are modest in real terms.

A third argument is that resumed growth will reduce the deficit, and it may. I see you gave Congress an example of the impact of growth at 4 to 5 per cent. The US economy has certainly achieved growth at that rate at times in the 1970s. But in the 1970s that rate of growth, when long sustained, seems to have been associated with quite a lot of inflation. We worry about the impact on interest rates of a sharp revival of demand for private credit, linked with a rising deficit.

A fourth argument is that the deficit doesn't matter if the money supply is controlled. But it is a good deal more difficult to control money in the face of a rising deficit. We are back to the size of the deficit relative to the pool of savings, and to the competition of private (and international) credit demands as the economy recovers.

I see that general government borrowing accounted for about 30 per cent of the total demand for credit in the United States in both 1980 and 1981, and is likely to account for at least the same proportion in 1982. I believe that this is similar to the Carter Administration's credit demands in the period 1975-77, but as I recall these were accompanied by a strong rise in private credit at the same time. These demands were only accommodated with a sharp upsurge in the monetary aggregates - with inflationary consequences later.

/Policy here,

Policy here, in West Germany, and elsewhere in Europe has been directed to reducing or at least stabilising budget deficits. This has involved sacrifices in the interests of reducing inflation and achieving a better balance in the economy. In our case, and probably in others, I believe the basis of a sound recovery has been laid. That recovery could however be retarded by a renewed rise in interest rates or a resurgence of inflation. The course of your policies and of the US economy is of the greatest importance for both.

Hence my concern, widely shared in Europe, that you should succeed in establishing a downward trend in the US deficit, and in convincing the markets that your counter-inflation policy will bring success. I know it is part of your philosophy, as it is of ours, that markets cannot lightly be disregarded and are critically important indicators, including indicators of inflationary expectations. When they are convinced, I am sure we may all look for relief on interest rates. I very much hope that your forthcoming Budget will be an important step in that direction.

Knowing you as I do, I am sure that you will not take this unsolicited advice amiss. I appreciate only too well the difficulties you face in administering a courageous policy, and I recognise that the post-war history of the British economy is not a particularly good advertisement for the quality of advice from London. I also fully understand - because I share them - the problems created by the burden imposed by a major defence effort. I have warmly welcomed the progress you have made, as we have, in reducing inflation. I write - I hope without presumption - as a friend; but also because your policies have so much more impact on us than ours can ever have on you.

As you say, let's continue to keep in touch.

With warm good wishes

Yours

Geoff

GEOFFREY HOWE

13/23

cc PS/Sir K Couzens
Cd I have a photograph pl.
JKR 29/4

Foreign and Commonwealth Office
London SW1A 2AH

Telephone 01- 233 8601

J O Kerr Esq
PS to Chancellor of the Exchequer
H M Treasury
Parliament Street
London

Your reference

Our reference
TXW 408/312/1

Date
29 April 1982

Dear John,

ECONOMIC SUMMIT, VERSAILLES 4-7 JUNE

1. We have received a request from the French Embassy to provide two passport size photographs of each member of the UK Delegation attending this meeting. They are of course required for security purposes and one will be affixed to the pass of each individual. Ministers will be exempt but I would be most grateful if you could arrange for the photographs of anyone in the Treasury likely to be taking part in the Summit to be forwarded to me.

Yours ever,

Michael.

M M Hall
Conference and Visits Section
Protocol and Conference Department

TYPING

+ 12

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PP TOKYO

PP UKREP BRUSSELS

PP ATHENS

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TO IMMEDIATE FCO
TELEGRAM NO 34 OF 07 MAY.
INFO PRIORITY WASHINGTON, TOKYO, UKREP BRUSELS AND ATHENS.

[SEE PARA 16 FOR DISTN]

OECD EXPORT CREDIT CONSENSUS
17TH MEETING OF PARTICIPANTS, PARIS 6-7 MAY, INCLUDING EC ARTICLE 113 COMMITTEE

SUMMARY

1. NEGOTIATIONS ABOUT A PROLONGATION OF THE CONSENUS AFTER 16 MAY ENDED INCONCLUSIVELY. A CHAIRMAN'S SET OF COMPROMISE PROPOSALS WAS TABLED AT THE END OF THE MEETING. THIS WILL NOW BE CONSIDERED URGENTLY BY PARTICIPANTS, IN THE HOPE OF AGREEMENT BY THE END OF THE MONTH. THE BELGIAN PRESIDENCY WILL ADD THIS ISSUE TO THE AGENDA OF THE ECOFIN ON 17 MAY.

2. THE MAIN AREA OF DISAGREEMENT WAS BETWEEN THE COMMUNITY ON ONE SIDE, AND THE US SUPPORTED BY THE NORDIC COUNTRIES ON THE OTHER, OVER THE ACCEPTABLE INCREASE IN MINIMUM LENDING RATES APPLICABLE TO THE DIFFERENT CATEGORIES OF BORROWING COUNTRIES, AND THE SPEED AT WHICH ANY CHANGES IN LENDING RATES WOULD BE PUT INTO EFFECT. THE STICKING POINT HERE WAS FRENCH INSISTENCE ON PHASING THE INCREASE FOR COUNTRIES RECLASSIFIED FROM CATEGORY III TO CATEGORY II. OTHER PARTICIPANTS ALSO CRITICISED THE EC

PUT INTO EFFECT. THE STICKING POINT HERE WAS FRENCH INSISTENCE ON PHASING THE INCREASE FOR COUNTRIES RECLASSIFIED FROM CATEGORY III TO CATEGORY II. OTHER PARTICIPANTS ALSO CRITICISED THE EC PROPOSAL TO EXEMPT GREECE (AND CONSEQUENTIALLY IRELAND) FROM ANY PROPOSALS FOR RECLASSIFYING COUNTRIES FROM CATEGORY II TO CATEGORY I.

LOW INTEREST RATE CURRENCIES

3. THE JAPANESE FLATLY REFUSED TO ENTERTAIN THE COMMUNITY PROPOSAL FOR MAINTENANCE OF THE EXISTING 9.25% MINIMUM FOR OFFICIAL FINANCE. THEY SAID HOWEVER THAT THEY COULD NOW ACCEPT THE PRINCIPLE OF SETTING A VARIABLE FLOOR TO THEIR BLENDED RATE, ON THE BASIS OF A MARGIN ABOVE THEIR LONG TERM MARKET RATES. IN PLENARY SESSION BOTH THE US AND THE COMMUNITY ACCEPTED THE JAPANESE POSITION AS A BASIS FOR NEGOTIATION, BUT MADE CLEAR THAT THEY WOULD NEED A BIGGER MARGIN THAN THE FIGURE OF ø.2% SUGGESTED BY THE JAPANESE. LATER, IN THE COURSE OF INFORMAL NEGOTIATIONS BETWEEN THE MAIN PARTICIPANTS AND COMMUNITY COORDINATION IN THE ARTICLE 113 COMMITTEE IT EMERGED THAT THE US WERE NOT AT THIS STAGE DISPOSED TO PUT MUCH PRESSURE ON THE JAPANESE ON THIS POINT, AND WITHIN THE COMMUNITY THE COMMISSION WOULD NOT ACCEPT THE UK SUGGESTION THAT THE EC SHOULD PRESS FOR A MARGIN OF ø.75%. THE BELGIANS AND ITALIANS WERE PREPARED TO SUPPORT ø.4%. THE COMMISSION STRESSED THE FRAGILITY OF JAPANESE ATTACHMENT TO THE CONSENSUS AND SAW LITTLE HOPE OF PUSHING THE JAPANESE BEYOND ø.3%. IN SUBSEQUENT PLENARY DISCUSSION THE JAPANESE REJECTED A COMMISSION BID OF ø.5% (MADE ON A PERSONAL BASIS BY LOEFF) AS COMPLETELY UNACCEPTABLE.

YEN FINANCING

4. THE JAPANESE REPORTED IN GENERAL TERMS ON THE OUTCOME OF THEIR DISCUSSIONS WITH THE US EXIMBANK, AND CONFIRMED IN REPLY TO QUESTIONS FROM THE EC AND OTHERS THAT ACCESS TO YEN FINANCING WOULD BE AVAILABLE TO ANY OTHER PARTICIPANTS ON REQUEST ON SIMILAR TERMS.

RECLASSIFICATION

5. APART FROM THE EC'S FRENCH-INSPIRED POINT ABOUT PHASING (PARA 1 ABOVE), THERE WAS GENERAL WILLINGNESS TO ACCEPT THE COMMUNITY'S PROPOSAL FOR RECLASSIFICATION ON BORROWING COUNTRIES ON THE BASIS OF FINAL 1979 IBRD FIGURES OF GNP PER HEAD. A NORDIC PROPOSAL TO MOVE TO PRELIMINARY 198ø FIGURES GOT LIMITED SUPPORT IN PLENARY AND IN ARTICLE 113, BUT FORTUNATELY WAS NOT PRESSED. IT WOULD HAVE PROMOTED HONG KONG AND SINGAPORE TO CATEGORY I (AS WELL AS SOME CMEA COUNTRIES IN ADDITION TO THOSE INCLUDING USSR DUE TO BE RECLASSIFIED UNDER THE EC PROPOSAL).

AS WELL AS SOME CMEA COUNTRIES IN ADDITION TO THOSE THOSE DUE TO BE RECLASSIFIED UNDER THE EC PROPOSAL).

INTEREST RATE MATRIX AND FINAL PLENARY SESSION

6. THE US OPENED WITH STRONG SUPPORT FOR A NORDIC PROPOSAL TO RELATE LENDING RATES FOR OFFICIALLY SUPPORTED EXPORT CREDIT TO IBRD LENDING RATES. THE NORDIC PROPOSAL ALSO ENVISAGED ABOLITION OF ALL SUBSIDIES BETWEEN PARTICIPANTS. THE FINAL US POSITION WHICH EMERGED FROM NEGOTIATION WAS FOR A 1.5% INCREASE IN CATEGORY I (TO 12.75%), ø.75% INCREASE ON CATEGORY II (TO 11.75%) AND NO CHANGE IN CATEGORY III. THIS WAS ON THE BASIS OF IMMEDIATE, FULL RECLASSIFICATION OF COUNTRIES MOVING FROM CATEGORY III TO CATEGORY II. IT WAS ALSO ON THE BASIS OF NO EXCEPTIONS FROM THE CRITERIA FOR RECLASSIFYING TO CATEGORY I.

7. THE FINAL US POSITION ALSO INCLUDED (IN RESPONSE TO EC PRESURE) AN OFFER NOT TO DEROGATE FROM CONSENSUS MAXIMUM CREDIT LENGTH, IN RETURN FOR A BAN ON MIXED CREDITS WITH AID ELEMENT OF LESS THAN 25%. US PROPOSED THAT THESE NEW ARRANGEMENTS SHOULD BE VALID FOR NO MORE THAN 6 MONTHS.

8. THE EC REACTION TO THE US FINAL OFFER WAS PREDICTABLY NEGATIVE. AFTER FURTHER CAUCUS DISCUSSIONS AND INFORMAL CONTACTS THE CHAIRMAN PUT FORWARD HIS OWN COMPROMISE PROPOSALS (SEE MIFT) IN PLENARY, AND ASKED PARTICIPANTS TO REPORT BY 25 MAY WHETHER THEY COULD ACCEPT THEM, AND TO AGREE NOW TO STOP THE CLOCK FROM 16-31 MAY INCLUSIVE. NIL RETURNS WOULD BE TAKEN AS ACCEPTANCES, AND IF AGREED THE NEW GUIDLINES WOULD HAVE RETROACTIVE EFFECT FROM 1ø MAY.

9. THE CHAIRMAN'S PROCEDURAL PROPOSAL WAS AGREED. LOEFF (COMMISSION) COMMENTED ON THE CONTENT OF THE PROPOSALS IN PLENARY THAT THEY WENT BEYOND THE EC MANDATE, BUT UNDERTOOK TO PUT THEM TO HIS AUTHORITIES. PRIVATELY, HE HAD PREVIOUSLY MADE CLEAR IN THE ARTICLE 113 COMMITTEE THAT HIS OWN IDEAS OF THE BEST NEGOTIATIONG OUTCOME THE COMMUNITY COULD HOPE TO ACHIEVE WERE VERY CLOSE TO THE CHAIRMAN'S COMPROMISE. PRELIMINARY REACTION BY THE US (LELAND) SUGGESTED THAT THEY ARE LIKELY TO BUY THE PACKAGE. THE JAPANESE DECLINED TO FORECAST THEIR AUTHORITIES' REACTION.

1ø. FCO PLEASE ADVANCE TO:-
FCO - BAYNE AND GOWLLAND
TREASURY - PS/CHANCELLOR OF THE EXCHEQUER, COUZENS, LITTLER AND BUTTERWORTH
ECGD - TAYLOR AND TWYFORD

11. IN MATTERS OF [illegible] OTHER PARTICIPANTS ALSO CRITICISED THE EC

BUTTERWORTH

ECGD - TAYLOR AND TWYFORD

T - PS/MR REES, CAINES AND BENJAMIN

CABINET OFFICE - HANCOCK

UFFEN

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PP TOKYO

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PP ATHENS

IMMEDIATE D/B 071730Z

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TREASURY :- PS/CHAN. OF EXCH.
MR COUZENS
" LITTNER
" BUTTERWORTH

EGGD :- MR TAYNOR
" TWYFORD

DOT :- PS/MR ~~[illegible]~~
MR CAINES
" BENJAMIN

CAB :- MR HANCOCK
R.C.

[Limited]

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TO IMMEDIATE FCO
TELEGRAM NO 35 OF 07 MAY.
INFO PRIORITY WASHINGTON, TOKYO, UKREP BRUSSELS AND ATHENS.

MIPT : OECD EXPORT CREDIT CONSENSUS

ESSENTIALS OF CHAIRMAN'S COMPROMISE ARE AS FOLLOWS:

A RECLASSIFICATION

(I) CATEGORY I WOULD COMPRISE ALL COUNTRIES WITH GNP PER HEAD IN EXCESS OF DOLLARS 4000 ON THE BASIS OF FINAL 1979 FIGURES. THERE WOULD BE NO EXCEPTIONS.

(II) CATEGORY III WOULD BE BASED ON THE IBRD/IDA LIST (THE NORDIC PROPOSAL).

(III) GATEGORY II WOULD BE THE REST.

ALL CHANGES TO TAKE FULL, IMMEDIATE EFFECT.

B INTEREST RATE MATRIX

CATEGORY I INCREASED BY 7.25%

CATEGORY II INCREASED BY 0.6% TO EQUATE WITH IBRD LENDING RATE (INCREASE OF 0.5% FOR CREDITS BELOW 5 YEARS).

CATEGORY III NO INCREASE.

C DEROGATIONS

NO DEROGATIONS ALLOWED ON INTEREST RATES, LENGTH OF MATURITIES OR MIXED CREDITS WITH AID ELEMENT BELOW 20%.

?

OF MIXED CREDITS WITH AID ELEMENT BELOW 2.5%.

E LOW INTEREST RATE COUNTRIES
MARGIN OF 2.3%, EQUATING TO 8.7% ON JAPANESE BLENDED RATE IN PRESENT CONDITIONS, BUT FLOATING.

E VALIDITY OF NEW AGREEMENT
TO 1.5.83.

THE ABOVE SUBJECT TO CONFIRMATION WHEN WRITTEN STATEMENT OF CHAIRMAN'S PROPOSALS HAS BEEN RECEIVED.

FCO PLEASE ADVANCE TO:-
FCO - BAYNE AND GOWLLAND
TREASURY - PS/CHANCELLOR OF THE EXCHEQUER, COUZENS, LITTLER AND BUTTERWORTH
ECGD - TAYLOR AND TWYFORD
DOT - PS/MR REES, CAINES AND BENJAMIN
CABINET OFFICE - HANCOCK

UFFEN

MNNNN

SENT +REVCD AT Ø71632Z JP

SENT AT Ø7162ØZ SM

V.J. and comprehensive

Francis: I think this means there is perhaps no need for me to have a press conference today

I am going to see the U.K. economic press at 4 p.m., with a few messages

(1) Agreed study group on technology etc; general endorsement of M.T's remarks ("tech. change is good, necessary etc")

(2) All agree that debate between inflation + unemployment is sterile: must press ahead on both

(3) But must do so in ways that recognises need to avoid social tension, encourages the young etc

PTO

(4) Therefore need to –

- encourage enterprise
- have tax systems that help in that direction
- maintain non-protectionist trading system
- reduce interest rates
- by curbing budget deficits.

(5) Any way of keeping down the (unemployment) force of progress in this direction?

* (6) Some movement towards agreement on OECD export credit consensus

* (7) Some prospects of closer co-operation on exchange rate stability

* Agreed amongst Finance Ministers at lunch. Do you have some ideas, that also float?

inflation or unemployment

general acceptance of the view that it would serve as the basis for consultation with the countries concerned, so long as the independence of the specialised institutions is guaranteed.

TELEMATIQUE

Including also the need ~~for~~ to limit ~~limiting~~ [~~regulating~~] export credits in the light of commercial prudence.

including the limitation of export credit

including the need for [commercial] prudence also: the limitation of export credits.

TELEMATIQUE

we have agreed to handle our financial relations with the USSR and other Eastern European countries, including ~~been where~~ export credits to those countries, with prudence.

including the need to determine the volumes and terms of [publicly supported] export credits in the light of ~~with~~ commercial prudence.

including also the need to manage the limitation of export credits, both public and private, with due regard for commercial prudence.

AS has the lead here in OECD ministerial meeting

We are grateful that the ministers share no economic recovery hopes by high income states demands might action in ~~by the United States~~ this notion by the United States

DRAFT COMMUNIQUE LANGUAGE ON EAST-WEST ECONOMIC RELATIONS

19/5/82.

We agreed to pursue a prudent and diversified economic approach to USSR and Eastern Europe, consistent with our political and security interests. This includes actions in ~~four~~ three key areas.

First, in accordance with the conclusions of the january high level meeting of the COCOM, our ~~senior officials~~ will work together to improve the COCOM Control system and national enforcement of security control arrangements.

Second, we will exchange information in the OECD on all aspects of our economic, commercial and financial relations with the Soviet Union and Eastern Europe.

Third, taking into account existing economic and financial considerations, we have agreed to handle cautiously the financial relations with the USSR and other Eastern European countries, in such a way as to ensure that they are conducted on a sound economic basis. The development of economic and financial relations will be subject to periodical ex-post monitoring.

Fourth, we will actively pursue the development and diversification of energy supplies to our countries in order to minimize dependance on too few sources. (1)

including also the need for commercial prudence in limiting export credits

prudent lending

(1) The fourth principle would be more properly included in the energy part of the declaration.

including the need to limit export credits in the light of commercial prudence.

including the need for commercial prudence in limiting export credits.

to limit exposure in the light of commercial prudence

NORTH SOUTH LANGUAGE FOR THE DECLARATION

At the same time, we are prepared to continue and develop practical cooperation with the developing countries through innovations within the World Bank, through our support of the work of the Regional Development Banks, through progress ~~towards a greater stabilisation of~~ in countering instability of commodity earnings, through the encouragement of private capital flows (including international arrangements to improve the conditions for private investment) and through a further concentration of official assistance on the poor~~est~~er countries. This year we see a need for special temporary arrangements to overcome funding problems for IDA VI, and for an early start to consideration of IDA VII. We will give special encouragement to programmes or arrangements designed to increase food and energy production in developing countries which have to import these essentials. In the field of balance of payments support, we look forward to progress at the September IMF Annual Meeting towards settling the increase in the size of the Fund appropriate to the coming Eighth Quota Review.

19/5/82.

DSR 11C

DRAFT STATEMENT BY THE PRIME MINISTER AT CLOSING PRESS CONFERENCE ON 6 JUNE

1. Three things about this Conference have particularly encouraged me.

2. First, there is the work which we have done on the problems of our own economies, the leading industrialised economies of the western world. This has always been the main business of these annual Summits, and this is the fourth that I have attended. Today's declaration, which President Mitterrand has just presented to you, marks a real advance in the precision and the scope and the solidity of the commitments contained in it.

3. Second, there are the decisions which we have taken in the international economic field, both north/south and east/west. Each of these areas is controversial: our national interests not only differ but actually conflict at some points. Today's texts represent a fair balance between these interests, and will undoubtedly make the problems easier to handle in the various international groupings to which we belong.

4. Third, you can imagine that throughout these two days my thoughts have been partly in the South Atlantic, on the Falkland Islands. We discussed this problem for most of the first evening and at intervals afterwards. We made no

j/attempt

attempt to record our conclusions, but on the fundamental points I noted unanimity. We all stand for the right of self determination laid down in the very first article of the United Nations Charter. We all know that the rule of law must be upheld throughout the world if small nations and exposed territories everywhere are not to be in danger. We are all clear ~~about~~ that the cause of the crisis in the South Atlantic ~~it~~ lay in the military invasion - unprovoked, unjustified and unlawful - which took place on 2 April. We all recognise the inherent right of self-defence under which Britain has responded to that invasion. We all regret that it has not been possible to reach a negotiated settlement despite many determined efforts, from those of Secretary Haig in April to the recent activity of the Secretary General of the UN. Lastly we all hope, none more fervently than I, that hostilities can soon be brought to a complete and permanent conclusion, so that the work of reconstruction - political as well as economic - can begin on the Falkland Islands, and so that our relations with Argentina can be freed from the burden which now weighs upon them. On all these things I can say without the slightest fear of contradiction that there was unanimity.

5. One more thing I must add, and that is my thanks and that of my delegation to the President of France for the organisation of this Conference in its incomparable setting. These have been two days which none of us can ever forget, no matter how many international

/conferences

conferences we may attend. You can imagine with what regret I shall be leaving early in order to get back to London where a lot of work awaits me - and where in 24 hours I shall have the pleasure of welcoming the President of the United States and Mrs Reagan on the next leg of their European journey.

19/5/82.

FALKLAND ISLANDS: INFORMAL RECORD OF PRESIDENT MITTERRAND'S REMARKS AT THE FINAL PRESS CONFERENCE

Outside the Plenary Sessions we discussed a number of other issues. There was no taboo. Heads of Government preferred a direct and informal dialogue. In this spirit we tackled the conflict in the South Atlantic. This was due to the aggressive conduct of Argentina which has entailed a whole series of serious actions. We repeated once again our condemnation of Argentina's aggressive conduct. We condemned the recourse to violence rather than the rule of law as a means of settling disputes. We reasserted our support for SCR 502 and hoped there would be a ceasefire as soon as possible which would settle the whole conflict and the dispute between the two parties. We expressed our complete solidarity with the United Kingdom who has been the victim of aggression andwhose national interest and national pride has been injured. This solidarity is quite natural. The United Kingdom must recover what she has lost and we must do what we can to ensure that peace shall prevail over war.