

PART 67

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MT

Confidential Filing

Ottawa Economic Summit
19-21 July 1981 - Policy

ECONOMIC
POLICY

Part 1: May 1979

Part 6: July 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
22.7.81							
23.7.81							
20.8.81							
1.9.81							
11.9.81							
10.11.81							
Part 6 Ends							

PREM 19/446

PART 6 ends:-

MODBA to FCO

10.11.87

PART 7 begins:-

RTA to PM 4/3

Leon Pol

CR

10 November, 1981.

Ottawa Statement on Terrorism

The Prime Minister has seen your letter to me of 9 November on this subject, and as I have already told you on the telephone, agrees that our officials should be instructed to proceed as the Foreign and Commonwealth Secretary has proposed.

M. O'D. B. ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

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(1)



Prime Minister.

Foreign and Commonwealth Office

NOT very satisfactory: but it
seems to me more or less unavoidable
in these circumstances that we stay
in line with France & Germany. Agree?

London SW1A 2AH

9 November 1981

Dear Michael,

Ans 9/x

Ottawa Summit Statement on Terrorism

We last wrote on this subject in August when the Prime Minister gave her agreement to our attempting to persuade the Seven to deliver an ultimatum to Afghanistan in spite of French resistance (Willie Rickett's letter of 28 August to me). This initiative on our part unfortunately led nowhere; the Germans would not commit themselves until there had been a definite statement of the French position. Only recently have the French finally declared their decision to limit their action to denouncing their Air Services Agreement (ASA) with Afghanistan, effective in a year's time (this was contained in a letter from President Mitterrand replying to a message from Prime Minister Trudeau, a copy of which is attached). The Germans have since decided to follow the same course of action as the French, in spite of a message of encouragement from Mr Haig to Herr Genscher and bilateral discussions with FCO officials held with them in Bonn.

We have therefore reached the point referred to in Willie Rickett's letter in which Lord Carrington would consult the Prime Minister on the next step. The Secretary of State for Trade also indicated in the same correspondence that in this situation he would like to give further thought to our position. The United Kingdom now has three options, none of them entirely satisfactory:

- (a) Unilateral action. We could go ahead forthwith, after suitable notification to the Afghans, with the suspension of the Afghan Airline's service to London simply by terminating its temporary operating permit.
- (b) Parallel action on the same time-scale as the French and Germans: ie we would announce that we would suspend Afghan Airline's service to London at one year's notice. (We would, of course, not denounce our ASA with Afghanistan since we do not have one.)
- (c) We could argue that since so much time has passed since the PIA hijacking (in March) few people would notice if the Seven took no further action whereas action by the Seven along the lines now envisaged would merely draw attention to the Seven's lack of determination.

The Secretary of State considers that option (c) is unacceptable, because the Ottawa Declaration promised definite action. He considers that there are a number of disadvantages to

/option (a)

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option (a). It would expose us to retaliation by the Karmal regime against our mission in Kabul (and they have recently been making some threats); and it would make it harder for the Seven to claim publicly that they were acting in a united fashion. Unilateral action would have the advantages of consistency with our approach hitherto and of demonstrating solidarity with Pakistan, but in Lord Carrington's view these do not outweigh the disadvantages of breaking ranks with our partners.

He therefore considers that to preserve what we can of the unity of the Seven, and to make a real if belated move against Afghan interests, the right course is for us to fall in with the French and the Germans and suspend air services at a year's notice. If the Prime Minister and the Secretary of State for Trade agree, our officials would be instructed to emphasise that in view of our strong views on the subject our preference would have been to suspend the Afghan services immediately even if that meant acting unilaterally; but that in order to keep a united front with our partners we were prepared to fall into line with the French and Germans. We nevertheless regarded this as an unsatisfactory outcome of the Ottawa decision. In public, of course, our common action would need to be presented positively in order to have the maximum deterrent effect both against the Afghans and against would-be hijackers in the future.

Lord Carrington believes in addition that the Seven should look again at the principle and mechanisms of the Bonn Declaration. In conception, the Bonn Declaration was intended to ensure an automatic response by the Seven to incidents of international terrorism and hijacking. Our experience has shown that, whatever the intentions of those who signed the Declaration, it is not in practice possible to bind political leaders in advance in this way.

There is likely to be a meeting of the officials from the Seven countries in New York on 10 November. Subject to the Prime Minister's views and those of Mr Biffen, Lord Carrington therefore proposes that at that meeting our officials should be instructed:

- (a) to tell their colleagues that we will now fall in (under protest) with the Franco/German line, and
- (b) propose that the experts of the Seven should conduct a realistic review, as soon as possible, about practical measures based on the Bonn Declaration for the future.

Yours ever,

Francis Richards
 (F N Richards)
 Private Secretary

M O'D B Alexander Esq
 10 Downing St

Handwritten marks in a box: a grid with 'D' and '21' and some scribbles.

M.A.E. DEPT

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C O N F I D E N T I A L

FM EXTOTT ZSPEJ481 23OCT81

TO TOKYO WSHDC LDN BONN ROME PARIS

DELIVER BY 230000

INFO GENEV ISBAD PRMNY PCOOTT/CARLSON/WHITE

Les renseignements du gouvernement destinés à la sécurité ne sont pas divulgués sans l'autorisation expresse du gouvernement canadien.

FIORITA/SHEPPARD/LEFEBVRE RCMPOTT/SS/DOPS/BROCKMYRE

BH CTCHULL/GERTLER/TARDI DE OCI JUSTOTT/FITZGERALD

SOLGENOTT/CLOUTIER DE OTT

REGAM:ICAOMTL/BOYD DE OTT

DISTR MIN AEG DMM PEB ZSP ZSI FLP FLO JHT WTD GPS GPO JMT

GEB GNG ECR

---APPLICATION CF BONN DECLARATION TO AFGEANISTAN:FRENCH

REPLY

FRENCH EMB DELIVERED TODAY COPY OF MITTERANDS LETTER TO PM

TRUDEAU:QUOTE

BEGINS MONSIEUR LE PREMIER MINISTRE,

.VOUS AVEZ BIEN VOULU M ENTRETENIR PAR VOTRE LETTRE DU 20SEP DE LA DECISION QUE NOUS AVIONS ADOPTEE EN COMMUN LORS DU SOMMET D OTT EN VUE DE L APPLICATION DE LA DECLARATION DE BONN A L AFGHANISTAN.

LA FRANCE ENTEND BIEN EVIDEMMENT APPLIQUER CETTE DECISION MAIS NE SAURAIT LE FAIRE QUE DANS LES CONDITIONS PREVUES PAR LE DROIT INNATL.OR, COMME VOUS LE SAVEZ, NOUS SOMMES LIES AVEC L AFGHANISTAN PAR UN ACCORD AERIEN QUI DONNE A LA COMPAGNIE ARIANA LE DROIT DE DESSERVIR PARIS. NOUS NE POUVONS LUI RETIRER

...2

PA TWO ZSPE2491 CONF

CE DROIT EN RECONNAISSANCE DU TEXTE QUI NOUS LIE. IL NOUS
FAUT DONC POUR ABOUTIR A LA SOLUTION CONVENUE, DENONCER NOTRE
ACCORD AVEC L'AFGHANISTAN ET CETTE DENONCIATION NE PEUT PORTER
EFFET QU'AU BOUT D'UN AN.

AINSI QUE M. CHEYSSON L'AVAIT PRECISE A OTT A M. MACGUIGAN ET
A SES COLLEGUES, NOUS DEMEURONS DISPOSES A TOUT MOMENT A PROCEDER
A UNE TELLE DENONCIATION. AINSI QUE VOUS EN AVEZ ETE INFORME
PAR LA VOIE DIPLOMATIQUE, NOUS SOMMES PRETS A COORDONNER NOTRE
ACTION EN CE DOMAINE AVEC NOS PARTENAIRES, EN PARTICULIER AVEC
LE ROYAUME-UNI ET LA REPUBLIQUE FEDERALE D'ALLEMAGNE QUI SONT
LES SEULS PARMIS LES SEPT A AVOIR, COMME NOUS-MEMES, DES
RELATIONS AERIENNES AVEC L'AFGHANISTAN.

JE VOUS PRIE D'AGREER, MONSIEUR LE PREMIER MINISTRE, L'ASSURANCE
DE MA HAUTE CONSIDERATION. FRANCOIS MITTERRAND. ENDS.

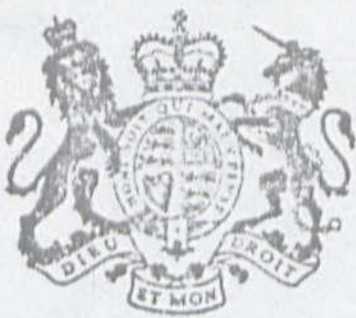
2. AS YOU WILL NOTE, LETTER CONTAINS NO/NO SURPRISE. FRENCH WILL
INFORM US OCT 26 WHETHER THEY WISH CDA AS CFMNL TO GIVE TEXT
OF LET TO REMAINING MEMBERS OF SEVEN OR WHETHER THEY WISH TO
DO THIS THEMSELVES AS ORIGINATORS. YOU SHOULD THEREFORE
NOT/NOT DISCUSS CONTENTS OF LET WITH YOUR INTERLOCUTORS UNTIL
THIS POINT IS RESOLVED. YOU WILL NOTE THAT FRENCH SUGGEST
THAT THREE COUNTRIES ACTIVELY INVOLVED IN ACTION AGAINST
AFGHANISTAN SHOULD COORDINATE THEIR ACTION. WE ASSUME THAT
THIS WILL BE DONE THROUGH A MTG OF THREE AND THAT IT WILL

...3

PAGE THREE ZSPE0431 CONF

NOT/NOT BE NECESSARY TO BRING IN THE FOUR PARTNERS THAT ARE
NOT/NOT DIRECTLY INVOLVED.

CCC/075 232024Z ZSPE0431



file

Econ Pol BPC

10 DOWNING STREET

From the Private Secretary

11 September 1981

Dear Capt. Wallis,

The Prime Minister has asked me to thank you for your letter to her of 2 September about the action taken at the Ottawa Summit in regard to the PIA hijacking in Afghanistan.

She was most grateful to you for writing.

Yours sincerely

Michael Alexander

Captain M.E. Wallis

BK

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BK

7 September 1981

BF

Ottawa Summit Statement
on Terrorism

The Prime Minister has seen your letter addressed to Willie Rickett of 4 September on this subject.

She has agreed to raise it with President Mitterrand. I should be grateful if you could provide briefing.

MICHAEL ALEXNADER

Francis Richards, Esq.,
Foreign and Commonwealth Office

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(1)



Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

I do not think you will
shift Pres. Mitterand on this. But to
raise it with him is at least to show
him (& the other participants in the summit) that
we take the matter seriously. Agree to mention?

4 September 1981

Dear Michael,

Yes not.
Rich - 4/9

Ottawa Summit Statement on Terrorism

I am enclosing a copy of a note from the Canadian High Commission which contains the text of a letter from Mr Trudeau to Chancellor Schmidt. The Canadian High Commission have asked us to convey the text of this letter to the Prime Minister.

As you will see, the line which Mr Trudeau has taken with Chancellor Schmidt parallels the line proposed in my letter of 27 August with which the Prime Minister agreed (your letter of 28 August refers).

The German reaction as reported in Bonn telegram no 656 (a copy of which I enclose) is not encouraging. If we are to salvage anything from the Ottawa Statement, Lord Carrington agrees with Mr Biffen that the Prime Minister might use the opportunity of the Summit to raise the matter with President Mitterrand. If the Prime Minister is willing to do so we shall provide briefing. Lord Carrington does not think we can rely on Mr Trudeau writing to President Mitterrand, or writing in sufficiently forthright terms, to persuade the French to return to the course of action agreed at Ottawa.

Yours over,

Francis Richards

(F N Richards)
Private Secretary

William Rickett Esq
10 Downing Street
LONDON
SW1

President: THE LORD BESWICK J.P.

FROM THE
CHAIRMAN'S OFFICE



Telephone: 01-759 9331/5
Cables: Aeropilot Hayes Middx.

THE BRITISH AIR LINE PILOTS ASSOCIATION

81 NEW ROAD HARLINGTON HAYES MIDDLESEX UB3 5BG

5 LEG 3/1/5.MEW/SEB

2nd September 1981

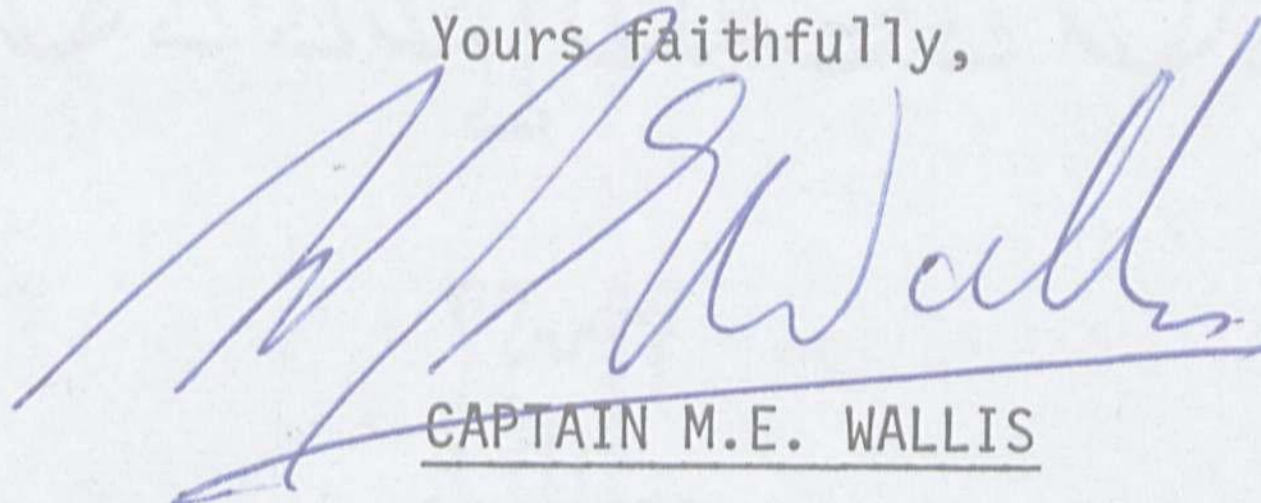
Rt. Hon. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London SW1.

Dear Madam,

The British Air Line Pilots Association would like to offer their thanks for the action taken at the Ottawa Summit by yourself and fellow Heads of State and Government in implementing the principles of the 1978 Bonn Declaration particularly with respect to the PIA hi-jacking in Afghanistan.

My Association has for many years advocated this type of international co-operation in the prevention of terrorism and aircraft hi-jacking and it is a pleasure to see some positive action at last.

Yours faithfully,



CAPTAIN M.E. WALLIS

Vice President: Lord Harvey of Prestbury, C.B.E.



Note No. 47

The Canadian High Commission presents its compliments to the Foreign and Commonwealth Office and has the honour to refer to the Bonn Declaration on hijacking and that portion of the Ottawa Summit Statement which referred to the implementation of the Declaration against Afghanistan.

The Prime Minister of Canada has written a letter on this subject to Chancellor Schmidt of the Federal Republic of Germany, the text of which was delivered to the Chancellor by the Canadian Embassy in Bonn on September 1, 1981. The Chancellor's office agrees that the text of this letter may be conveyed to the Prime Minister of Great Britain and Northern Ireland and the Canadian High Commission would be most grateful if this could be done. The text of the letter is as follows:

"Dear Chancellor Schmidt:

I am writing further to the July 20 Ottawa Summit statement on terrorism (attached), and particularly the portion dealing with implementing the Bonn Hijacking Declaration

.../2

against Afghanistan. Despite encouraging developments at the Ottawa Summit, the French Government has recently gone back to its position that it is unable to suspend air links with Afghanistan due to perceived legal constraints arising out of its bilateral air agreement. It seems to be prepared, though, to give one year's notice of termination under that agreement. France has consistently expressed this view since 1978 and I do not expect them to change their position.

I realize that of the Summit Seven, only the Federal Republic and France have bilateral air agreements with Afghanistan, although the United Kingdom allows air services under a permit. I also am aware that only the Federal Republic would face the possibility of a legal challenge from Afghanistan should you suspend flights now while France merely gave a year's notice. On this point, you should know that Canada would be prepared to join the Federal Republic in any such action with a separate claim against Afghanistan for breach of its legal obligations, in view of the fact that we had passengers aboard the hijacked aircraft.

Because of the strong statement issued in Ottawa, because Pakistan has decided immediately to cut air links with Afghanistan, and because implementation of the Ottawa statement in less than satisfactory terms will tend to undermine our credibility, I hope that both the Federal Republic and the United Kingdom will decide to take strong action and suspend flights with Afghanistan. I fear that otherwise the deterrent effect of the Bonn Hijacking Declaration would be irretrievably lost and an important element in our fight against terrorism would be seriously compromised.

It is unfortunate that the French take the position they are unable to suspend flights immediately, but in view of the situation and in order to make progress towards our goal of reducing terrorist incidents, I hope that the Federal Republic and the United Kingdom will be able to act together without further delay.

Yours sincerely,"

.../4

The Canadian High Commission avails itself of this opportunity to renew to the Foreign and Commonwealth Office the assurances of its highest consideration.

LONDON, September 2, 1981



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FM BONN 021415Z SEP 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 656 OF 2 SEPTEMBER

INFO PRIORITY PARIS OTTAWA WASHINGTON ROME TOKYO ISLAMABAD KABUL

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YOUR TELEGRAM NO 364: OTTAWA SUMMIT DECLARATION ON TERRORISM

1. ACTION TAKEN TODAY WITH POHRIS (HEAD OF DEPARTMENT MFA) AND HIS DEPUTY WILMANN (IN FLEISCHHAUER'S ABSENCE ON LEAVE).

2. POHRIS SAID THAT THEY UNDERSTOOD THE CANADIAN AMBASSADOR IN PARIS WOULD BE DELIVERING A LETTER TODAY FROM PRIME MINISTER TRUDEAU TO PRESIDENT MITTERRAND APPEALING TO HIM TO HONOUR HIS AGREEMENT AT MONTEBELLO. THE CANADIAN EMBASSY IN BONN HAD DELIVERED YESTERDAY, 1 SEPTEMBER A LETTER FROM MR TRUDEAU TO CHANCELLOR SCHMIDT WHICH POHRIS HAD NOT YET SEEN. THE GERMANS UNDERSTAND FROM THE CANADIANS HERE THAT M. TRUDEAU MAY ALSO BE WRITING TO THE PRIME MINISTER.

3. THE GERMANS CONSIDERED IN ANY CASE THAT THEY HAD BEEN PROMISED A REPLY FROM THE ELYSEE TO THEIR DEMARCHE AND SHOULD AWAIT THAT REPLY. NOW THAT A DIRECT APPEAL FROM M. TRUDEAU WAS BEFORE M. MITTERRAND, WHO HAD RECENTLY RETURNED FROM HOLIDAY, THEY WERE THE MORE CONVINCED THAT THEY MUST AWAIT THE FRENCH PRESIDENT'S RESPONSE BEFORE CONSIDERING FURTHER ACTION.

4. POHRIS WENT ON TO SAY THAT IF A NEGATIVE RESPONSE WAS RECEIVED IT WOULD NEED EVALUATING TO SEE WHETHER FURTHER REPRESENTATIONS WOULD BE OF ANY USE, AND THE EXPERTS WOULD HAVE TO CONSULT TO DECIDE WHAT ACTION TO TAKE. WE STRESSED THE NEED FOR ACTION AS SOON AS POSSIBLE (PARA 1 OF TUR). THE GERMANS ACCEPTED THIS BUT CONSIDERED IT EVEN MORE IMPORTANT TO ACT IN THE LIGHT OF THE FRENCH ANSWER AND IN A CONCERTED FASHION.

5. GERMAN COMMENTS ON THE POSSIBILITY OF SUSPENDING SERVICES WITH US ALONE IF THE FRENCH ANSWER WAS NEGATIVE WERE DISCOURAGING. THEY EMPHASISED THAT THIS WOULD CLEARLY NOT BE CONCERTED ACTION ON WHICH, AS THEY UNDERSTOOD IT, THE GENEVA MEETING HAD AGREED. FOR THE FRENCH TO DENOUNCE WITH ONE YEAR'S NOTICE AND THE GERMANS TO SUSPEND IMMEDIATELY WOULD CAST DOUBT ON THE LEGAL POSITION. POHRIS EXPANDED ON THE THEORETICAL POSSIBILITY OF AN ACTION BY ARIANA IN THE GERMAN ADMINISTRATIVE COURTS WHICH COULD CONCEIVABLY LEAD TO AN INJUNCTION RESTRAINING THE GOVERNMENT FROM SUSPENDING SERVICES.

MR 021/6

RECEIVED IN REGISTRY No. 69

- 3 SEP 1981

DESK OFFICER	REGISTRY
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6. WE PUT THE SUGGESTION IN PARA 4 OF TUR THAT IT COULD BE LESS EMBARRASSING IF THE FRENCH DID NOT DENOUNCE. POHRIS PERSONALLY DID NOT THINK THIS WOULD AVOID THE EMBARRASSMENT. ARIANA FLIGHTS WOULD THEN CONTINUE INDEFINITELY TO PASS FROM MOSCOW TO PARIS THROUGH FRG AIRSPACE YET WOULD NOT BE PERMITTED TO LAND IN FRANKFURT. THE DIFFERENCE OF LEGAL POSITION WOULD BE JUST AS APPARENT. HE SPECULATED THAT THE OUTCOME WHICH WOULD BEST RESTORE UNITY AMONG THE SEVEN WOULD BE FOR THE FRENCH AND GERMANS BOTH TO DENOUNCE WITH ONE YEAR'S NOTICE.

7. COMMENTS. POHRIS AND WILMANNS EMPHASISED THAT THE COMMENTS IN PARAS 4 AND 5 ABOVE WERE ONLY PERSONAL. ONCE THE FRENCH ANSWER WAS RECEIVED THEY WOULD HAVE TO REFER UP FOR INSTRUCTIONS. BUT IT WAS CLEAR THAT THE ADVICE FROM HEAD OF DEPARTMENT LEVEL WOULD NOT BE IN FAVOUR IF SUSPENDING SERVICES IMMEDIATELY IF THE FRENCH WOULD NOT JOIN IN.

TAYLOR

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CAIR/DOT

STANDARD
MAED
WED
NAD
SAD

COPIES TO:
MR FORTNAM
CAIR/DOT

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Ecc P57

*From the Secretary of State**Paul*CONFIDENTIAL

Francis Richards Esq
Private Secretary to the
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

1 September 1981

*Dear Francis**attached*

OTTAWA SUMMIT STATEMENT ON TERRORISM

Thank you for your letter of 27 August. Mr Biffen agrees with Lord Carrington that we should adopt the third of the courses which you describe. If, however, the French decision to go back on the statement to which President Mitterrand agreed in Ottawa prompts the Germans to do likewise, Mr Biffen would like to give further thought to our own position.

Mr Biffen notes that there will be an opportunity at the Anglo-French Summit in a fortnight's time to make it clear to President Mitterrand that we regret the French decision not to implement the public statement on terrorism agreed with the other Heads of Government in Ottawa, and that there is still time for France to take the steps her partners are entitled to expect.

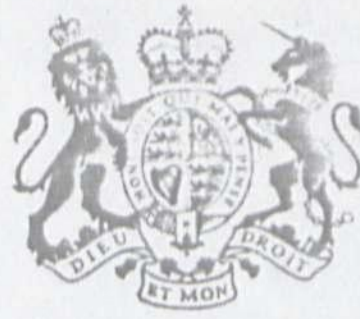
I am sending copies of this letter to Willie Rickett at Number 10 and to John Halliday at the Home Office.

Yours sincerely,

JOHN RHODES
Private Secretary

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10 DOWNING STREET

From the Private Secretary

28 August 1981

OTTAWA SUMMIT STATEMENT ON TERRORISM

Thank you for your letter of 27 August. The Prime Minister has agreed to the third course of action set out in your letter; that is to persuade our Summit colleagues that the 7 should still deliver an ultimatum to Afghanistan. She notes that if the Germans will not support us, the Foreign and Commonwealth Secretary will consider further what action we should take.

I am sending copies of this letter to John Rhodes (Department of Trade) and John Halliday (Home Office).

L. W. F. S. RICKETT

Francis Richards, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

JH

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Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

Agree Foreign Secretary's
recommended course of action
at (iii)?

27 August 1981

Dear Willie,

S. J. Pike
Duty Clerk
27.8.81

Yes
mt

Ottawa Summit Statement on Terrorism

attached
Flay B

Flay A

- In the Ottawa Summit statement on terrorism and hijacking, the Seven agreed to suspend air services with Afghanistan unless Afghanistan immediately took steps to comply with its international obligations by prosecuting or handing over to Pakistan those involved in the hijacking of a PIA aircraft in March. President Mitterrand, in agreeing to the statement, appeared to have overruled earlier French arguments that they could not suspend air services immediately because of the terms of their Air Services Agreement (ASA) with Afghanistan. But despite lobbying by other members of the Seven, the French, with President Mitterrand's explicit endorsement, have reverted to their former position (see Paris telegram number 706, copy attached). Only the Germans, the French and ourselves have air links with Afghanistan; if the French now refuse to act there is a risk that the Germans, who also have an Air Services Agreement, will follow suit. Meanwhile Pakistan has anticipated action by the Seven by warning Afghanistan that Pakistan will sever air services on 1 September unless Afghanistan complies with its international obligations. Pakistan had hoped to co-ordinate this action with the Seven. It is too late for that but failure now to support Pakistan would have obvious implications, both for the West's general relations with Pakistan and for our attempts to maintain effective pressure over the Soviet invasion of Afghanistan.

The value of the Ottawa Summit will be seriously weakened if the Seven cannot act together; and the Bonn Declaration itself will be seen to be toothless, if ASAs are judged to take precedence over it. President Mitterrand's decision therefore places us in an awkward position. There are three courses we can pursue.

- (i) try to persuade President Mitterrand to drop French objections to taking immediate action. Ideally, this should be done by Mr Trudeau, as Chairman of the Summit, but Canadian officials judge that for bilateral political reasons the Canadian Government may not wish to put too much pressure on the French President. The problem does not justify an attempt to concert an approach by all the remaining members

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of the Seven to President Mitterrand: and Lord Carrington would not recommend raising the matter bilaterally with the Anglo/French Summit less than three weeks away. Moreover, it is our judgement that President Mitterrand is unlikely to be shaken from his present position, even by an approach at Head of Government level;

- (ii) take no action against Afghanistan. It has always been accepted that the Seven should try to act together, or not at all. In this case, however, the commitment to action was so clear that a decision not to impose sanctions on Afghanistan would be seen as an admission that the Seven are unable to act together against terrorism. This would be welcome news for the Babrak Kamal regime, and might encourage other governments, which had previously been deterred by the sanctions threatened by the Bonn Declaration, to harbour terrorists. In addition, Pakistan would justifiably feel let down with the implications mentioned above.
- (iii) persuade the rest of the Seven that the Seven should still deliver an ultimatum to Afghanistan, despite French foot-dragging. This is not an ideal course, but it should enable the Seven to salvage something from the Ottawa Statement.

Lord Carrington recommends that we adopt the third course. He proposes that we should seek the agreement of the rest of the Seven to this course, paying particular attention to the Germans. Ideally we would like the rest of the Seven to give notice to the Afghans on 1 September, to coincide with the cessation of air services by Pakistan. This means that we need to clear our lines with our partners this week. The French would of course be informed of what was proposed and encouraged to join in if they could, but it would be made clear to them that they had no veto. I should therefore be grateful to know as soon as possible whether the Prime Minister or Mr Biffen have any objections to the course of action outlined above. If the Germans will not support us, we should risk being in the invidious position of being alone with Pakistan in cutting air links with Afghanistan. In that event, Lord Carrington would wish to consider further what action we should take.

I am copying this letter to the Private Secretaries to the Secretary of State for Trade and the Home Secretary.

Willie Rickett Esq
10 Downing Street

Yours very truly,
Francis Richards
(F N Richards)
Private Secretary

MRT 021/6

RECEIVED IN DEPT. OF FOREIGN AFFAIRS

21 AUG 1981

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FM PARIS 201350Z AUG 81

TO PRIORITY FCO

TELEGRAM NUMBER 706 OF 20 AUGUST 1981

INFO PRIORITY OTTAWA WASHINGTON ROME BONN TOKYO KABUL ISLAMABAD

YOUR TELNO 343: OTTAWA SUMMIT DECLARATION ON TERRORISM

1. THE ECONOMIC (AND ACTING POLITICAL) ADVISER AT THE ELYSEE, SAUTTER, TOLD ME LAST NIGHT THAT PRESIDENT MITTERRAND HAD DECIDED THAT THERE COULD BE NO QUESTION OF AN ABRUPT CESSATION OF FRENCH AIR SERVICES TO AFGHANISTAN (SAUTTER DESCRIBED THIS AS CONFIRMATION OF THE LINE TAKEN AT LUNCH ON 20 JULY BY M CHEYSSON). PRESIDENT MITTERRAND WAS STILL CONSIDERING WHETHER THE FRANCO-AFGHAN AIR SERVICES AGREEMENT SHOULD BE DENOUNCED - IE SO THAT FLIGHTS WOULD TERMINATE 12 MONTHS LATER. BUT EVEN THIS WOULD PRESENT CONSIDERABLE DIFFICULTIES.

2. THE CANADIAN EMBASSY TOLD US TODAY THAT THEY HAD NEITHER SOUGHT NOR RECEIVED ANY REPLY FROM THE FRENCH TO THEIR DEMARCHE AND THAT THEY HAD HAD NO FURTHER INSTRUCTIONS FROM OTTAWA.

3. PARAGRAPH 1. ABOVE APPEARS TO REFLECT A RETURN TO THE FRENCH LINE OF EXPRESSING DOUBTS ABOUT THE IMPLICATIONS IN INTERNATIONAL LAW OF IMPOSING SANCTIONS UNDER THE BONN DECLARATION. CURRENT FRENCH PRE-OCCUPATION WITH THE PROBLEM OF GRANTING POLITICAL ASYLUM TO THE IRANIAN EXILES WHO HIJACKED AN IRANIAN NAVAL VESSEL IN THE MEDITERRANEAN HAS NO DOUBT AFFECTED THEIR ATTITUDE EVEN THOUGH THE CASES ARE DIFFERENT. A CLOSER PARALLEL IS THE HIJACKING BY BANI SADR OF THE IRANIAN AEROPLANE TO GET HIM BACK TO FRANCE WHERE HE HAS BEEN GIVEN POLITICAL ASYLUM. BUT THE FRENCH THEMSELVES HAVE VOLUNTEERED NO INDICATION THAT MOTIVES OF THIS SORT LIE BEHIND THEIR ATTITUDE TO THE BONN DECLARATION ALTHOUGH I GAVE AN OPPORTUNITY TO DO SO TO THE POLITICAL DIRECTOR AT THE QUAI WHEN I SAW HIM ON TUESDAY.

THIS TELEGRAM
WAS NOT
ADVANCED

PETRIE

STANDARD
MAED
WED
SAD

COPIES TO
MR FORTNAM. CAIR | DOT

CONFIDENTIAL

B

OTTAWA SUMMIT STATEMENT ON TERRORISM

1. The Heads of State and Government, seriously concerned about the active support given to international terrorism through the supply of money and arms to terrorist groups, and about the sanctuary and training offered terrorists, as well as the continuation of acts of violence and terrorism such as aircraft hijacking, hostage-taking and attacks against diplomatic and consular personnel and premises, reaffirm their determination vigorously to combat such flagrant violations of international law. Emphasizing that all countries are threatened by acts of terrorism in disregard of fundamental human rights, they resolve to strengthen and broaden action within the international community to prevent and punish such acts.

2. The Heads of State and Government view with particular concern the recent hijacking incidents which threaten the safety of international civil aviation. They recall and reaffirm the principles set forth in the 1978 Bonn Declaration and note that there are several hijackings which have not been resolved by certain states in conformity with their obligations under international law. They call upon the governments concerned to discharge their obligations promptly and thereby contribute to the safety of international civil aviation.

3. The Heads of State and Government are convinced that, in the case of the hijacking of a Pakistan International Airlines aircraft in March, the conduct of the Babrak Karmal government of Afghanistan, both during the incident and subsequently in giving refuge to the hijackers, was and is in flagrant breach of its international obligations under the Hague Convention to which Afghanistan is a party, and constitutes a serious threat to air safety. Consequently the Heads of State and Government propose to suspend all flights to and from Afghanistan in implementation of the Bonn Declaration unless Afghanistan immediately takes steps to comply with its obligations. Furthermore, they call upon all states which share their concern for air safety to take appropriate action to persuade Afghanistan to honour its obligations.

4. Recalling the Venice Statement on the Taking of Diplomatic Hostages, the Heads of State and Government approve continued cooperation in the event of attacks on diplomatic and consular establishments or personnel of any of their governments. They undertake that in the event of such incidents, their governments will immediately consult on an appropriate response. Moreover, they resolve that any state which directly aids and abets the commission of terrorist acts condemned in the Venice Statement, should face a prompt international response. It was agreed to exchange information on terrorist threats and activities, and to explore cooperative measures for dealing with and countering acts of terrorism, for promoting more effective implementation of existing anti-terrorist conventions, and for securing wider adherence to them.



10 DOWNING STREET

From the Private Secretary

20 August 1981

Thank you for your letter of 18 August, in which you asked if I could clarify the Prime Minister's remarks at Ottawa about a code of practice on the treatment of private capital investment in developing countries.

As you say, the Prime Minister has mentioned the possibility of a code of practice several times. She tells me the idea was first put forward by Mr. Biffen at her lunch with Mr. Trudeau on 26 June, and the record in Michael Alexander's letter to Roderic Lyne of that date sets out the background. As you will see, the Prime Minister has in mind a code of practice that protects private investment in the third world from nationalisation or expropriation, thereby encouraging a greater flow of private capital to developing countries.

I have drawn the Prime Minister's attention to the negotiations in the UN on a non mandatory code of practice on the operations of transnational companies, which we hope will include clauses protecting private investment from expropriation. But she is aware that little progress has been made in these negotiations since they were started in 1977. She has therefore asked for advice on how her suggestion might be followed up if she were to decide to pursue it. Since Mr. Biffen first floated this idea, you may wish to consult John Rhodes on what exactly he had in mind. I believe the Department of Industry will also have to be consulted since they lead on the UN negotiations on transnational companies.

As far as the State Department are concerned, you may wish to tell them that the Prime Minister was not proposing any definite new policy initiatives. You could give our Embassy in Washington discretion to explain the Prime Minister's thinking as outlined above and to explore American reactions, but I leave you to judge whether that would be useful.

I am copying this letter to Ian Ellison (Department of Industry), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

W. F. S. RICKETT

Francis Richards, Esq.,
Foreign and Commonwealth Office.

B

Copied to Mexico Summit
Policy file



10 DOWNING STREET

Prime Minister

You have occasionally mentioned the possibility of an international code of practice on the treatment of private capital investment in developing countries.

The FEO are wondering whether you have a new initiative in mind, or whether you were simply expressing support for the current UN negotiations on a non-mandatory code of practice on the operations of transnational companies. Since negotiations started in 1977, the UK has consistently supported such a code of practice, which would include clauses protecting private investment from nationalisation or expropriation in developing countries.

Do you have in mind a new initiative?
or were you expressing support for our efforts in the UN?

WFR 19/8

I mentioned it to
Trade Sec before O'Hanrahan and I
checked reference was made

to subjuvants for investment
as a result.

We could follow up the
suggestion

no

Canada & Mexico Summit Briefing



Foreign and Commonwealth Office

London SW1A 2AH

18 August 1981

Dear Willie,

The US State Department have asked our Embassy in Washington for clarification of a remark made by the Prime Minister at the Ottawa Summit about a code of practice on the treatment of private capital investment in developing countries. I enclose, for reference, a copy of the relevant page of Sir R Armstrong's record of the Summit. I also enclose extracts from Hansard col 501 of 23 July and from your record of the Prime Minister's meeting with the Australian Prime Minister on 30 July, two further occasions on which she referred to the point.

The Prime Minister's suggestion does not arise from the Summit briefing, and neither we nor the Departments of Trade and Industry are sure whether the Prime Minister had anything specific in mind. Would you, or David Wright, to whom this letter is copied, be able to shed any further light on the Prime Minister's thinking? If not, we shall tell Washington that the Prime Minister was not going beyond current official policy on investment protection. This is based on the continuing negotiation of as many bilateral investment protection agreements as possible, and includes support for the current negotiations in the UN for a non-mandatory code of conduct on the operations of transnational companies.

Yours ever,

(F N Richards)
Private Secretary

Willie Rickett Esq
10 Downing Street

CONFIDENTIAL

EXTRACT FROM RECORD OF PRIME MINISTER - Rt Hon MALCOLM FRASER MEETING
30 JULY 1981

Mr. Fraser agreed, but said that if some measures along those lines could be taken, it would affect the perceptions of many countries.

The Prime Minister said that since so many developing countries were capital-hungry, there might be more advantage in looking for arrangements which would make investment in them easier. An international code of practice might be helpful. But Mr. Fraser said that this could perhaps come out of the global negotiations. The Prime Minister expressed scepticism. The Prime Minister added that she recognised that many countries were not credit-worthy and would not attract capital. They had to be the recipients of aid. That was why the United Kingdom concentrated its official aid on the poorest countries. Mr. Fraser said that he recognised Britain's aid record was a good one. The Prime Minister asked about Australia's position on imports of third world products. The UK's policy was a liberal one. Mr. Fraser said that on a capital basis access to the Australian market for third world countries was very large. Australia was a huge importer of such products as textiles and footwear. There was a developing country preference. ASEAN was increasing its exports to Australia at some 30% a year.

Mr. Fraser said that he discussed the question of how to handle North/South issues at CHGM with Mr. Ramphal. He had shown Mr. Ramphal a draft Declaration of Intent which he hoped could be issued in Melbourne. Mr. Ramphal would like the text to go further. Mr. Fraser said he thought that it was about right. He then handed a copy of the draft (attached) to the Prime Minister. He hoped that it could be appended to the usual communique. It should have some impact since it would come out two weeks before the Summit at Cancun. He hoped that it would not be "mauled by the bureaucracy".

The Prime Minister, who read the text through rapidly in Mr. Fraser's presence, said that she was anxious that nothing should be said at CHGM which would encourage people to think that

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EXTRACT FROM RECORD OF 2ND PLENARY SESSION, OTTAWA, 20 JULY '81

differences in the world and strengthen the defence of political freedom. In this context he wished to say that Italy, which housed the specialised UN Agencies in food and agriculture, was ready to undertake, in co-operation with those agencies and after consultation with her partners in the European Community, an ad hoc initiative in the field of food aid for the poorest countries.

Mrs Thatcher (United Kingdom) said that at the Venice Summit Heads of State or Government had discussed relations with developing countries under four heads: bilateral aid, multilateral aid, private sector aid, and trade. Many of those present at Venice had felt that they would like to give more in bilateral aid: this would be in line with historic links, and would give aid to those who would make the best use of it. We should give a higher proportion of our aid to the poorest countries: the United Kingdom had a good record in this direction. The Venice Summit had been insistent that the integrity of the World Bank and the International Monetary Fund must be maintained, and that these institutions must continue to be governed by and to stick to their rules. The Venice Summit had also stressed the importance of private capital: the developing countries had a hungry need for private capital, and the potential was enormous. Private aid would develop better if there were a code of practice on the treatment of private capital, at any rate in the early years of an investment. This was a subject which could perhaps be discussed at the Cancun Summit. On trade, the industrialised countries were in the process of giving the developing countries aid in order to compete with their own industries. The aid given to the development of textile industries was a case in point. The industrialised countries had to agree that they would take a substantial proportion of their consumption of such products from the developing countries, but there had to be very careful negotiations about the volume of trade, in order to avoid trouble with domestic industries.

In general the industrialised countries had a good record in their relations with developing countries, and should not be defensive about it. They should not arouse too great hopes of the Cancun Summit. The trouble about summit conferences was that they tended to arouse expectations of great new programmes. She did not think that any such outcome was to be expected from

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all the economies Europe, in that the newly developing countries are now producing efficiently and well many products that we used to regard as our own preserves. They are taking an advanced view with regard to the latest technologies. They are investing a much bigger proportion of their income than we are. For example, I think that in Japan about one-third of the profits—they are profits; they are not all taken out in wages—are ploughed back into the latest technologies. I agree with my hon. Friend that that means an enormous structural change and that we have been rather slow to adapt to it.

There are other financial problems. We have gone on increasing public expenditure, assuming that we should get growth, but that growth has not come about. That, too, has caused many financial problems. Ultimately, unless we diminish public expenditure in relation to output, there will not be enough money for private industry to invest to become competitive again.

Mr. Kevin McNamara (Kingston upon Hull, Central): The right hon. Lady put her signature to a declaration that said:

"We are committed to maintaining substantial and, in many cases, growing levels of official development assistance". Are we in fact to increase our development assistance officially and, if so, by how much? Or does the right hon. Lady's signature not mean anything?

The Prime Minister: But the communiqué did not commit us all to increased Government aid. I cannot promise increased Government aid this year. I hope that our excellent flows of private aid will continue and that they will increase from other countries, but that will happen only if the developing countries adopt a code of practice to safeguard those investments.

Mr. Stanley Newens (Harlow): Does the Prime Minister agree that higher interest rates are likely to push the world further into economic depression and that, if the present high levels in the United States continue, other countries will be forced to raise their interest rates? In these circumstances, will she make clear what stand she took on this issue, or does she approve of what can only be described as beggar-my-neighbour interest rate policies?

The Prime Minister: No, I most certainly do not approve of such policies. I dislike high interest rates, and I am one of the first to recognise that high interest rates in the United States can have an impact on European economies. I point out to the hon. Gentleman that high interest rates existed in the United States for quite a time before the present Administration took office. They are trying to present policies to reduce public expenditure, which it is hoped will reduce the deficit and thus reduce inflationary pressures. Therefore, it is expected that when those policies are through—they are not yet through; they are before Congress—the high interest rates will come down.

Viscount Cranborne (Dorset, South): Did my right hon. Friend and her colleagues discuss in any detail the impact of the volatility of exchange rates on the world economy? Is not that volatility to a larger extent a cause of instability, both economic and political, as well as an outward and visible sign of it?

The Prime Minister: I do not think that any of us likes the volatility of exchange rates. As a result of two world

recessions caused by sharp oil price increases, the vast sums of money that can now move round the world are far greater than any reserves that we may have to allow us to intervene to hold the exchange rate. If we were to try to intervene with our modest reserves, we should throw them all into the hands of the speculators, and nothing would be done to achieve the stability that we all desire. That is a fact of life that we have to recognise.

Mr. T. W. Urwin (Houghton-le-Spring): During the discussions on the separate and disparate economies of democratic countries, was any reference made to the economy of a former European democracy, Turkey? Did the member States at the summit conference accept a collective responsibility to impress upon the military junta now operating in Turkey the importance of an early return to plural democracy?

The Prime Minister: On this occasion we did not discuss Turkey. On previous occasions we have got together to give aid to Turkey.

Mr. Michael Hamilton (Salisbury): Did my right hon. Friend have an opportunity for private discussions with the Canadian Prime Minister, and did three-line Whips figure in those discussions?

The Prime Minister: I did not have a private discussion with the Canadian Prime Minister on the subject that I think my hon. Friend is raising.

Mr. Ernie Ross (Dundee, West): In relation to the political issues discussed by the Heads of Government in Ottawa, had the Prime Minister has time today to see the statement made by the ex-Prime Minister of Israel, Mr. Rabin, in which he makes it clear that only political solutions exist? Will she now take the opportunity to instruct her right hon. and noble Friend the Foreign Secretary that the only initiative possible is an independent European initiative free from the Camp David accords?

The Prime Minister: We have always made it clear that the European initiative was complementary to the Camp David accords. Many of us take the view that the Middle East problem will not be solved without the considerable influence of the United States upon Israel.

Mr. John Bruce-Gardyne (Knutsford): Did not the success of the conference have much to do with the sensible modesty of the expectations put upon it? Is it not enormously to the credit of my right hon. Friend and her colleagues that they eschewed the fatuous posturing of previous participants in such meetings, who seemed to believe that they could add a cubit to the world's stature by taking thought together?

The Prime Minister: These conferences started, I understand, simply as the seven Heads of Government meeting together quietly. They have developed into what I would call a circuit of summery. Such a battery of journalists follows us that I must confess that it is a problem, because if some news is not given out it tends to be manufactured. However, I agree with my hon. Friend that it is a pity if Heads of Government cannot meet to discuss vital world issues without raising expectations that there will be some colossal pronouncement at the end. The problems remain; it is just that we get together to discuss them.

Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES.

Reference: CC(81) 29th Conclusions, Minute 2

Date: 23 July 1981

Signed Wayland Date 28 July 2011

PREM Records Team

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FM PARIS 231720Z JUL 81

TO ROUTINE FCO

TELEGRAM NUMBER 641 OF 23 JULY 1981

INFO SAVING TO OTTAWA, BONN, TOKYO, ROME, WASHINGTON, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG, UKREP BRUSSELS, ATHENS.

MY TELNO 637: OTTAWA SUMMIT: FRENCH PRESS TREATMENT. M

1. FRENCH PRESS COMMENT ON THE OTTAWA SUMMIT HAS EVOLVED A LITTLE FURTHER TODAY. ONE MAIN CONCLUSION WHICH HAS EMERGED IS THAT IT WAS PRESIDENT REAGAN'S SUMMIT ("REAGAN REMAINS ON TOP OF THE GAME" - LE QUOTIDIEN) AND THAT HE GOT HIS WAY ON ISSUES SUCH AS US INTEREST RATES ON WHICH THE "EUROPEANS" HAD WANTED TO PUT HIM IN THE DOCK.
2. THE SECOND MAIN CONCLUSION DRAWN BY ALL THE PRESS IS THAT THE RESULTS ON ECONOMIC AND MONETARY MATTERS WERE MEAGRE. "A SUMMIT WITHOUT CONCLUSION" IS THE HEADLINE OF LE MONDE'S EDITORIAL DATED 23 JULY. FOR LE FIGARO (RIGHT - WING) THE FINAL COMMUNIQUE CAMOUFLAGES RATHER THAN RESOLVES PROBLEMS.
3. LE QUOTIDIEN (CENTRIST) AND OTHER PAPERS DRAW COMFORT FROM FRANCE'S SUCCESS IN GETTING HER CONCERNS ON TO THE AGENDA. LE MATIN (SOCIALIST) STRIKES A MORE POSITIVE NOTE BY CLAIMING THAT THE COMMUNIQUE'S PROMOTION OF UNEMPLOYMENT TO RANK EQUALLY WITH INFLATION WAS A SMALL REVOLUTION. LE QUOTIDIEN QUOTES M. CHEYSSON AS SAYING THAT FIGURES ARE NOT EVERYTHING AND THE IMPROVEMENT OF ECONOMIC INDICATORS SHOULD NOT BE PUSHED TO THE POINT OF PROVOKING A SOCIAL AND POLITICAL CRISIS. IT ASKS WHETHER M. MITTERRAND WILL HAVE TO REPEAT THIS AT THE 1982 SUMMIT IN PARIS.
4. LES ECHOS (BUSINESS DAILY) SAYS THAT US INTRANSIGENCE ON INTEREST RATES WILL OBLIGE EUROPE TO UNDERTAKE A NEW AND AMBITIOUS STEP TOWARDS INTEGRATION. A NOTABLE FEATURE IN ALL PAPERS AND ON TELEVISION IS THAT ALTHOUGH THERE ARE REPEATED REFERENCES TO EUROPEAN SOLIDARITY THERE IS AN ALMOST COMPLETE ABSENCE OF ANY MENTION OF BRITAIN OR THE BRITISH ROLE AT OTTAWA. IN TALKING ABOUT EUROPEAN DEMANDS, LE QUOTIDIEN ADDS THE GLOSS THAT BY "EUROPEAN" SHOULD BE UNDERSTOOD "CONTINENTAL" AS GREAT BRITAIN HAD GIVEN THE IMPRESSION OF GOING OFF ON ITS OWN. LE MONDE ATTRIBUTED PRESIDENT REAGAN'S AGREEMENT TO GLOBAL NEGOTIATIONS TO THE EFFORTS OF MESSRS MITTERRAND, SCHMIDT, TRUDEAU, SUZUKI AND SPADOLINI.

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5. AS REGARDS PERSONALITIES, THE PRESS GIVES THE IMPRESSION THAT PRESIDENT MITTERRAND AND PRESIDENT REAGAN HIT IT OFF. PRESIDENT MITTERRAND COMMENTED TO THE PRESS ON HIS RETURN TO PARIS THAT HE WAS IMPRESSED BY PRESIDENT REAGAN'S CONFIDENCE IN WHAT HE WAS DOING. HE ADDED THAT HE TOO WAS CONFIDENT IN HIS POLICIES. HE WAS LIKE PRESIDENT REAGAN AND PRESIDENT REAGAN WAS LIKE HIM.

FCO PLEASE PASS SAVING TO OTTAWA, BONN, TOKYO, ROME, WASHINGTON, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG, UKREP BRUSSELS, ATHENS.

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[REPEATED AS REQUESTED]

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FM WASHINGTON 232324Z JUL 81

TO PRIORITY F C O

TELEGRAM NUMBER 2252 OF 23 JULY

INFO BONN, PARIS, ROME, OTTAWA, TOKYO, UKREP EC AND BIS NEW YORK

OTTAWA SUMMIT : US PRESS COVERAGE

ADVANCE COPY

Hd. NAD, (Ltd),

Hd. News D,

Ps/No. 10, Downing St. (2x).

1. PRESS COVERAGE HERE HAS BEEN FULL RATHER THAN MASSIVE. THE SUMMIT WAS TO A CONSIDERABLE EXTENT REPLACED AS LEAD STORY BY THE ISRAELI ATTACKS IN LEBANON; AND THE VERY EXTENSIVE COVERAGE OF THE RUN-UP TO THE SUMMIT MAY HAVE BLUNTED EDITORS' APPETITES SOMEWHAT.
2. THE FOCUS OF ATTENTION HAS BEEN ON PRESIDENT REAGAN'S FIRST PERFORMANCE IN A MAJOR INTERNATIONAL CONFERENCE, AND PARTICULARLY HIS HANDLING OF EUROPEAN CRITICISM OF US INTEREST RATES. THE GENERAL VERDICT IN TODAY'S COMMENTARIES IS THAT HE ACQUITTED HIMSELF WELL, AND THAT THE SUMMIT WAS REASONABLY SUCCESSFUL OVERALL.
3. THE BALTIMORE SUN EDITORIAL COMMENTS THAT THE OTHER PARTICIPANTS WILL NOW BE WELL AWARE THAT REAGAN IS AN EXTRAORDINARILY RESOLUTE MAN, EVEN TO THE POINT OF STUBBORNESS, AND YET HIGHLY SKILLED IN THE POLITICAL ART OF AMIABLE PERSUASION. QUOTE WE CONSIDER MR REAGAN'S PERFORMANCE AT OTTAWA A SUCCESS NOT BECAUSE HE MOLIFIED HIS PARTNERS, WHICH HE DID NOT, BUT BECAUSE HE LET THEM KNOW WHAT KIND OF AN AMERICAN PRESIDENT THEY HAVE TO DEAL WITH UNQUOTE. REAGAN ALSO HAD THE OPPORTUNITY TO BECOME MORE QUOTE SENSITISED UNQUOTE TO HIS PARTNERS' CONCERNS. QUOTE THIS PERSONAL TOUCH, FAR MORE THAN THE CIRCUMLOCUTIONS OF COMMUNIQUE, IS WHAT MAKES THESE ANNUAL SUMMITS WORTHWHILE UNQUOTE.
4. THE NEW YORK TIMES EDITORIAL IS MORE SOMBRE ABOUT ALLIANCE RELATIONSHIPS - QUOTE NOT IN A GENERATION HAVE THE INDUSTRIAL DEMOCRACIES BEEN SO BADLY DIVIDED, ON POLITICAL AND MILITARY AS WELL AS ECONOMIC ISSUES UNQUOTE - BUT SEES SUMMITS AS MORE RATHER THAN LESS NECESSARY IN THESE CIRCUMSTANCES. IN THE EVENT THE

AS WELL AS ECONOMIC ISSUES UNQUOTE - BUT SEES SUMMITS AS MORE RATHER THAN LESS NECESSARY IN THESE CIRCUMSTANCES. IN THE EVENT THE US DID EXTRAORDINARILY WELL IN GETTING ITS VIEWS TO THE MEDIA, BUT LEFT THE ALLIES WITH THE IMPRESSION OF IDEOLOGICAL RIGIDITY CLOTHED IN PRESIDENTIAL CHARM. NOTING FRENCH AND GERMAN CRITICISM OF US INTEREST RATES, THE EDITORIAL ASSERTS THAT THE ALLIES BELIEVE THAT MORE MODERATE TAX CUTS AND SOME DEFLATION HERE WOULD PERMIT A MEASURE OF RECOVERY IN EUROPE - WHERE ECONOMIC WEAKNESS WILL INJURE WESTERN DEFENCES AND ADD TO THE SOCIAL DISCONTENT THAT BREEDS NEUTRALISM; AND IN THE THIRD WORLD - WHERE ECONOMIC CRISIS AND POLITICAL INSTABILITY WILL OPEN NEW OPPORTUNITIES FOR SOVIET ADVENTURE. THESE CONCERNS CAME ACROSS IN OTTAWA, EVEN IF NO GUARANTEE OF BETTER COORDINATION EMERGED. WITHOUT SUMMITS AND THE FOOTHILL CONSULTATIONS THE CHANCES WOULD BE BLEAKER STILL.

5. A WALL STREET JOURNAL ARTICLE NOTES THAT SUMMITS HAVE COME FULL CIRCLE, FROM TALKING, TO SPECIFIC TARGET-SETTING, AND BACK TO TALKING. FACED WITH A WIDE RANGE OF DIFFERENT ECONOMIC PROBLEMS, THE PARTICIPANTS OPTED FOR A BROAD RANGE OF ACCEPTABLE POLICIES WHICH TIED NOBODY'S HANDS. THIS IN NO WAY MEANS THAT SUMMITS ARE A WASTE OF TIME. THE CHANCE FOR LEADERS TO LISTEN TO EACH OTHERS' VIEWS FIRSTHAND IS WORTH A GOOD DEAL IN TERMS OF IMPROVED COOPERATION, PARTICULARLY IN TIMES OF CRISIS.

6. THE NEW YORK TIMES ALSO HAS A PIECE (COPY BY BAG) BY HEDRICK SMITH, WASHINGTON BUREAU CHIEF, EVIDENTLY THE RESULT OF AN INTERVIEW WITH PRESIDENT REAGAN ON THE JOURNEY HOME. THIS RECORDS THE PRESIDENT'S PLEASANT SURPRISE AT THE FIRMNESS OF MITTERRAND'S ANTI-SOVIET STANCE; BUT ALSO LAYS GREAT STRESS ON REAGAN'S EXPRESSED QUOTE GREAT ADMIRATION AND GREAT RESPECT UNQUOTE FOR THE PRIME MINISTER. THIS IS PARTLY BECAUSE OF LONG ACQUAINTANCE AND SIMILARITY OF OUTLOOK, BUT ALSO BECAUSE QUOTE THERE WERE MANY TIMES IN THOSE MEETINGS WHEN IT WAS MARGARET THATCHER WHO SPOKE UP AND PUT HER FINGER ON THE THING WE WERE TRYING TO RESOLVE UNQUOTE. SEVERAL EXAMPLES OF THIS ARE GIVEN. SMITH SUGGESTS THAT, BY CONTRAST, THE PRESIDENT FOUND CHANCELLOR SCHMIDT RATHER HEAVEY GOING.

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FM UKDEL IMF/IBRD WASHINGTON 232200Z JUL 81
TO PRIORITY F C O
TELEGRAM NUMBER 185 OF 23 JULY.

U.S. ECONOMIC POLICY AND THE OTTAWA COMMUNIQUE.

1. AT THE INVITATION OF THE U.S. EXECUTIVE DIRECTOR, SPRINKEL (U.S. TREASURY UNDER SECRETARY FOR MONETARY AFFAIRS) MET ALL IMF EXECUTIVE DIRECTORS AT LUNCH ON 23 JULY. ERB EXPLAINED THAT IN THE CONTEXT OF IMPROVING IMF SURVEILLANCE HE HAD THOUGHT THIS INFORMAL MEETING WOULD BE HELPFUL IN ADVANCE OF THE DISCUSSION OF THE U.S. CONSULTATION PAPER IN THE EXECUTIVE BOARD ON 31 JULY.

2. ALTHOUGH THIS WAS THE OBJECT OF THE DISCUSSION, MUCH OF THE QUESTIONING FOCUSED ON THE OTTAWA COMMUNIQUE. BUIRA (MEXICO) AND NIMATALLAH (SAUDI ARABIA) RAISED QUESTIONS ON PARAGRAPH 18, ON ENERGY AND THE LDCS. NIMATALLAH TOOK PARTICULAR EXCEPTION TO THE FIRST TWO SENTENCES OF THAT PARAGRAPH WHICH HE SAID PUT ALL THE BLAME ON THE OIL-PRODUCERS WHEN THE ROOT-CAUSE OF THE DIFFICULTIES OF THE NON-OIL LDCS WAS INFLATION. THE BIG SURPLUS OF THE OIL-PRODUCERS HAD ARISEN BECAUSE THEY HAD KEPT UP PRODUCTION TO HELP OTHERS. THEY ACCEPTED THE NEED FOR SHORT TERM RE-CYCLING BUT DID NOT CONSIDER THAT THE SURPLUS WAS REVELANT WHEN CONSIDERING LONG-TERM DEVELOPMENT AID. THE PARAGRAPH WAS QUOTE NOT FAIR, NOT TRUE, AND UNHELPFUL TO THE GLOBAL NEGOTIATIONS UNQUOTE. HE HAD MADE A SIMILAR INTERVENTION, IN RATHER EMOTIONAL TERMS, AT THE PREVIOUS DAY'S MEETING OF THE TASK FORCE ON NON-CONCESSIONAL FLOWS, AND HE HAD ALSO SPOKEN ABOUT IT BEFORE THE LUNCH TO MYSELF AND THE FRENCH AND CANADIAN DIRECTORS.

3. SPRINKEL SAID THAT HE AGREED WITH PART OF WHAT NIMATALLAH HAD SAID. HE HAD FOUGHT TO KEEP OUT OF THE COMMUNIQUE ANY SUGGESTION THAT OIL PRICES CAUSED INFLATION. THIS WAS AN ARGUMENT WHICH HAD BEEN WRONGLY USED BY THE CARTER ADMINISTRATION. THE COMMUNIQUE WAS REFERRING TO A CHANGE IN RELATIVE PRICES WHICH HAD DONE THE DAMAGE. THE PRESENT U.S. ADMINISTRATION WANTED TO REDUCE THESE PRESSURES BY REDUCING OIL CONSUMPTION. THE OIL SHOCK WAS NOT ALL THE FAULT OF THE OIL PRODUCERS., AND IT HAD NOT BEEN THE INTENTION OF THE U.S. OR ANYONE ELSE TO IMPLY THIS, OR TO PUT ALL THE BURDEN ON THE OIL PRODUCERS. AS REGARDS THE REST OF THE PARAGRAPH, HE SAID THE U.S. HAD TAKEN A FIRM POSITION AGAINST THE ENERGY AFFILIATE, AND WERE NOT LIKELY TO CHANGE THIS IN THE ABSENCE OF NEW EVIDENCE. THEY WERE STRONGLY IN FAVOUR OF DEVELOPMENT, AND ESPECIALLY ENERGY DEVELOPMENT. BUT THIS MUST BE DONE WITH THE HELP OF PRIVATE CAPITAL. IT WAS QUESTIONABLE HOW FAR PAST WORLD BANK AID HAD REALLY HELPED DEVELOPING COUNTRIES. BUT THE U.S. WANTED TO EXPLORE HOW TO IMPROVE

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CO-FINANCING WITH THE WORLD BANK. THE TEXT OF THE COMMUNIQUE HAD BEEN A COMPROMISE BETWEEN THIS AND OTHER POINTS OF VIEW, AND THERE WAS NO OBJECTION TO OTHER COUNTRIES GOING AHEAD SEPARATELY IF THEY WISHED.

4. NIMATALLAH SUBSEQUENTLY THANKED HIM FOR THIS EXPLANATION, BUT (ADDRESSING HIMSELF TO SPRINKEL AND REPRESENTATIVES OF OTHER INDUSTRIAL COUNTRIES PRESENT) REPEATED THAT THE OIL-PRODUCERS PREFERRED NOT TO BE URGED WHAT TO DO. IT MAY BE DESIRABLE TO COVER THIS GENERAL POINT IN THE BRIEFING FOR THE PREPARATORY MEETING BEFORE THE CANCUN SUMMIT.

5. THE TWO AFRICAN EDS ASKED ABOUT U.S. ATTITUDES TO DEVELOPMENT AID. SPRINKEL SAID EMPHATICALLY THAT THE U.S. WAS PRO-DEVELOPMENT AND WANTED TO HELP. THE AIM SHOULD BE TO RESTORE HUMAN DIGNITY, BY PROVIDING AID AND ENCOURAGING PRIVATE CAPITAL FLOWS SO THAT DEVELOPING COUNTRIES COULD HELP THEMSELVES TO GET OUT OF POVERTY. IDA AND THE MDBS HAD A ROLE IN THIS. BUT IT COULD NOT BE DONE BY A BIG INCREASE IN TAXPAYERS' EXPENDITURE, SINCE THIS COULD NOT BE OBTAINED. THE U.S. ADMINISTRATION WAS MAKING A BIG EFFORT TO GET FUNDS FOR IDA 6 AS THIS HAD BEEN ALREADY NEGOTIATED. THE PRESIDENT HAD ALREADY MADE A BIG EFFORT ON THIS, AND HE HAD BEEN PRESSED AT OTTAWA TO MAKE A FURTHER EFFORT, WHICH HE WOULD DO. BUT THE CHANCES OF ANY FURTHER INCREASE IN U.S. BUDGETARY EXPENDITURE FOR FOREIGN AID WERE EFFECTIVELY ZERO.

6. ON MONETARY POLICY, SPRINKEL ADDED LITTLE TO PREVIOUS STATEMENTS. HE SAID HE QUITE UNDERSTOOD THE CONCERN EXPRESSED ABOUT HIGH INTEREST RATES. THE U.S. POLICY WAS NOT A POLICY OF HIGH INTEREST RATES BUT OF GRADUAL AND SMOOTH REDUCTION IN THE MONEY SUPPLY, WHICH WOULD LEAD TO LOWER INTEREST RATES. HE HOPED THAT WITH THE COOPERATION OF THE FED (AND THEY HAD BEEN GETTING COOPERATION) THIS COULD BE ACHIEVED. HE ACKNOWLEDGED THAT THE ADMINISTRATION'S FIGURES APPEARED TO IMPLY AN UNREALISTIC INCREASE IN VELOCITY OF MONEY, BUT HE HIMSELF THOUGHT INFLATION WOULD COME DOWN FASTER. MOST OF THOSE WHO TALKED ABOUT A BETTER MONETARY AND FISCAL MIX WERE IMPLYING THAT THE TAX CUT SHOULD BE DEFERRED, AND THERE WAS NO CHANCE OF THE PRESIDENT AGREEING TO THIS. ON THE SUPPLY SIDE BENEFITS, HE SAID THERE WAS LITTLE PREVIOUS EVIDENCE BECAUSE ONLY ONE REAL ATTEMPT HAD BEEN MADE TO REDUCE THE TAX BURDEN SINCE THE GREAT DEPRESSION. ON THAT OCCASION THE TAX CUT HAD BEEN SOLD ON DEMAND MANAGEMENT RATHER THAN SUPPLY SIDE ARGUMENTS, BUT SAVINGS HAD CLEARLY INCREASED. THE SAVINGS WOULD HOWEVER NOT COME INSTANTANEOUSLY, AND HE ACCEPTED THAT IN THE MEANWHILE THERE WOULD BE SOME CROWDING OUT.

7. ON PUBLIC EXPENDITURE, HE SAID THAT HE WAS CONFIDENT THAT THEY WOULD KEEP WITHIN THE PLANNED LEVELS, ALTHOUGH OF COURSE THERE COULD BE NO ABSOLUTE CERTAINTY. ON DEFENCE, HE POINTED TO WEINBERGER'S PREVIOUS REPUTATION AS QUOTE CAP THE KNIFE UNQUOTE, AND THERE WAS A FURTHER GROUP WATCHING WEINBERGER. ON TRANSFER

PAYMENTS, THEY HAD MADE A FAUX PAS IN THEIR ORIGINAL SOCIAL SECURITY PROPOSALS, BUT WOULD TRY AGAIN. GETTING DOWN INFLATION WOULD ITSELF HELP TO CURB THE GROWTH OF SUCH PAYMENTS. THEY WOULD GET FEDERAL SPENDING AS A PERCENT OF GNP DOWN FROM THE PRESENT LEVEL OF 23 PER CENT, AND IT MIGHT BE THAT THE TARGET OF 19 PER CENT WAS STILL NOT LOW ENOUGH.

8. ON EXCHANGE MARKET INTERVENTION POLICY, HE SAID AN INTER-AGENCY STUDY OF PAST INTERVENTION HAD SHOWN THAT IT HAD NOT ACHIEVED THE INTENDED RESULTS. THERE WAS NO PURPOSE IN TILTING AT WINDMILLS. THE U.S. WOULD PREFER STABLE EXCHANGE RATES, BUT THE ONLY EFFECTIVE WAY OF ACHIEVING THIS WAS TO HAVE LOW AND STABLE INFLATION RATES IN ALL THE MAJOR COUNTRIES. THIS REQUIRED COOPERATION TO GET INFLATION DOWN WORLD-WISE, NOT JUST IN THE UNITED STATES.

9. THE NEW GOLD COMMISSION WOULD GIVE A SERIOUS INVESTIGATION TO THE ROLE OF GOLD. ALL OPINIONS WERE REPRESENTED ON IT, AND THERE WOULD PROBABLY NOT BE A UNANIMOUS REPORT, BUT HE HOPED A MAJORITY WOULD POINT TO WAYS IN WHICH DISCIPLINES COULD BE IMPROVED. IT WOULD EXAMINE WHETHER A GOLD STANDARD WOULD MAKE SENSE TODAY, AND IF NOT, IN WHAT CIRCUMSTANCES IT MIGHT DO SO. THE U.S. WOULD NOT SUDDENLY IMPOSE A GOLD STANDARD OUT OF THE BLUE, BUT THEY NEEDED TO LOOK SERIOUSLY AT IT. (THE GENERAL TONE OF THESE REMARKS WAS DIFFERENT FROM THAT OF MCNAMAR IN A RECENT TALK TO EC EMBASSY REPRESENTATIVES: SEE WALSH'S NOTE ALREADY COPIED TO THE ADVANCE ADDRESSEES BELOW.)

10. GENERALLY, SPRINKEL CONCLUDED THAT THE U.S. LIKED THE CONCLUSIONS OF THE IMF STAFF REPORT, AND THEY WOULD STICK WITH THEIR ANTI-INFLATIONARY EFFORTS, EVEN IF THERE WERE SHORT-RUN COSTS IN OUTPUT AND EMPLOYMENT. WHILE THEY DID NOT WELCOME THESE COSTS, THE ALTERNATIVES WERE WORSE. HE COULD UNDERSTAND THE STAFF'S GROWTH FORECAST, ALTHOUGH HE HIMSELF THOUGHT THE RESULT MIGHT NOT BE TOO FAR OFF THE ADMINISTRATION'S NUMBERS. THE BUSINESS AND PERSONAL TAX CUTS WOULD WORK TO STIMULATE OUTPUT FAIRLY SOON, BUT NOT IN THE NEXT FEW MONTHS. HE WOULD NOT BE SURPRISED BY A NEGATIVE 3RD QUARTER, OR EVEN 4TH QUARTER, THIS YEAR. HE AGREED THAT MONETARY POLICY SHOULD ERR TOWARDS THE LOWER END OF THE BAND, AND THE FED HAD AGREED TO DO THAT.

11. FCO PLEASE ADVANCE TO BOTTRILL (TREASURY), HAYWARD (BANK OF ENGLAND) AND BAYNE (ERD).

ANSON
MONETARY
ERD
NAD

[ADVANCED AS REQUESTED]

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STATEMENT

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THE OTTAWA ECONOMIC SUMMIT CONFERENCE

With permission, Mr. Speaker, I will make a statement about the Ottawa Economic Summit Conference held on 20 and 21 July, which I attended with my Noble Friend the Foreign and Commonwealth Secretary and my Rt. Hon. Friend the Chancellor of the Exchequer.

A declaration was issued on 21 July at the end of the conference. A statement on political questions, including the Middle East, East/West relations and Afghanistan, was made to the press by the Prime Minister of Canada on the evening of 20 July. A statement was released on hijacking and terrorism. Copies of all three documents have been placed in the Library of the House.

Five of the eight participants were attending an Economic Summit Conference for the first time. It thus provided a particularly useful opportunity for an exchange of views on a wide range of issues. Unlike the two preceding conferences, this meeting was not dominated by a single subject. The participants were able therefore to cover many of the major problems, political as well as economic, facing the Western World.

/The World Economy

The World Economy

The primary challenge we addressed in our discussions was the need to revitalise the economies of the industrial democracies, to meet the needs of our own people and strengthen world prosperity. We agreed that there was a prospect of moderate economic growth in the coming year, but that at present it promised little early relief from unemployment. We noted that interest rates had reached record levels in many countries and, if long sustained at these levels, would threaten productive investment. President Reagan stressed that the programme of public spending reductions at present before Congress could be expected to reduce interest rates in the United States once it took effect.

The Heads of State and of Government all agreed, in the words of the Declaration, that "The fight to bring down inflation and reduce unemployment must be our highest priority and that these linked problems must be tackled at the same time. We must continue to reduce inflation if we are to secure the higher investment and sustainable growth on which the durable recovery of employment depends. The balanced use of a range of policy instruments is required. We must involve our peoples in a greater appreciation of the need for change: change in expectations about growth and earnings, change in management and labour relations and practices, change in the pattern of industry, change in the direction and scale of investment, and change in energy use and supply."

/We recognised

We recognised the need in most countries urgently to reduce public borrowing; where our circumstances permit or we are able to make changes within the limits of our budgets, we will increase support for productive investment and innovation. All accepted the role of the market in their economies. We agreed not to let transitional measures that may be needed to ease change become permanent forms of protection or subsidy. We saw low and stable monetary growth as essential to reducing inflation.

Relations with Developing Countries

We also discussed relations with developing countries. Three points were made:-

- First, we share with the developing countries many of the problems of the world economy: the need to develop energy resources, to encourage investment, to fight inflation and unemployment and to expand trade.
- Second, we welcome discussion with developing countries in whatever ways or groups may be useful. We all agreed to participate in preparations for a process of global negotiations provided we saw the possibility of real progress.
- Third, we need to direct the major portion of our aid to the poorer countries. The United Kingdom already does so.

Trade

On trade, we reaffirmed our commitment to an open multilateral trade system and our determination to resist protectionist pressures. We endorsed the proposal for a

/ Ministerial

Ministerial meeting of the GATT next year. We agreed to keep under close review the role played by the industrialised countries in the smooth functioning of the world trading system. This will provide us with the opportunity to pursue the particular problems that arise, for the North American as well as for the European countries, in trade with Japan.

Political Issues

As to political issues, we met in the shadow of the further outbreak of fierce fighting in the Middle East, where once again the unfortunate people of the Lebanon are bearing the brunt of a conflict that is not of their seeking. Whatever any of us may have thought about the causes, we were all agreed on the need for an urgent ceasefire in the Lebanon; for an end to the loss of innocent civilian life there; and above all, for a solution to the conflict between Arab and Israeli from which the violence flows. We shall continue to use all our influence, both our own and as holders of the Presidency of the European Community, to these ends.

Finally, Mr. Speaker, we discussed relations between East and West and the concern that we all felt about the Soviet military threat to Western interests. We were much heartened by the strength of common purpose that was apparent. Without exception, we agreed - and agreed with real determination - on the need to maintain a strong defence capability and to insist on the need for military balance. Hand in hand with that went our readiness to negotiate arms control agreements that would ensure genuine security at a lower level of weapons and a smaller expenditure of resources.

/So, Mr. Speaker,

So, Mr. Speaker, in our discussion we linked the two elements necessary to the preservation of the free world and of the free market economy which sustains it: on the one hand defence and the maintenance of peace, on the other the health and soundness of the world economy. Altogether it was a most important and worthwhile meeting.

MR WHITMORE
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10 DOWNING STREET

PRIME MINISTER

Economic Summit: Statement

I attach a draft statement prepared by Robert Armstrong which I have somewhat amended. The FCO and the Treasury are content. We will submit supplementaries tomorrow.

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22 July 1981

cc Mr. Whitmore
Mr. Pattison

DRAFT STATEMENT

With permission, Mr. Speaker, I will make a statement about the Ottawa Economic Summit Conference held on 20 and 21 July, which I attended with my ~~Rt. Hon. and~~ Noble Friend the Foreign and Commonwealth Secretary and my Rt. Hon. Friend the Chancellor of the Exchequer.

The Presidents of the French Republic and of the United States were there, the Chancellor of the Federal Republic of Germany, and the Prime Ministers of Canada, Italy and Japan. All were accompanied by their Foreign and Finance Ministers. The President of the European Commission was also present.

A full communique was issued at the end of the conference on Tuesday 21 July. A statement on political issues was made to the press by the Prime Minister of Canada on the evening of 20 July. A statement on hijacking and terrorism was issued. Copies of all these documents have been placed in the Library of the House.

Five of the eight participants were attending an Economic Summit conference for the first time. It thus provided a most useful opportunity for ^{us all} ~~the leaders~~ to ~~become better acquainted with each other,~~ and to exchange views on a wide range of issues. [The excellent hospitality and organisation provided by the Canadian Government and in particular the fact that all the participants could be housed under one roof made both for informality and for directness / in our proceedings.

~~in our proceedings.~~ ^{Amended} The conference was not dominated, ~~as~~ the ^{Conference, was one with no dominant} last two had been, ~~by~~ a single subject. We were able therefore to have a ~~balanced and workmanlike~~ ^{full} discussion ~~comprehending~~ ^{covering on} many of the major problems, political as well as economic, facing the Western world.

We were meeting in the trough of the recession which followed the oil price ~~shock~~ ^{increases} of 1979-80. We were ~~concerned~~ ^{specifically} with the problems of inflation and unemployment, ~~by~~ ^{which} ~~all~~ ^{of our countries} ~~are to a greater or less degree affected.~~ ^{San Japan}

We were agreed that the fight against these two evils remained our highest priority. We recalled and reaffirmed the conclusion of the London Summit Conference in 1977, that inflation does not cure unemployment; on the contrary it is one of its major causes. We agreed that we must continue the fight to reduce inflation if we were to secure the higher investment and sustainable growth on which the durable recovery of employment depends.

Concern was expressed about the effects on European and other economies and on exchange rates of the high and volatile levels of United States interest rates. But we all welcomed the determination of the United States Administration to reduce inflation. President Reagan assured us that a high level of interest rates was not an object of policy for him. On the contrary, he had inherited those high levels; they damaged his industries and small businesses as they damaged other people's. He made it clear that he would welcome the

/ reduction of

reduction of interest rates which could be expected to follow the reduction of his budget deficit once the large programme of public expenditure reductions, which had been put to the Congress for enactment, came into effect.

We discussed relations with developing countries. Three points were evident.

- The first is that we share with the developing countries many of the problems of the world economy: the need to develop energy resources, to encourage investment, to fight inflation and unemployment and to expand trade.
- The second is that we welcome discussion with developing countries in whatever ways or groups may be useful. We all agreed to participate in preparations for a process of global negotiations with the developing countries, on condition that we saw the possibility of real progress.
- The third point was the particular needs of the poorer countries. We agreed to direct the major portion of our aid to those countries. On that the United Kingdom already has a particularly good record.

On trade, we reaffirmed our commitment to the open multilateral trade system and our determination to resist protectionist pressures. We endorsed the proposal for a

Ministerial meeting of the GATT next year. We agreed to keep under close review the role played by the industrialised countries in the smooth functioning of the multilateral trading system. This will provide us with the opportunity to pursue the particular problems that arise, for the North American as well as for the European countries, in trade with Japan.

On energy, we noted that we were for the most part on course with the programme of energy savings and diversification agreed at the Venice Summit, though progress had been disappointingly slow in the fields of nuclear energy and coal.

As to political issues, we met in the shadow of the further outbreak of fierce fighting in the Middle East, where once again the unfortunate people of the Lebanon are bearing the brunt of a conflict that is not of their seeking. Whatever any of us may think about the causes, we were all agreed on the need for an urgent cease-fire in the Lebanon; for an end to the loss of innocent civilian life there; and above all, for a solution to the conflict between Arab and Israeli from which the violence flows. We shall continue to use all our influence, both our own and as President of the European Community, to these ends.

Finally, Mr. Speaker, we discussed relations between East and West and the concern that we all felt about the Soviet military threat to Western interests. I was much

/ heartened by the

heartened by the strength of common purpose that was apparent. Without exception, we agreed - and agreed with real determination - on the need to maintain a strong defence capability and to insist on the need for military balance. Hand in hand with that went our readiness to negotiate arms control agreements that would ensure genuine security at a lower level of weapons and a smaller expenditure of resources.

So, Mr. Speaker, in our discussions we linked the two elements necessary to the preservation of the free world and of the free market economy which sustains it: on the one hand defence and the maintenance of peace, on the other the health and soundness of the world economy. It was altogether an important and worthwhile meeting. [Its success encouraged us to accept President Mitterrand's invitation to attend a similar/^{Summit}conference in France in a year's time, and thus to embark upon a second cycle of Economic Summits.]

REFERENCES

- Declaration of the Ottawa Summit
- Chairman's Summary of Political Issues
- Ottawa Summit Statement on Terrorism
- Communiqué of Five Foreign Ministers on Namibia

NOTES FOR SUPPLEMENTARIES

NEXT SUMMIT

President Mitterrand has kindly agreed to host the next economic summit. It is likely to be held next summer.



RELATIONS WITH DEVELOPING COUNTRIES

DIFFICULTIES OF LDCs AND SMALLER OECD COUNTRIES IGNORED?

Not so. Concerned that they face severe balance of payments deficits. Have confidence in ability of banking sector to continue to play its part in financing them successfully. IMF/IBRD helping through expanded lending and sensible evolution. Tight balance between financing and adjustment necessary. In the communiqué we committed ourselves to maintaining a substantial level of official development assistance and to direct the major portion of our aid to the poorer countries.

DOES THE OTTAWA COMMUNIQUE MEAN A REVERSAL OF POLICY ON THE VOLUME OF BRITISH AID?

No. Britain remains committed to maintaining a substantial aid programme, but it was clear that the reference to 'growing levels of official development assistance' did not refer to all the Summit countries. The Communiqué also refers to the need to direct the major portion of aid to poorer countries, and Britain is already ahead of the field in this. The Communiqué also rightly refers to the importance of private capital flows, to the strengthening of our own economies and to increasing access to our markets.

WHAT ABOUT THE REFERENCES TO FOOD PRODUCTION AND POPULATION GROWTH?

We have always regarded these as particularly important matters for the development countries, and we intend to continue to play an important part in assisting them in these fields.



MEXICO SUMMIT

WAS THE MEXICO SUMMIT DISCUSSED AT OTTAWA?

Relations with developing countries were discussed at Ottawa. Participants looked forward to constructive and substantive discussion with the developing countries and took the view that the forthcoming Summit meeting at Cancun offers an early opportunity to address anew problems of mutual concern. A reference to this effect appears in the Declaration.

UK ATTITUDE TO MEXICO SUMMIT

We welcome the proposed Summit. Believe meeting of this kind could make a valuable contribution to efforts to tackle the problems of developing countries. I will be going to Mexico in a constructive spirit and will be looking to make progress wherever possible.

UK EXPECTATIONS OF MEXICO SUMMIT

Important not to exaggerate what a two-day Summit can achieve. A meeting of minds would be an important step forward. Summit more important as forum for discussion of ideas than as vehicle for solving international economic problems.

FORMAT OF MEXICO SUMMIT

Not yet decided. We hope that it will be informal allowing spontaneous and personal exchanges of view. Vital to avoid atmosphere of bloc to bloc confrontation or succession of set speech. Summit should be free-standing to allow Heads of Government to express their views without constraint.

PREPARATORY MEETING

Agenda will not be finalised until after preparatory meeting on 1-2 August which my Rt Hon and Noble Friend will attend. Discussion expected to cover: food and agriculture, trade and industrialisation, finance and monetary questions and energy matters. Believe these broad areas provide useful framework. Would prefer not to add further themes,



PRESENT LIST OF PARTICIPANTS

Sensible and workable. We would not see advantage in adding to or amending list. But invitations are a matter for the Austrian and Mexican Governments.

WILL THE MEXICO SUMMIT BE THE FIRST OF A SERIES?

Difficult to say at this stage. The feelings of Heads of Government at the end of the meeting should be the best guide to this.

UK INITIATIVE AT MEXICO?

Too early to say. We shall be giving careful consideration to the many issues involved and we are reviewing the areas where progress may be possible.

EC REPRESENTATION

The European Community will not be formally represented as invitations are on a personal basis. However since the UK will be holding Presidency we shall of course be willing to take account of any views expressed by Community partners.

WILL THE MEXICO SUMMIT BE DISCUSSED AT CHOGM?

The problems of the world economy and particularly those facing developing countries will certainly be discussed at the Commonwealth Heads of Government Meeting (30 September - 7 October). The Commonwealth provides a unique forum for informal discussion of important and wide-ranging issues of this kind.



GLOBAL NEGOTIATIONS

EC CALL FOR NEW IMPETUS TOWARDS GLOBAL NEGOTIATIONS

The European Council at their meeting on 29/30 June concluded that the preparations for the new round of Global Negotiations should be completed as soon as possible. It emphasised the importance of a positive impetus to be given by the Ottawa and Mexico Summits.

DISCUSSION OF GLOBAL NEGOTIATIONS AT OTTAWA

The Declaration of the Ottawa Summit reaffirmed the willingness of participants 'to explore all avenues of consultation and co-operation with developing countries in whatever forum may be appropriate' and that they stood ready 'to participate for a mutually acceptable process of Global Negotiations in circumstances offering the prospect of meaningful progress'.



WORLD BANK: ENERGY PROGRAMME AND PROPOSED ENERGY AFFILIATE

We support increased lending for energy development in the LDCs by the World Bank and the Regional Development Banks in such a way as to also harness increased OPEC and private sector financing. The proposed World Bank energy affiliate is only one possible approach: there are others (for instance changing the Bank's gearing ratio). In the Ottawa communiqué we have underlined our readiness to explore, with OPEC members, all possible mechanisms which would take due account of the importance of their financial contributions, and we now look to them for a reaction. We have already taken part in informal discussions on a possible affiliate. But other methods must be explored too, if only because such a new institution would inevitably take much time to set up.

REFERENCES

NOTES FOR SUPPLEMENTARIES

OTTAWA SUMMIT : EAST-WEST RELATIONS AND POLAND

WHAT VIEWS WERE EXPRESSED AT THE SUMMIT ON EAST/WEST RELATIONS?

We were unanimous in believing that the West must remain strong and united in dealing with the Soviet Union. We agreed that while we wished to see an improvement in the East/West climate, this would only be possible if the Russians acted with restraint in the international arena. We also agreed that the only basis for successful East/West negotiations was Soviet acceptance of the principle of strict reciprocity.

WAS POLAND DISCUSSED?

There was some discussion of Poland. We had all followed the Extraordinary Polish Party Congress with great interest. We were encouraged by the statements expressing determination to overcome their difficulties and were all agreed that the Poles must be allowed to resolve their political and economic problems without outside interference of any kind.



ENERGY

HOW DOES HMG INTEND TO DEAL WITH SHORT-TERM OIL MARKET PROBLEMS

Discussions are under way within both the IEA and EC, with the international oil companies on this subject. The objective is to agree on ways to ensure that a temporary interruption of oil supplies would not have a disproportionate effect on prices, with all that implies for inflation and economies in importing countries.

[If pressed] It is premature to forecast the outcome. These discussions have recently begun.

HOW WILL THE UK IMPLEMENT ITS COMMITMENTS ON ENERGY AT OTTAWA

These commitments are not new. Ottawa provided an opportunity to review progress in the 10-year programme begun at Venice. Much has been achieved in a short period to reduce our oil dependency. But the important issue is to avoid complacency in a period of relative oil surplus. We shall continue to work within the IEA and EC to achieve the restructuring of our energy economies to which the Summit countries recommitted themselves at Ottawa.

WHAT DISCUSSIONS WITH OPEC DOES HMG FORESEE

We believe that continued bilateral contacts with the OPEC countries are at present the best means of furthering mutual understanding.

ECONOMIC POLICY

OUTLOOK FOR WORLD ECONOMY GRIM?

Not so. Slow but positive growth expected next year. And further modest decline in inflation.

POLICIES HAVE FAILED OR WORSENERD SITUATION?

No. Adjustment to second oil shock better than to first. In general growth has fallen less, the impact on wages has been better contained and dependence on oil reduced.

DISPUTE OVER POLICY PRIORITIES - INFLATION v UNEMPLOYMENT?

No conflict between reducing inflation and increasing employment. All leaders agreed that inflation must be brought down before a lasting reduction in unemployment can be achieved.

Communiqué:

' We must continue to reduce inflation if we are to secure the higher investment and sustainable growth on which the durable recovery of employment depends'.

RELAXATION OF MONETARY POLICY NEEDED?

No. Communiqué:

'We see low and stable monetary growth as essential to reducing inflation'.

NEED REFLATIONARY FISCAL POLICIES?

No. As Summit leaders said in Communiqué:

' We need in most countries urgently to reduce public borrowing'



DISPUTE OVER HIGH INTEREST RATES?

Summit leaders agreed that interest rates have to play their part in achieving low and stable monetary growth which is essential if inflation is to be reduced. As inflation comes down, interest rates too should fall.

PROBLEM OF VOLATILE INTEREST RATES?

Summit leaders recognised that 'It is ... highly desirable to minimise volatility of interest rates and exchange rates'.



Summit Statement on Terrorism

I found it very encouraging that we could all agree on a statement that commits us to action and not just words. The civil aviation sanctions we propose to take if Afghanistan continues to ignore its obligations show how seriously we view any support for hijackers.

Nature of Sanctions Against Afghanistan

No British airline serves Kabul. Action to suspend flights to and from Afghanistan will therefore affect only the Afghan airline which flies to London as well as other European cities. We are in touch with our Summit partners about the necessary procedures so that we can act together.

Action Against Other Countries that have Failed to Prosecute Hijackers

We have called on all countries to honour their obligations. Afghanistan's behaviour while the hijacked Pakistani 'plane was in Kabul last March was however particularly blatant and they have since compounded the offence by giving refuge to the hijackers.

REFERENCES

OTTAWA SUMMIT; PRIME MINISTER'S STATEMENT

NOTES FOR SUPPLEMENTARIES

EUROPEAN COUNCIL'S PROPOSALS ON AFGHANISTAN

SOVIET REACTION

1. When Lord Carrington visited Moscow on 6 July to discuss the initiative, Mr Gromyko took the view that the proposal was 'unrealistic'. The proposals have already received widespread international support as offering a reasonable way to a peaceful solution. They remain on the table.

FOR DEFENSIVE USE ONLY

[2. I confirm that a Soviet aide-memoire was received yesterday. We are in touch with our European partners about its contents. It is negative in tone but adds nothing of substance to the arguments used by the Soviet side during Lord Carrington's visit to Moscow. The European proposal remains on the table.]



SOVIET OBJECTIONS

3. They are thoroughly unconvincing. They insist on the presence from the start of the Babrak Karmal régime which most of the world has condemned as a régime installed by force. Very few countries have substantive relations with it. The Soviet Union wants external intervention in Afghanistan to cease, but appears to exclude from that the massive intervention of Soviet forces which is the root of the whole problem.

4. The Soviet Union has said it is willing to participate in discussions of the international aspects of the Afghanistan situation. Mr Gromyko did not explain in what way the European proposal fails to provide for such a discussion. In our view it clearly does.

WHY GO ON WITH A DIALOGUE?

5. Lord Carrington made it clear that as far as we were concerned any future dialogue would be about Afghanistan. Unless progress is made on this subject, the prospects of improved East/West relations are poor.



REVISED PROPOSAL?

6. The proposals are not immutable and we would consider (together with our partners in the Ten) any constructive suggestions. But the fundamental principles have to be maintained. This is a reasonable proposal which could bring about a political solution acceptable to all parties. What is needed is that the Soviet Union should revise its position which is unacceptable to the broad international community, as UN resolutions and other statements of view have shown.

WAY FORWARD

7. I hope there will be a change of heart in Moscow after a period of reflection. We are encouraged by the support which is building up in the international community for our ideas. The proposal remains on the table and will be a natural talking point in the months ahead.



ESSENTIAL FACTS

SOVIET AIDE MEMOIRE (NOT FOR USE)

1. On Wednesday 22 July the Soviet Embassy delivered an aide-memoire which describes the European Council's proposals as 'unacceptable', but otherwise adds nothing to the arguments put forward by Mr Gromyko on 6 July.

2. We are consulting our partners in the Ten about the content of the message, and it is not proposed to make any announcement about the aide-memoire until mid-day on Friday 24 July. It would be better to make no mention of it in the debate on the Ottawa Summit. But the Prime Minister may need to draw on the defensive point to make if news of the aide-memoire is leaked before this afternoon.



CAMBODIA CONFERENCE

As Mr Trudeau said in his summary of political issues, all those present welcomed and supported the Declaration adopted on 17 July by the International Conference on Cambodia.

REFERENCES

NOTES FOR SUPPLEMENTARIES

OTTAWA SUMMIT

REFUGEES

FINANCIAL ASSISTANCE TO REFUGEES

1. The United Kingdom is concerned at the scale of the refugee problem. The Summit participants share our concern. We and most other Western nations have responded substantially to appeals for financial help. But there is need for support from those countries which have not hitherto been major donors. [Soviet bloc, OPEC].



MEASURES TO PREVENT NEW FLOWS OF REFUGEES

2. The United Kingdom co-sponsored Resolution 35/124 at the 1980 UN General Assembly, which strongly condemned those countries whose oppressive regimes and foreign occupation have been responsible for massive refugee flows. The Resolution called upon the Secretary-General to invite comments and suggestions from Member States on international cooperation to avert new flows of refugees.

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BACKGROUND

FINANCIAL ASSISTANCE

1. A few traditional donors (among them the UK) provide the bulk of intergovernmental voluntary assistance to refugees. Our main channel of support is via the international agencies, but we also contribute towards the cost of the activities of voluntary agencies.
2. In 1980 we provided a total of about £36m. to refugees. This was made up of £6.9m to the EC (approximately 1/5th of their total contributions), £5m. to the UNHCR general budget and a further £1,825,000 to their special appeals, £4.5m to UNWRA and £375,000 to the ICRC's Africa appeals 5 and 6. In addition we provided £1m. to UNICEF/ICRC for Cambodia, £200,000 to the World Food Programme for affected Thias on the Cambodian border, £552,000 to Euro-Action Accord for Sudan, £160,000 to the Save the Children Fund for Sudan and £500,000 to the Disaster Emergency Committee for Uganda.
3. In 1981 we have pledged £5.4m (£1m. as food aid) to UNHCR's General Programme Budget, with further pledges totalling £3m tied to Afghan refugees in Pakistan and special relief to refugees in Somalia, Sudan and other distressed areas in Africa. We have also pledged a further £5m. to UNWRA and £750,000 to ICRC involvements in Africa. We are providing £100,000 to the ICRC El Salvador appeal.

MEASURES TO AVERT NEW FLOWS OF REFUGEES

4. The 1980 UN General Assembly adopted an FRG resolution



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condemning the creation of refugees and calling on Member States to cooperate to avert new flows. The Germans have subsequently proposed a new permanent UN body to monitor potential refugee situations and an ad hoc Committee to draft a set of principles designed to prevent new flows. We (and other EC partners) have reservations about the setting up of new UN machinery (which would cross wires with other bodies and probably be stultified by political disputes) but are willing to cooperate in drafting a declaration of principles. Meanwhile the Human Rights Commission has on Canadian initiative appointed Prince Sadruddin Aga Khan to study the question of 'mass exoduses'.

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CSCE: MADRID REVIEW MEETING

WHAT HAS BEEN ACHIEVED?

1. One of our major objectives at the Madrid conference was to conduct a frank and thorough exchange of views on the way participating States had implemented the provisions of the Helsinki Final Act in the period since the Belgrade Review Meeting. This Review took place in the 6 week period before the Christmas 1980 recess, and enabled the British, as well as Western, neutral, and non-aligned delegations, to draw attention to serious violations of Final Act provisions relating to human rights, as well as the Soviet invasion of Afghanistan. Since then, in the course of negotiations on a final document, provisional agreement has been registered in the areas of human contacts, family re-unification, information and economic exchanges which represents an advance upon the corresponding commitments in the Helsinki Final Act.

WHAT ARE THE OUTSTANDING ISSUES?

2. There is no agreement yet on questions of human rights and military security. The key outstanding problem is the geographical zone of application of Confidence Building Measures. Once this has been resolved, I would expect rapid agreement to be reached on the other points.

WHAT ARE THE CHANCES OF SUCCESS?

3. Our objective remains agreement upon a substantial and balanced final document which will lead to improvements in the implementation of the Helsinki Final Act. We will seek to achieve this as rapidly as possible. We are not committed to an open-ended resumption of talks.



BACKGROUND

CSCE STATE OF PLAY

1. Provisional agreement has been reached on a number of texts in Baskets II and III. These texts represent advances upon similar commitments entered into at the time of signature of the Helsinki Final Act. In particular, the agreed language on family reunification and visa procedures represents a gain for Western negotiators.

2. The key outstanding issue remains the geographical zone of application in the French CDE mandate. The Russians have virtually accepted all of the other elements in the French text but have continued to block progress in the negotiations on language regarding the view of implementation, human rights and agreement to a further CSCE Review Meeting post-Madrid until this outstanding issue is resolved.

3. In an attempt to break through this deadlock and provide the Russians with an acceptable face-saving formula, NATO delegations proposed a formula on the geographical zone but this was rejected by the Russians, who responded with an unacceptable, obscure text of their own.

4. Since it did not appear that agreement could be reached on the issue by the end of July, delegations in Madrid have asked capitals for authority to recess the meeting from 28 July to 27 October.

OTTAWA SUMMIT: STATEMENT

SUPPLEMENTARIES

Middle East

Deeply concerned at the recent violence and resulting loss of life and destruction. Deplore attacks on areas where civilians are bound to be hit and retaliatory action which escalates the violence. HMG have expressed their concern to all the governments involved; and, in particular, acting both bilaterally and on behalf of the Ten have made a demarche to the Israelis urging restraint.

Namibia

Communique issued by the Foreign Ministers of the Five on 21 July. Copy in the Library of the House. Senior officials will meet in Paris next week to formulate proposals to carry forward the settlement process. There remains an urgent need to bring about the Independence of Namibia in accordance with Security Council Resolution 435 - though this may need to be complemented and strengthened.

East/West Trade

The Heads of Government agreed that it was important to have a consistent approach to East/West trade reflecting our political and security interests. Trade with the East should generally be on the basis of mutual advantage, but some areas such as strategic exports need very careful controls. Those controls are exercised through COCOM whose procedures are subject to regular review. We have agreed to participate in consultations in how the operation of COCOM could be improved.

Trade: Japan

The participants in the Summit have agreed to join together in keeping under close review a number of difficult and sensitive issues in the trade field, including those relating to trade with Japan. Mr. Tanaka's statement of 14 July, recognising the need for Japan to expand imports of manufactured goods, is a welcome step in the right direction. We look to see a real increase in those imports. As regards UK imports from Japan, informal inter-industry arrangements cover about one-quarter of them. We support such arrangements as a mutually acceptable means of containing pressures in problem sectors.

Relations with Developing Countries

Britain remains committed to maintaining a substantial aid programme, directed, as the Communique recognised is necessary, to the poorer countries. The reference to "growing levels of official development assistance" does not refer to all the Summit countries. The Communique also emphasises, rightly, the importance of private capital flows, of strengthening our own economies and of increasing access to our markets.

Ref. A05297

MR ALEXANDER

I attach a draft of a statement for the Prime Minister to make in the House of Commons tomorrow on the Ottawa Summit conference.

2. I think that it is on the long side; but I hope it is on a basis from which deletions can be made as appropriate.

3. I am sending copies of the draft to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, and to Sir Michael Palliser and Sir Kenneth Couzens.

D. J. WRIGHT

R.P.

ROBERT ARMSTRONG

22 July 1981

With permission, Mr. Speaker, I will make a statement about the Ottawa Economic Summit Conference held on 20th and 21st July, which I attended with my Rt. Hon. and Noble Friend the Foreign and Commonwealth Secretary and my Rt. Hon. Friend the Chancellor of the Exchequer.

2. The Presidents of the French Republic and of the United States were there, the Chancellor of the Federal Republic of Germany, and the Prime Ministers of Canada, Italy and Japan, all accompanied by their Foreign and Finance Ministers. The President of the European Commission was also present.

3. For five of the eight participants this was their first such summit conference. It thus provided a very useful opportunity for this group of leaders to become better acquainted with each other, and to exchange views on a wide range of issues.

[The fact that the conference was held at the Chateau Montebello, where all the participants could be housed under one roof, and the excellent hospitality and organisation provided by the Canadian Government, made both for informality and for directness in our proceedings.] The fact that this conference was not dominated, as the last two had been, by a single subject, meant that we were able to have a balanced discussion comprehending all the major problems, political as well as economic, facing the Western world.

4. Following our political discussions a statement was made to the press by the Prime Minister of Canada on the evening of 20th July on political questions. We also put out a statement on hijacking and terrorism. A full communiqué was issued at the end of the conference on Tuesday 21st July. I will with permission circulate copies of all these documents in the Official Report/ I am placing copies of all these documents in the Library of the Housee.

5. As to the world economy, we were meeting in the trough of the recession which followed the oil price shock of 1979-80, and we were concerned with the problems of inflation and unemployment, by which all of our countries are to a greater or less degree affected.

6. We were all agreed that the fight against inflation and unemployment remained our highest priority. We recalled and reaffirmed the conclusion of the London Summit Conference in 1977, that inflation does not cure unemployment; on the contrary it is one of its major causes. We agreed that we must continue to reduce inflation if we were to secure the higher investment and sustainable growth on which the durable recovery of employment depends.

7. Some concern was expressed about the effects on European and other economies and exchange rates of the high and volatile levels of United States interest rates. But we all welcomed the determination of the United States Administration

to reduce inflation, and President Reagan assured us that a high level of interest rates was not an object of policy. On the contrary, he had inherited high levels of interest rates; they damaged his industries and small businesses as they damaged other people's; and he would welcome the reduction of interest rates which could be expected to follow the reduction of his budget deficit when the large programme of public expenditure reductions, which had been put to the Congress for enactment, came into effect.

8. We also discussed relations with developing countries. From that discussion I take three salient thoughts. The first is that we share many of the problems of the world economy with them: the need to develop energy resources, to encourage investment, to fight inflation and unemployment and to expand trade. The second is that we welcome discussion with developing countries in whatever ways or groups may be useful. It was a positive advance at this meeting that we all agreed to participate in preparations for a process of global negotiations with the developing countries, on condition that we saw the possibility of real progress. The third salient point was the particular needs of the poorer countries. We agreed to direct the major portion of our aid to the poorer countries. On that the United Kingdom has a particularly good record.

9. On trade, we reaffirmed our commitment to the open multilateral trade system and our determination to resist protectionist pressures. We endorsed the proposal for a Ministerial meeting of the GATT next year. We agreed to keep under close review the role played by the industrialised countries in the same avenue of the multilateral trading system. This will provide us with means for pursuing the particular problems that arise, for the North American as well as for the European countries in trade with Japan.

10. On energy, we noted that we were for the most part on course with a programme of energy savings and diversifications agreed at the Venice Summit, though progress had been disappointingly slow in the fields of nuclear energy and coal.

11. As to political issues, we met in the shadow of the further outbreak of fierce fighting in the Middle East, where once again the unfortunate people of the Lebanon are bearing the brunt of a conflict that is not of their seeking.

12. Whatever any of us may think about the causes, we were all agreed on the need for an urgent cease-fire in the Lebanon, for an end to the loss of innocent civilian life there and, above all, a solution to the conflict between Arab and Israeli from which the violence flows. We shall continue to use all our influence, both for ourselves and under the Presidency of the European Community for this purpose.

13. We also discussed at Ottawa relations between East and West and the concern that we all felt about the extent of the Soviet military threat to Western interests. I was much heartened by the strength of common purpose that I sensed in our discussions. Without exception, we all agreed - and agreed with real determination - on the need to maintain a strong defence capability and to insist on the need for military balance. Hand in hand with that went our readiness to negotiate arms control agreements that would ensure genuine security at a lower level and a smaller expenditure of resources.

14. So, Mr Speaker, in our discussions we linked the two aspects of the preservation of the free world and the free market economy which sustains it: defence and the maintenance of peace, and the health and soundness of the world economy. It was altogether a successful and valuable conference; and its value and success encouraged us to accept President Mitterrand's invitation to attend a similar Summit conference in France in a year's time, and thus to embark upon a second cycle of these Economic Summits.

PRIME MINISTER'S STATEMENT AT JOINT HEADS OF DELEGATION PRESS
CONFERENCE, OTTAWA, 21 JULY, 1981

Mr. Chairman. Can I join my colleagues in paying a very warm tribute to your ^{skilled} chairmanship and thorough preparations. I think the success of this Summit owes a great deal to those two things. I'd like also to say thank you to our Canadian hosts for the excellent arrangements they made both in Montebello and in Ottawa. This is my third Economic Summit. And over that period we've increasingly given time in our discussions the major political issues of the day such as Afghanistan and the Middle East as well as to the economic problems that face us. I think this development reflects reality because political issues and economic matters can't be isolated from one another and treated separately. They interact at every level - national and international - and I think this reality was recognised more at this Summit than at any other. And the result, I think, was a workmanlike, balanced discussion. It comprehended all of the major problems, whether economic or political, which face the Western world.

On the substantive issues, I'd like to confine my comments to four points: first the world economy. At the last two Summits in Tokyo and Venice our work was dominated by the impact of the second oil price shock on the world economy. We then considered the impact it would have and how we should react to it. This time, of course, we've met in the trough of the recession which that shock produced. But we've had to look at the whole range of economic questions. The twin evils of inflation and unemployment and the need to adapt our economies and attitudes in order to beat unemployment and of monetary disorders producing high interest rates and volatile exchange rates. We were agreed on the need to fight inflation as the precondition for defeating unemployment, as you have emphasised, Mr. Chairman, and on the need for a low monetary growth, on the need for containing public borrowing and for tight control of Government expenditure. We're all giving effect to these principles in our own policies, according to our own different circumstances.

Now, the second substantive issue on which I'd like to comment is developing countries. I think I'd take away three salient

thoughts from our discussions on relations with developing countries. The first is that we share many of the problems of the world economy with them: the need to develop energy resources, to encourage investment, to fight inflation and unemployment and to expand trade. All of these things we share with them. The second thing that we share is that we welcome discussion with them in whatever ways or groups are useful. And the third is we must pay particular regard to the needs of the poorer countries. We agreed to direct the major portion of our aid to the poorer countries and I would like to stress that the United Kingdom has a particularly good record on that. There will be a few comments about the Middle East. We have been meeting in the shadow of a further outbreak of ^{fierce} fighting in the Middle East. Once again, the unfortunate people of the Lebanon are bearing the brunt of a conflict that is not of their seeking. Now, whatever any of us many think about the causes, we all agree on the need for an urgent ceasefire in the Lebanon, ^{for} an end to the loss of ^{civilian} innocent life there and, above all, ^{for} a solution to the conflict ^{between} in Arabs and Israel from which this violence flows. In the United Kingdom we shall continue to use all our influence for this purpose. And the last issue on which I'd like to comment is East/West relations. We discussed this scene and the concern that we all feel about the extent of the Soviet military threat to our interest. Speaking for Britain, I've been heartened by the strength of common purpose that I've sensed in our discussions. We all agreed - and we agreed with real determination - on the need to maintain a strong defence capability and to insist on the need for military balance. Of course, that goes hand in hand with our readiness to negotiate arms control agreements which will ensure genuine security at a lower level of weaponry and resources.

So, Mr. Chairman, our discussions have linked the two aspects - the preservation of the free world and the free market economy which sustains it. Namely, defence and the maintenance of peace and the health and soundness of the world economy. Altogether, a very successful Summit on which you, Mr. Chairman, and Canada deserve our thanks and congratulations.

CHANCELLOR OF THE EXCHEQUER: TUESDAY, 21 JULY, 1981
Interview with CBS Morning News

Interviewer:

As Jim mentioned earlier in the broadcast, Prime Minister Trudeau said the sessions have not been all sweetness and light. Can you give us some sense of what the hotly contested issues have been so far in the Summit?

Chancellor:

Hot contest is not what Summits are about really. It's about people who exercise power in their countries and learning how to exercise that power in a way that helps each other - helps the world. Some issues are obviously more interesting than others in certain years. A couple of years ago oil was the key issue. This year, I suppose the familiar interest rate discussion has been the most important.

Interviewer:

And on that interest rate issue, has President Reagan been able to assure the rest of the countries here that the United States will do all it can to bring interest rates down or is there still anxiety on that score?

Chancellor:

I think that we all understand the position much more clearly than we did. Britain, after all, has been through much the same experience. We had very high interest rates for almost twelve months as part of the battle against inflation. We all understand that that's the key issue the United States is about. We all know the US wants to get interest rates down as soon as they can.

Interviewer:

What President Mitterrand, at least, has said, ^{is} that there could be social upheaval by the end of the year if something isn't done . . . Is it fair to say there is a consensus that the United States was

essentially given to the end of the year to change course a bit and bring interest rates down?

Chancellor:

You've got that a bit out of context, I think. What President Mitterrand was saying was that we had to keep our eye on unemployment as one of the things to treat if we were to avoid social stress in our countries. That's one of the key pieces of his election platform. We've all agreed that inflation really has got to be tackled ahead of unemployment - tackling both together, if you like. But Chancellor Schmidt reminded us what was said in the London Summit in 1977 when he said that inflation isn't the cure to unemployment but it's one of its major causes. We're all ^{firmly} agreed on that and that's why we're backing the US policy to get inflation down.

Interviewer:

Have there been any surprises at all for you in this Summit?

Chancellor:

I don't think so, no. I suppose one's always slightly surprised when people who don't know each other very well actually get on together rather well.

Interviewer:

How much has the Middle East been a distraction in these meetings?

Chancellor:

Not significantly. It's been discussed, of course, between Heads of State and Foreign Secretaries/^{but} insofar as this has been an economic summit we've been keeping our heads down discussing the economic issues centrally. Certainly, the Finance Ministers have spent all their time on that.

Interviewer:

Have you heard of the new British advice which has been given to the United States about the Middle East situation?

Chancellor:

No. I don't think that one would put it in terms of advice. We are deeply anxious about it. Obviously, anxious to get a solution to that long running problem out there.

Interviewer:

One of the issues, presumably in any Summit is, as you say, the ability of the leaders to get along. Give me your impression of President Reagan from this Summit?

Chancellor:

Immensely impressive. I had the privilege of meeting him about three years back before he came into presidential office and I was very impressed by him then. If it's not patronising of me to say, I think he has a great clarity of style, a great ability to concentrate on the relatives and to express the arguments very effectively.

Interviewer:

Does he have any weakness that you've perceived in this Summit?

Chancellor:

I've not perceived any, fortunately. If I had, I probably wouldn't tell you ...

INTERVIEW WITH THE PRIME MINISTER AT OTTAWA SUMMIT, 21 JULY, 1981

(Interviewer: John Timpson, BBC Radio 4 "Today" programme)

Interviewer:

Prime Minister, we've heard about the discussions on the high interest rates between the European countries and President Reagan. Can I ask where you stood in those discussions - on which side?

Prime Minister:

Well. The discussions did not take up that much of the time ...
..... Start again. Ask you question.

Interviewer:

Prime Minister, in the discussions on high interest rates in America, which side did you stand on - the side of the European countries or with President Reagan?

Prime Minister:

But, you see, the European countries weren't making any conditions that the United States reduced her interest rates. On the contrary, all of the European countries said the important thing is to fight inflation. That is the most important thing of all. And high interest rates may be a way of fighting inflation until President Reagan manages to get his programme through Congress. He was the first to say 'Look, I inherited high interest rates'. They were high under President Carter under his policies. You'll remember they were. They went up then to 20%. So it isn't his policy. He is saying 'Look, I want them down. And I am trying to get my programme of public spending through Congress and I'm making strenuous efforts to do it'. So he's doing, in a way, the things which are in the Communique. You must, if you want to get inflation down, keep tight control of monetary policies. You must keep down your public spending. You must try to keep down your public borrowing. He's doing everything he can to get them down. And I thought he made an extremely good point. He said 'Well, don't you realise that high interest rates are just as tough on my small businesses and my housing and construction industries and any industry which wants to invest as they are on yours!'. He said 'I'm the first to want them down and I'm

/doing

doing my level best to get them down. But I've only been there six months. Give me time!.

Interviewer:

Well, the Communique seems to indicate that there is equal precedence to dealing with unemployment as well as dealing with inflation. You have always maintained inflation comes first. If you get similar views from your colleagues ...

Prime Minister:

Every single person agreed that you must fight inflation if you're ever to get down unemployment. They've all made that perfectly clear - absolutely clear. But most of us said we must fight inflation but in the meantime we are trying to do something about unemployment. After all, in Great Britain we have very considerable programmes for relieving unemployment. We also have short time working compensation to try to help people who can't work full-time. We have apprenticeships and we have training schemes. All of these are to try to relieve unemployment. And particularly we put emphasis on youth unemployment.

Interviewer:

Do you see anyone altering their policies as a result of this Summit?

Prime Minister:

No. I don't think so. I think we've just had a very much greater understanding of what has to be done. We all recognise that, whereas two years ago we were meeting at the same time as OPEC and OPEC was putting up the oil prices, we are now in the trough of the recession caused by that sharp increase in oil prices and we really now have to find a way of coming out of it. But coming out of it in such a way that we get sound expansion. It's really like building a house. You have to build it on rock and not on sand. If you try temporarily to get more jobs

/by

by reflating, it would just be like building a house on sand. We should finish up with much bigger inflation and ultimately much higher unemployment. So there was a remarkable degree of unanimity on exactly how to tackle our current problems.

Interviewer:

Just one final thought on protectionism. The Communique makes it very clear that everyone is against protectionism. But was there any pressure put on the Japanese so far as their exports to Europe were concerned? What reaction did you get?

Prime Minister:

Oh, yes. We are all, as a principle, against protectionism. We all want open trading. After all, we in Great Britain export between 30 and 33% of our gross domestic product so we need an open trading system to get those exports. We say two things to the Japanese. First, your system has got to be as open as ours and it doesn't seem to us that it is. Secondly, we say that you do tend to concentrate your exports in particular sectors on particular industries with great harm and damage to those industries. Now, it's very tough if you do that, particularly in a world recession. We accept, therefore, that we simply must have quotas with them, as we have a quota on cars and that those must continue, otherwise the demand for protectionism will become enormous and we'd find it difficult to resist. And I think they accept that those voluntary quotas must continue.

INTERVIEW WITH THE PRIME MINISTER - OTTAWA SUMMIT, 21 JULY, 1981

Prime Minister:

(Interviewer: Andrew Manderstam,
IRN)

I think you make a mistake if you expect that Summits automatically start initiatives. They don't. They really are for greater understanding between Heads of Government, particularly at a time when we have four new Heads of Government present. President Reagan made a very, very valid point that his programmes are not yet through Congress and he inherited high interest rates. He's doing his level best to cut public spending as a means of trying to take down the deficit.

Interviewer:

I think it's generally recognised that the level of US interest rates has had a detrimental effect on the British economy. Doesn't that put you in a rather difficult position because President Reagan's philosophy is very similar to your own?

Prime Minister:

But President Reagan has not, indeed, yet got his programmes through Congress so he cannot be responsible for the high interest rates. Indeed, you'll remember that they were up 20% at times when President Carter was President. We all agreed at the Summit that each and every country must fight inflation. That is something which you must do both to get a sound economy and as a means of getting unemployment down. So we're totally agreed, you've got to fight inflation and the United States must, like every other country, fight it in its own way. President Reagan is trying to get his programme through Congress right now.

Interviewer:

Turning to the Middle East, you said you'd use all your influence to try and stop the fighting. What, in fact, can be done?

Prime Minister:

We try to use our influence, especially during a time when
/we're President

we're President of the Community, in every way to try to resolve the ultimate Arab/Israel dispute. And, indeed, at the moment what is happening on the Lebanon is very, very distressing indeed and costing the lives of innocent men, women and children. Lord Carrington is President of the Foreign Ministers of the Community and they meet from time to time. They will be meeting to decide how best to proceed on this very difficult issue. In the meantime, Mr. Habib from the United States is there doing his best to try to procure a ceasefire.

Interviewer:

You briefed President Reagan on the Northern Ireland situation. Do you envisage any change in US policy on Ulster?

Prime Minister:

It was only very short - a few sentences - because the matter was not raised with me. As you know, President Reagan and Mr. Haig both said that this is a matter for the United Kingdom and so we did not go into it in any detail.

Interviewer:

Finally, there is some doubt as to whether there's any real utility in these Western Economic Summits. What do you think has really stood out? What was really achieved on this the seventh of the Summits?

Prime Minister:

This was an extremely valuable one. First, it enabled four new leaders to meet with three others and we were all able to meet the new ones - all able to discuss together over a prolonged period our views on the world economy, our views on the major political issues of the day, our views on trying to take our relationship with the developing world further. It really was extremely valuable. We all thought it. I think we all moved closer together in our views. And that can only be good for the major democracies and their peoples.

INTERVIEW WITH THE PRIME MINISTER AT OTTAWA SUMMIT, 21 JULY, 1981

(Interviewer: Michael Brunson,
ITN)

Interviewer:

Prime Minister, I know you've always cautioned that we shouldn't expect major new developments from this sort of Summit meeting, but what would you point to as the one thing that this Summit has moved on from things that were discussed at the previous Summits? What would you see as the major advance this time?

Prime Minister:

Well, this time we were discussing something different. Remember, two years ago, we were at the beginning of the big oil price increases. Now, we're in the trough of the recession caused by those price increases and we had to agree really on how to get out of it. And there was a remarkable unanimity on what to do. And it's reflected in the Communique. We didn't need to argue about fighting inflation. We all accepted that we must fight inflation as a top priority if we're ever to get unemployment down. We also accepted that you can't just do nothing about unemployment because of the tragedies it causes. And each of us in our own way is trying to do something. We have very big programmes for youth and, of course, they will be enlarged to meet our guarantee. And every young person who hasn't got a job by Christmas will be offered some work experience. Different countries do different things. But we all accepted we must fight inflation and at the same time we must do something about unemployment but not by way of reflatting the economy.

Interviewer:

Did you find that you personally were out on a limb as it were economically here?

Prime Minister:

Not in any way. If you look at the Communique, it is absolutely in line with everything I've been saying. We must fight
/inflation

inflation. Absolutely top priority. You heard Pierre Trudeau say, as he summed up the whole conference in front of the whole of the world's press. We must also do something about employment. We must, indeed, contain public spending. Heaven knows, I've preached enough about that. Also we must keep a tight control of deficits, because if your deficit gets too big, then it's another way of having inflation. It's absolutely in line with everything I've been saying. Indeed, I think Chancellor Schmidt, to coin a phrase ^{with} which I fully and wholeheartedly agreed, he said his policies were middle of the road monetary policies. I said that's exactly what ^{is} ours. We're getting inflation down. We're getting productivity up. We're getting pay settlements down. And we have a very tough budget in order to try to keep interest rates down. That is middle of the road monetary policy.

Interviewer:

This was billed in advance as very much a Summit where, in addition to all the things we'd talked about already, there was an opportunity to get to know how other people's minds work. Can you give us, perhaps, a specific example of something that you would have learned about the other participants' position that you didn't know already?

Prime Minister:

I think one of the most interesting discussions we've had was about East/West relations and the President of France made it very clear that he would keep the full defence capability of France and that he totally and utterly believes with the rest of us that you must keep up your defence capability to deter any potential aggressor. We all said, at the same time, that we must in parallel try to get disarmament talks going. But there was absolute unanimity if the free world is to continue to have its freedom, it must have a major defence capacity. It is so different from everything which the Socialists in our country say. Absolutely different. Now, there again, we have this tremendous unanimity on East/West relations, on to need to defence ourselves, to deter any potential aggressor
/and

and in parallel to have talks about how to get down the amount of weaponry that we have. Absolute unanimity. It really was extremely interesting.

Interviewer:

So you found, in effect, that the President of France was not soft on the Russians. But you might have suspected that ...

Prime Minister:

Very far from it. And so far removed from our own Socialists! I do hope they can learn a few lessons from him.

Interviewer:

Prime Minister, you mentioned the fact in your statement and said it again in the press conference that political issues tend to be taking a greater share of the Summit. Do you think the time perhaps has now come to, as it were, drop the economic label and make the straightforward Summits to deal with whatever comes up?

Prime Minister:

I don't think labels matter very much. I think it's the goods in the shop that count. And, in fact, we don't confine ourselves to economic matters. You couldn't possibly. After all, the enormous oil price increase - the first one came with the Arab/Israeli war, the second one came under terrible circumstances with the fall of the Shah and Iran. These were political causes. They had economic effect. But they were political causes. So you can't separate the one from the other and we never do. But when it comes to helping the developing countries, that is both political and economic. So forget about the labels, we discuss what has to be discussed. And even though in full plenary session we might sometimes confine our discussion to economic matters, I think the most valuable parts of the conference are when we meet privately in smaller groups over dinner and over lunch. Over a much

/smaller

smaller table. And then you get much, much more intimate discussion. Don't forget that this time there were four new leaders out of seven and the way in which we all gelled together was remarkable and owed a great deal both to the whole atmosphere of the Summit which was engendered by Pierre Trudeau and the very careful and skilled preparation we had working up to it.

INTERVIEW WITH THE PRIME MINISTER AT OTTAWA SUMMIT, 21 JULY, 1981

(Interviewer: Martin Bell,
BBC TV)

Interviewer:

.....discussion of these economic subjects

which is not acclaimed as a success by those taking part. How successful was this Summit?

Prime Minister:

I thought that it was the most workmanlike Summit that I've ever taken part in. We had a marvellous Chairman. A very good Chairman - Pierre Trudeau. Also a great deal of preparation went into it. He came round to see us beforehand and there were meetings of personal representatives. And altogether it was very workmanlike. We got through a great deal of business. We had, I thought, a good Communique and we had, I think, a broader measure of understanding on a wider range of subjects than I've ever experienced before. I thought of the three, it was by far the best I've attended - in Tokyo, Venice and this one.

Interviewer:

How did you gel together, Prime Minister?

Prime Minister:

Extremely well. Fortunately, I'd had a long talk with President Mitterrand at the European Council in Luxembourg so I already knew him fairly well. I knew President Reagan fairly well from long ago. I've known him quite a long time and then, of course, we had a wonderfully successful visit to the United States. I'd also met Mr. Spadolini of Italy at the European Council and Mr. Suzuki had recently been to London, so I was lucky. I knew all of them. But they all came together and the understanding just got greater and deeper. And the friendship deeper as time went by.

/Interviewer:...

Interviewer:

Is it true that you persuaded them you were pursuing middle of the road monetary policies?

Prime Minister:

Helmut Schmidt and I are both pursuing middle of the road monetary policies. He calls his 'middle of the road monetary policies' and they amount up to just exactly the same as mine which are you must fight inflation first - he's been doing it for years, therefore, his has never got as high as ours. We've not been doing it in that way for quite as long. And I hope we eventually get down to his rates. We are also getting productivity up. We've also just about halved the ^{level of} pay settlements and that's important because the important thing is that pay settlements should be related not to industrial muscle but to productivity. And, of course, we do have quite a tough budget so we try and have some chance of not having our interest rates too high. And that's middle of the road monetary policy.

Interviewer:

Prime Minister, did you come prepared to discuss Northern Ireland issues with President Reagan and did you, in fact, do so?

Prime Minister:

I did not do so. We addressed one or two sentences to him but didn't go into it deeply. He and Mr. Haig have previously stated that this was a matter for the United Kingdom which is absolutely right because it is part of the United Kingdom. So yes, it was referred to, but not in any depth.

/Interviewer:

Interviewer:

And the urban riots. Did they undermine your position in any way?

Prime Minister:

Not in any way. No one raised them with me. I raised them in conversation with one or two people because, of course, there has been trouble in Europe. And why in the world should there have been the trouble in Zurich with young people? It's the last place that you'd ever expect it. Some trouble in West Berlin, some trouble in one or two other places. So they're not unfamiliar with trouble. And I naturally raised it because I feel very very concerned indeed about it. But they were not raised with me. We did not deal with them extensively in any way.

Interviewer:

Could we have your assessment on President Reagan in his first important conference abroad?

Prime Minister:

It was a very good conference with President Reagan. He took part very fully in each and every debate. And, of course, he has a great human understanding and warmth. That, in fact, I think, illumines all his policies.

INTERVIEW WITH THE PRIME MINISTER AT OTTAWA SUMMIT, 21 JULY, 1981

(Interviewer: Peter Ward for COI)

Interviewer:

What was the major accomplishment of this Summit? And were you satisfied with it?

Prime Minister:

A number. First, I think, it's the most workmanlike Summit that I've ever attended. Secondly, the measure of agreement on a very wide range of subjects. We talked a lot about the world economy. In the trough of the recession we had to try to agree on the way to come out of it to get expansion in a sound way. We always realise that we're not going to get the rates of growth that we had past decades. . . . But we realise that we must try to expand world trade, expand our own economies in a way that gives us good, lasting jobs and prospects for the future. We had a lot of discussion on the Middle East which, after all, is always a topical issue, but it's a very acute issue at the present time. We took the discussion on how to help developing countries a good step forward in preparation for the Mexico Summit and we reached a very, very considerable measure of agreement on the whole of East/West relations and, in particular, we all said 'Look, we must defend ourselves to preserve our freedom. We must have a defence capability to preserve our freedom. It must be strong enough to deter, but at the same time, we must try to negotiate with the Soviet Union reduction in weaponry. But any reductions with negotiate must be verifiable. So it was a very, very good conference altogether.

Interviewer:

Mrs. Thatcher. On the economy, there are hawks and doves. You and Mr. Reagan have been characterised as hawks on interest rates particularly for Mr. Reagan. Who pushed the hardest for American interest rates to stabilise within the near future. Was it Mr. Mitterrand or Mr. Schmidt?

/Prime Minister ...

Prime Minister:

I must just quarrel with some of your question. You will remember that interest rates in the United States were very high - as high as they are now - under President Carter. Was he a hawk or was he a dove?

He had very very high interest rates and President Reagan inherited those interest rates. President Reagan has not yet been able to get his present programmes through Congress. - they're going through now - severely and substantially to cut public spending. So he'll hope to cut his deficit to reduce interest rates. So whosever fault it is, you cannot say it is the fault of President Reagan's programmes as they have not yet been put into action.

Interviewer:

Is he saying that when the rest of his programme is through Congress at least interest rates will stabilise?

Prime Minister:

He's saying that he regards it ^{as} just as important as anyone else to try to get interest rates down. They affect his small businesses as they affect ours. They affect his construction industries as they affect ours. They affect his propensity to invest in the future as they affect industries in our country. He wants them down just as much as everyone else. That is probably why he's got a real tough programme of cutting public spending to get it down. - the one that he's trying to put through Congress now.

Interviewer:

Did he convince you that he can make it work in a short period of time - within, say, less than a year?

/Prime Minister:

Prime Minister:

He's trying to get public spending down. That is absolutely the right way to go and I hope ^{and believe} it will get through Congress and it will have an effect. And interest rates in the United States will come down. They've been up high for the long time. They were high for a long time under President Carter.

Interviewer:

Mrs. Thatcher. I'd like to ask you one more question. The International Committee of the Red Cross seems to have failed in the latest attempt in Northern Ireland. Where do you go from here in Northern Ireland?

Prime Minister:

We have now had contact with two international organisations. After all, the European Commission of Human Rights came in and have done everything which they promised to do some time ago. None of those convicted criminals on hunger strike will make a complaint to the European Commission of Human Rights. If they did, we'd get them in again. So we've also asked in the International Committee of the Red Cross. After all, this is an international organisation of supreme repute and it would appear that no one can criticise conditions in the Maze Prison which indeed are among some of the best in the world. So it is not that which is an issue in any way. I just hope that those people on hunger strike will come off it. It is futile. It can do them no good at all. It is for them or for the people who are influencing them to go on hunger strike. It is for them to get off. It is they who are causing the deaths of these people.

DECLARATION OF THE OTTAWA SUMMIT

1. We have met at a time of rapid change and great challenge to world economic progress and peace. Our meeting has served to reinforce the strength of our common bonds. We are conscious that economic issues reflect and affect the broader political purposes we share. In a world of interdependence, we reaffirm our common objectives and our recognition of the need to take into account the effects on others of policies we pursue. We are confident in our joint determination and ability to tackle our problems in a spirit of shared responsibility, both among ourselves and with our partners throughout the world.

THE ECONOMY

2. The primary challenge we addressed at this meeting was the need to revitalize the economies of the industrial democracies, to meet the needs of our own people and strengthen world prosperity.

3. Since the Venice Summit the average rate of inflation in our countries has fallen, although in four of them inflation remains in double figures.

In many countries unemployment has risen sharply and is still rising. There is a prospect of moderate economic growth in the coming year but at present it promises little early relief from unemployment. The large payments deficits originating in the 1979-80 oil price increase have so far been financed without imposing intolerable adjustment burdens but are likely to persist for some time. Interest rates have reached record levels in many countries and, if long sustained at these levels, would threaten productive investment.

4. The fight to bring down inflation and reduce unemployment must be our highest priority and these linked problems must be tackled at the same time. We must continue to reduce inflation if we are to secure the higher investment and sustainable growth on which the durable recovery of employment depends. The balanced use of a range of policy instruments is required. We must involve our peoples in a greater appreciation of the need for change: change in expectations about growth and earnings, change in management and labour relations and practices, change in the pattern of industry, change in the direction and scale of investment, and change in energy use and supply.

5. We need in most countries urgently to reduce public borrowing; where our circumstances permit or we are able to make changes within the limits of our budgets, we will increase support for productive investment and innovation. We must also accept the role of the market in our economies. We must not let transitional measures that may be needed to ease change become permanent forms of protection or subsidy.

6. We see low and stable monetary growth as essential to reducing inflation. Interest rates have to play their part in achieving this and are likely to remain high where fears of inflation remain strong. But we are fully aware that levels and movements of interest rates in one country can make stabilization policies more difficult in other countries by influencing their exchange rates and their economies. For these reasons, most of us need also to rely on containment of budgetary deficits, by means of restraint in government expenditures as necessary. It is also highly desirable to minimize volatility of interest rates and exchange rates; greater stability in foreign exchange and financial markets is important for the sound development of the world economy.

7. In a world of strong capital flows and large deficits it is in the interests of all that the financial soundness of the international banking system and the international financial institutions be fully maintained. We welcome the recently expanded role of the IMF in financing payments deficits on terms which encourage needed adjustment.

8. In shaping our long term economic policies, care should be taken to preserve the environment and the resource base of our planet.

RELATIONS WITH DEVELOPING COUNTRIES

9. We support the stability, independence and genuine non-alignment of developing countries and reaffirm our commitment to cooperate with them in a spirit of mutual interest, respect and benefit, recognizing the reality of our interdependence.

10. It is in our interest as well as in theirs that the developing countries should grow and flourish and play a full part in the international economic system commensurate with their capabilities and responsibilities and become more closely integrated in it.

11. We look forward to constructive and substantive discussions with them, and believe the Cancun Summit offers an early opportunity to address our common problems anew.

12. We reaffirm our willingness to explore all avenues of consultation and cooperation with developing countries in whatever forums may be appropriate. We are ready to participate in preparations for a mutually acceptable process of global negotiations in circumstances offering the prospect of meaningful progress.

13. While growth has been strong in most middle income developing countries, we are deeply conscious of the serious economic problems in many developing countries, and the grim poverty faced especially by the poorer among them. We remain ready to support the developing countries in the efforts they make to promote their economic and social development within the framework of their own social values and traditions. These efforts are vital to their success.

14. We are committed to maintaining substantial and, in many cases, growing levels of Official Development Assistance and will seek to increase public understanding of its importance. We will direct the major portion of our aid to poorer countries, and will participate actively in the United Nations Conference on the Least Developed Countries.

15. We point out that the strengthening of our own economies, increasing access to our markets, and removing impediments to capital flows contribute larger amounts of needed resources and technology and thereby complement

official aid. The flow of private capital will be further encouraged in so far as the developing countries themselves provide assurances for the protection and security of investments.

16. The Soviet Union and its partners, whose contributions are meagre, should make more development assistance available, and take a greater share of exports of developing countries, while respecting their independence and non-alignment.

17. We will maintain a strong commitment to the international financial institutions and work to ensure that they have, and use effectively, the financial resources for their important responsibilities.

18. We attach high priority to the resolution of the problems created for the non-oil developing countries by the damaging effects on them of high cost of energy imports following the two oil price shocks. We call on the surplus oil-exporting countries to broaden their valuable efforts to finance development in non-oil developing countries, especially in the field of energy. We stand ready to cooperate with them for this purpose and to explore with them, in a spirit of partnership, possible mechanisms, such

as those being examined in the World Bank, which would take due account of the importance of their financial contributions.

19. We recognize the importance of accelerated food production in the developing world and of greater world food security, and the need for developing countries to pursue sound agricultural and food policies; we will examine ways to make increased resources available for these purposes. We note that the Italian Government has in mind to discuss within the European Community proposals to be put forward in close cooperation with the specialized U.N. institutions located in Rome for special action in this field primarily directed to the poorest countries.

20. We are deeply concerned about the implications of world population growth. Many developing countries are taking action to deal with that problem, in ways sensitive to human values and dignity; and to develop human resources, including technical and managerial capabilities. We recognize the importance of these issues and will place greater emphasis on international efforts in these areas.

TRADE

21. We reaffirm our strong commitment to maintaining liberal trade policies and to the effective operation of an open multilateral trading system as embodied in the GATT.

22. We will work together to strengthen this system in the interest of all trading countries, recognizing that this will involve structural adaptation to changes in the world economy.

23. We will implement the agreements reached in the Multilateral Trade Negotiations and invite other countries, particularly developing countries, to join in these mutually beneficial trading arrangements.

24. We will continue to resist protectionist pressures, since we recognize that any protectionist measure, whether in the form of overt or hidden trade restrictions or in the form of subsidies to prop up declining industries, not only undermines the dynamism of our economies but also, over time, aggravates inflation and unemployment.

25. We welcome the new initiative represented by the proposal of the Consultative Group of Eighteen that the GATT Contracting Parties convene a meeting at Ministerial level during 1982, as well as that of the OECD countries in their programme of study to examine trade issues.

26. We will keep under close review the role played by our countries in the smooth functioning of the multilateral trading system with a view to ensuring maximum openness of our markets in a spirit of reciprocity, while allowing for the safeguard measures provided for in the GATT.

27. We endorse efforts to reach agreement by the end of this year on reducing subsidy elements in official export credit schemes.

ENERGY

28. We are confident that, with perseverance, the energy goals we set at Venice for the decade can be achieved, enabling us to break the link between economic growth and oil consumption through structural change in our energy economies.

29. Recognizing that our countries are still vulnerable and energy supply remains a potential constraint to a revival of economic growth, we will accelerate the development and use of all our energy sources, both conventional and new, and continue to promote energy savings and the replacement of oil by other fuels.

30. To these ends we will continue to rely heavily on market mechanisms, supplemented as necessary by government action.

31. Our capacity to deal with short-term oil market problems should be improved, particularly through the holding of adequate levels of stocks.

32. In most of our countries progress in constructing new nuclear facilities is slow. We intend in each of our countries to encourage greater public acceptance of nuclear energy, and respond to public concerns about safety, health, nuclear waste management and non-proliferation. We will further our efforts in the development of advanced technologies, particularly in spent fuel management.

33. We will take steps to realize the potential for the economic production, trade and use of coal and will do everything in our power to ensure that its increased use does not damage the environment.

34. We also intend to see to it that we develop to the fullest possible extent sources of renewable energy such as solar, geothermal and biomass energy. We will work for practical achievements at the forthcoming United Nations Conference on New and Renewable Sources of Energy.

35. We look forward to improved understanding and cooperation with the oil exporting countries in the interests of the world economy.

EAST-WEST ECONOMIC RELATIONS

36. We also reviewed the significance of East-West economic relations for our political and security interests. We recognized that there is a complex balance of political and economic interests and risks in these relations. We concluded that consultations and, where appropriate, coordination are necessary to ensure that, in the field of East-West relations, our economic policies continue to be compatible with our political and security objectives.

37. We will undertake to consult to improve the present system of controls on trade in strategic goods and related technology with the U.S.S.R.

CONCLUSION

38. We are convinced that our democratic, free societies are equal to the challenges we face. We will move forward together and with all countries ready to work with us in a spirit of cooperation and harmony. We have agreed to meet again next year and have accepted the invitation of the President of the French Republic to hold this meeting in France. We intend to maintain close and continuing consultation and cooperation with each other.

OTTAWA SUMMIT STATEMENT ON TERRORISM

1. The Heads of State and Government, seriously concerned about the active support given to international terrorism through the supply of money and arms to terrorist groups, and about the sanctuary and training offered terrorists, as well as the continuation of acts of violence and terrorism such as aircraft hijacking, hostage-taking and attacks against diplomatic and consular personnel and premises, reaffirm their determination vigorously to combat such flagrant violations of international law. Emphasizing that all countries are threatened by acts of terrorism in disregard of fundamental human rights, they resolve to strengthen and broaden action within the international community to prevent and punish such acts.

2. The Heads of State and Government view with particular concern the recent hijacking incidents which threaten the safety of international civil aviation. They recall and reaffirm the principles set forth in the 1978 Bonn Declaration and note that there are several hijackings which have not been resolved by certain states in conformity with their obligations under international law. They call upon the governments concerned to discharge their obligations promptly and thereby contribute to the safety of international civil aviation.

3. The Heads of State and Government are convinced that, in the case of the hijacking of a Pakistan International Airlines aircraft in March, the conduct of the Babrak Karmal government of Afghanistan, both during the incident and subsequently in giving refuge to the hijackers, was and is in flagrant breach of its international obligations under the Hague Convention to which Afghanistan is a party, and constitutes a serious threat to air safety. Consequently the Heads of State and Government propose to suspend all flights to and from Afghanistan in implementation of the Bonn Declaration unless Afghanistan immediately takes steps to comply with its obligations. Furthermore, they call upon all states which share their concern for air safety to take appropriate action to persuade Afghanistan to honour its obligations.

4. Recalling the Venice Statement on the Taking of Diplomatic Hostages, the Heads of State and Government approve continued cooperation in the event of attacks on diplomatic and consular establishments or personnel of any of their governments. They undertake that in the event of such incidents, their governments will immediately consult on an appropriate response. Moreover, they resolve that any state which directly aids and abets the commission of terrorist acts condemned in the Venice Statement, should face a prompt international response. It was agreed to exchange information on terrorist threats and activities, and to explore cooperative measures for dealing with and countering acts of terrorism, for promoting more effective implementation of existing anti-terrorist conventions, and for securing wider adherence to them.

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OTTAWA ECONOMIC SUMMIT CONFERENCE

RECORD of a Plenary Session held in the
East Block, Parliamentary Building, Ottawa
on TUESDAY 21 JULY 1981 at 1500 hours

COMMUNIQUE

The meeting took note of the remaining amendments to the communiqué, agreed by Personal Representative during the lunch interval, and approved the text for issue.

FUTURE OF SUMMITS

Mr Trudeau (Canada) (Chairman) said that his decision to hold this year's Summit at Chateau Montebello had been taken in response to the general desire expressed at the Venice Summit to make the Ottawa Summit as informal as possible and to avoid its being dictated to by the press and the bureaucracy. Personal Representatives had prepared and submitted to Heads of State or Government a note on the Future of Economic Summits; he invited the Federal German Chancellor, as the Doyen Summiteer, to open the discussion.

Herr Schmidt (Federal Republic of Germany) said that he thought that his colleagues were more or less united in thinking that the effort of coming to Economic Summits was worth making: this was shown by the fact that they had accepted the invitation of the President of the French Republic to come to another Summit in France in 1982. He commended the conclusions of the paper by Personal Representatives: that Summits should be held about once a year, that they should provide an opportunity for strategic and general discussion and where possible agreement, rather than seeking to reach definite decisions and specific commitments, and the communiqué should be structured accordingly; and that the tendency for the preparations to become bureaucratized should be reversed. As to the arrangements at the Summit Conference, Heads of State or Government were much in the hands of their hosts. He thought that it had been valuable to meet in the more relaxed atmosphere that was possible in Chateau Montebello, and he hoped that the French Government would find it possible to hold the next meeting somewhere outside Paris. He also agreed with Personal Representatives that, while the opportunity of such conferences should be taken for political discussions, the Summits should maintain their characteristic as primarily economic.

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Herr Schmidt expressed his warm gratitude to Mr Trudeau for the arrangements that had been made for the Ottawa Summit, and in particular for the possibility of holding the meeting in the relative seclusion of Chateau Montebello. He would leave Ottawa with a feeling of personal enrichment, whatever the press might say. In future it would be useful to play down the advance expectations of the press about such occasions. This Summit had proved extremely valuable as an opportunity for enabling the Heads of State or Government, four of whom were new since Venice, to get to know each other. Even if the communique was still a little on the long side, the preparation and discussion of it had brought to light the differences and hidden contradictions, and it had therefore been useful.

President Mitterrand (France) said that he was among those participating in a Summit conference for the first time; he was therefore learning from the experience. His conclusion was positive. He warmly congratulated Mr Trudeau on the way that they had all been welcomed. For another year it would be desirable not to increase the size of national delegations. From a human point of view he had derived very great benefit from getting to know his colleagues. It had been a particular pleasure to meet President Reagan, and it had been very useful. He welcomed the opportunity to deepen his relationships with his colleagues. Fundamental values were at stake. He and his colleagues were round this table because they shared the same convictions as to the superiority of human beings over any system that tried to dominate them. They did not agree on everything; that was natural. But they were able to discuss their differences, and that meant lively relationships and a spirit of conciliation.

Mrs Thatcher (United Kingdom) said that the Ottawa Summit had been a great success, and a particular personal success for Mr Trudeau. She was grateful for the arrangements that had been made; she was grateful to Mr Trudeau for the way in which he had chaired the meetings, and for leading them to a workmanlike communique. The arrangements had worked extremely well, and had enabled Heads of State or Government to get to know each other, unmolested by the press. The meeting had covered a wider range of subjects than previous summits, partly because (unlike Tokyo and Venice) it had not been dominated by a single subject. She had been particularly encouraged by the discussion on the evening of Sunday, 19 July about defence and political matters.

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Mr Suzuki (Japan) said that this was the first Summit in which he had participated. He was the only representative from Asia. The nations of Asia had great expectations of the Ottawa Summit. He had therefore particularly welcomed the candid exchanges of views among Heads of State or Government, and the fact that common goals had been reaffirmed. He complimented Mr Trudeau on his outstanding chairmanship.

Signor Spadolini (Italy), also speaking as a newcomer to Summits, said that his experience had been very positive. There had been a good exchange of discussion. He was very grateful for the admirable organisation, and for the excellent discussion, in which divergences had been faced and overcome. It was right for the industrialised countries to maintain a platform of unity and solidarity. He thought that for the future Summit meetings of these countries should maintain their economic and financial character, without neglecting the wider political aspects. The industrialised countries represented were responsible for 80 per cent of the GNP of the industrialised countries as a whole, and they had responsibilities towards developing countries. It might be possible to think in terms of shorter communique in future. Perhaps there was scope for more political discussion, because the countries represented round the table were rooted in a common concept of humanity which united them. The Ottawa Summit gave great reason for hope for the future.

President Reagan (United States) expressed his appreciation, and that of his colleagues, for the meticulous planning and excellent arrangements. It had been a wonderful meeting. With due regard for all the detail and hard work that had gone into the communique, how important it was that the Heads of State or Government should have a mental picture of human beings whom they knew as friends. Most of the world's ills had arisen because people talked about each other and not to each other. He looked forward to the continuation of Economic Summits in the future.

Monsieur Thorn (European Commission) thanked Mr Trudeau and the Canadian Government for the way in which they had received the participants in the Ottawa Summit. The excellence of the results, including the communique, were due not only to the hard work of the Personal Representatives but also to Mr Trudeau himself. Reaching agreement was not always essential; what was

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so valuable was getting to know each other. If Economic Summits continued to be held once a year, as proposed, that should make it easier to avoid catastrophes. He thought that all concerned agreed that they should continue on that basis.

Mr Trudeau (Canada) (Chairman) thanked his colleagues for their expressions of appreciation and gratitude, and promised to convey them to those who had assisted in the preparation of the meeting. Looking to the future, he said that he hoped that those responsible for organising the next Summit would benefit from the failures of this one. In arranging the Ottawa Summit, he had had the problem of deciding how to arrange seating. In the end he had decided to adopt protocol order for the formal meetings and alphabetical order for the working meetings. For the future it might be worth considering whether more could be done with simultaneous translation, so as to avoid the problems of "whispering". He also wondered whether there might be a case for holding rather more informal meetings. As to the risk of over-bureaucratisation, he thought that all Heads of State or Government were aware of it. Ottawa had been better in that respect than Venice, partly because Personal Representatives had started communique drafting much nearer the time of the Summit itself than in 1980. He thought that the Economic Summits would continue to need the Personal Representatives. Indeed, since they had been meeting rather more frequently in 1980-81, it was for consideration whether they could be used as a means of communication by Heads of State or Government. There were problems, both of practicability and of presentation, about Heads of State or Government meeting more frequently themselves, but they might want to use the periodic meetings of Personal Representatives to convey certain concerns that they wanted to share. As an example of good crisis management, Mr Trudeau referred to the preparations in NATO for the possibility of a crisis in Poland: that had been handled much better than the Afghanistan crisis. Finally, he thought that the success of the Ottawa Summit had been partly attributable to the fact that he had been able to go round beforehand and meet so many of his colleagues. That had been easier for him to do, as the Prime Minister of a relatively small country. It had certainly helped to resolve difficulties in advance; and he thought that the consensus at the conference was in large measure due to the readiness and friendliness with which his colleagues had received him beforehand.

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Sir Geoffrey Howe (United Kingdom) said that he and his fellow Finance Ministers had much appreciated the way in which the Deputy Prime Minister of Canada had organised their discussions. He thought that the informal discussions among the Finance Ministers had been extremely valuable, and he welcomed the fact that there had been more opportunity for such discussions at Ottawa than at the previous Summits.

Mr Trudeau (Canada) said that the fact that Finance Ministers had been meeting that way had enabled Heads of State or Government to concentrate on strategic issues and general goals, rather than detailed and specific commitments.

After a brief report by Mr McGuigan on the agreed statement issued the previous evening on hi-jacking and terrorism, Mr Trudeau declared the conference adjourned.

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OTTAWA ECONOMIC SUMMIT CONFERENCE

RECORD of Plenary Session at
Chateau Montebello, Ottawa on
TUESDAY 21 JULY 1981 at 0930 hours

The Meeting considered the Seventh Draft of the Communique.

The United Kingdom delegation proposed drafting amendments to paragraphs 1 and 2; these were accepted.

Paragraph 5 of the Draft started with the words: "We need urgently to reduce public borrowing". President Mitterrand said that the wording of this paragraph did not wholly fit the French situation. The meeting invited Personal Representatives to consider a redraft.

The last phrase in paragraph 6 of the Draft read: "stability in foreign exchange and financial markets is essential for the sound development of the world economy". The Italian delegation wished to replace this by a phrase to read: "and to consider some form of intervention in exchange markets to deal with disorderly conditions and erratic movements of exchange rates, in line with IMF guidelines". President Reagan asked for the deletion of both clauses. Signor Andreatta said that it was necessary to have an agreed form of intervention, to avoid the disruption of trade and the increase of protectionist tendencies which arose from erratic movements of exchange rates and disorderly conditions in exchange markets. President Reagan could not accept this: in the United States the authorities would intervene only in a major crisis of confidence, not in normal conditions. Mrs Thatcher commented that you could not say that stability was essential, because you could not achieve it by declaration: the volume of funds able to move was too great. Herr Schmidt said that the discussion was astonishing him. For 6 years there had been agreement on arrangements for avoiding disorderly movements by intervention in exchange markets. If President Reagan was saying that there would be no intervention unless somebody was shot, he was worried. He agreed with Mrs Thatcher that you could not stem the tide of international movements; but erratic movements and disorderly conditions

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were the classical conditions where one did intervene in exchange markets. He therefore supported the Italian proposal. President Mitterrand said that he could endorse what Herr Schmidt had suggested. He had brought out the obvious political reality of the point. After further discussion the meeting agreed that the phrase should read: "stability in foreign exchange and financial markets is important for the sound development of the world economy", and that the Italian addition should not be included.

Again on paragraph 6 of the communique, President Mitterrand said that he would like some qualification of the reference to "containment of budgetary deficits": he agreed in principle with the sentiment, but the French budget deficit was only 2.2 per cent of GNP, perhaps the lowest among the countries represented round the table: it was likely that his Administration would increase that figure to 3 per cent but would not go above that point. Herr Schmidt proposed, and the meeting agreed, that the wording should be altered to read: "most of us need also to rely on containment of budgetary deficits".

A small drafting amendment to paragraph 12 (about global negotiations), suggested by President Reagan, was accepted. Herr Schmidt, Signor Colombo and Mr Trudeau all made it clear that they would accept the global negotiations.

Signor Spadolini asked the meeting to accept an additional sentence at the end of paragraph 19, referring to an Italian initiative in the field of food aid. This was accepted in principle, and Personal Representatives were asked to agree the wording.

The meeting accepted a proposal by Herr Schmidt to add at the beginning of paragraph 20 the words: "We are deeply concerned about the implications of world population growth." Herr Schmidt said that an earlier draft had been weakened, and it was important to strengthen the draft before the meeting.

On paragraph 26, President Mitterrand, without proposing any redrafting, reminded the meeting that he had suggested that there should be a link between the GATT's work on the open multilateral trading system and that in the OECD. Monsieur Thorn, also without proposing any redrafting of the

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paragraph, reminded the meeting that, before a Ministerial Meeting of GATT there would need to be high level discussion in the European Community.

In the section on energy, paragraph 30 read: "To these ends we will continue to rely heavily on market mechanisms, supplemented as necessary by Government action". President Mitterrand said that he had read that four times, but could not make it mean anything. Mr Trudeau said that what it meant by market mechanisms was market prices.

A number of points were made on paragraph 32, about the development of new nuclear facilities. Herr Schmidt wondered whether the meeting could be really sure that we could deal with the long-term management of nuclear waste. President Mitterrand said that he thought we could; the trouble in France was that public opinion had not been sufficiently taken along by the previous Administration, with the result that they were up against a kind of medieval fear. Mrs Thatcher was inclined to agree with Herr Schmidt that it was not easy to convince people that we had the answer to spent fuel management. The residues would be small in quantity, they would have a half life of 500 years. There had to be research to shorten that period. Nonetheless it should be possible to give a considerable amount of reassurance in the communique. It was important to show a readiness to respond to public concern about these matters. After further discussion a redraft suggested by Mrs Thatcher was accepted by the meeting.

On the suggestion of President Mitterrand, it was agreed to insert a new paragraph about the development of sources of renewable energy. Personal Representatives were invited to agree a text.

Before considering the section of the communique on East-West economic relations, the meeting turned to the draft conclusion. As drafted, this contained a final sentence which read: "We intend to maintain close and continuing consultation and co-operation directly with each other, and by making the greatest possible use of the opportunities provided by inter-Ministerial contacts and by arrangements for preparing Summits". This led President Mitterrand to express his worries about the bureaucratisation of the Summit process. He said that it detracted from the value of these informal and wide-ranging talks among Heads of State or Government. He

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was suspicious of all these texts, and all the preparations that seemed to be involved. He would prefer fewer people to be concerned, and less paper. He saw a danger in long communiques: a very brief communique would carry less risk of error. If things went on as they were, there would soon be a Sherpas' trade union, and before very long there would be an association of retired Sherpas.

Mr Trudeau thought that the words in the draft communique were not intended to create any new forms of permanent consultation, but simply a determination to make the most of the existing opportunities.

After discussion, the meeting agreed to shorten the sentence, so that it read: "We intend to maintain close and continuing consultation and co-operation with each other". The meeting also agreed to delete the phrase which, in the draft, had introduced that sentence.

The meeting then turned to the section on East-West economic relations.

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Mr. Trudeau said that it was now proposed to end paragraph 35 of the draft communique after the word "objectives" The United States then wished to add two new paragraphs on the following lines:-

"36. We will undertake to consult to improve the present system of controls on trade in strategic goods and technology with the USSR.

"37. We will also undertake to examine the risks of becoming more vulnerable as a result of the dependence on Eastern resources and markets and where useful, will undertake joint action to deal with such threats."

The new paragraph 36 was an allusion to COCOM and in a sense replaced the last few words of paragraph 35 which it was now proposed to omit.

Herr Schmidt said that he felt the meeting should discuss paragraph 35 before it looked at the new paragraphs proposed by the Americans. Even this paragraph went further than he had anticipated when he had been preparing for the meeting. He had no objection to consultations but he would like to know what was meant by co-ordination. He remembered vividly what had happened as a result of co-ordination among the Western allies on the Moscow Olympic Games. He had similar memories about co-ordination on Iran, though when it had come to action, he had felt a little lonely. He did not want to fall into another trap. How far were the countries represented at the meeting really ready to engage themselves?

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Because of geography, Germany had traded with Eastern Europe, and what was now the Soviet Union for hundreds of years. Moreover, Germany was today a divided country and she had to maintain a certain minimum of human communication with the countries to the east of her. That in turn was, in part, a function of the degree of economic exchange. In statistical terms West German trade with Eastern Europe did not amount to a great deal. For example, trade with the Soviet Union was about half that with Switzerland and only a little more than that with Luxembourg. But it had a symbolic significance for the Federal Republic. There were still one million Germans living in Eastern Europe outside East Germany, and in East Germany itself there were 16 million Germans. The Federal Republic felt a responsibility for these people and did not want to cut them off. Similarly, we should have in mind the position of other East Europeans like the Poles. Many of them wanted to see their connections with the West maintained and strengthened, and we should not give them the impression that we did not regard these links as important. They wanted to see East/West trade continue, and so did the Federal Republic.

President Reagan said that all Western countries were engaged in this matter and they all did business with the Soviet Union. The new paragraphs he had circulated were not aimed at any one country. Nothing in them called for restraint on trade with the East. He was simply suggesting that East/West trade should not be allowed to weaken the resistance of the West to Soviet expansionism. He and his colleagues were all concerned with the great cost of national security, and he did not want to make that burden heavier by supplying the Soviet Union with goods and technology which would strengthen Russian military capability. What he was suggesting was that there should be consultation to ensure that the allies shared a continuous assessment of the threat of Soviet expansion.

Herr Schmidt said that the European community sold vast quantities of cheap butter and milk powder to the Soviet Union. This was a ridiculous and unfair burden on the Community's taxpayers, but there appeared to be no way of stopping such trade. Similarly, the United States had lifted the embargo on the supply of wheat to the Soviet Union in order to help American farmers. The fact was that we all dealt with the Soviet Union on the basis of mutual

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benefit, which was the principle underlying international trade, whether the commodities in question were wheat, butter or natural gas. Nonetheless, there was a need for control of trade in strategic goods and materials and related technology, and all the allies should take part in such control. This was why COCOM existed. He had no objection to mentioning it in the communiqué. But he did not want to agree to additional measures of control on trade, the consequences of which he could not foresee.

President Reagan said that he thought that Chancellor Schmidt was confirming some of the things he had said himself. He had always been opposed to President Carter's wheat embargo. He had thought it an empty gesture made for domestic reasons, while the United States continued to supply high technology to the Soviet Union. He had lifted the embargo because he had believed this would be helpful to those of his allies who had felt that he was being intransigent. We did need to consult each other about the consequences of trade with the Soviet Union. We were all allies living under the same threat, and we must ensure that what we did was in the best interests of our collective security.

Mr. Trudeau said that they had not been able to reach a consensus on the new paragraphs 36 and 37, and there remained some objection to the existing paragraph 35, though he did not believe that this was major. He now had to adjourn the meeting so that it could move to Ottawa for the afternoon session. Personal Representatives would try to reach agreement on this part of the communiqué over lunch and he would report the outcome when the meeting resumed in the afternoon.

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OTTAWA ECONOMIC SUMMIT CONFERENCE

RELATIONS WITH DEVELOPING COUNTRIES, AND ENERGY

RECORD of a plenary session held at
Chateau Montebello, Ottawa on
MONDAY 20 JULY 1981 at 3.15 pm

Mr Trudeau (Canada) (Chairman) said that Personal Representatives had concluded the aid study commissioned from them by Heads of State or Government at Venice a year earlier. The report was not equally supported in every line by each participant, but he thought that it could form the basis of a more coherent approach by the countries represented at the Conference to relationships with developing countries. He doubted whether Heads of State or Government needed to discuss the report as such. They would, however, have to deal with the communique language which had been prepared, and they might find it convenient to have a general discussion by way of preparation for the series of international meetings which lay ahead: notably the General Assembly of the United Nations, the meeting of Commonwealth Heads of Government at Melbourne, and the Cancun Summit at the end of October.

President Reagan (United States) said that at that stage his observations were bound to be provisional, based as they were on the limited experience which his Administration had so far had in this field. The United States had had programmes aimed at helping Latin American nations. These had failed, perhaps because they had been lumped together. The lessons he had drawn from his experience to date were:

- a. It was important to keep in mind the need to target aid to particular countries rather than to areas of the world.
- b. It was important to recognise the considerable power of the private sector to help developing countries.
- c. It was important not just to feed the hungry, but to teach them how to capitalise on what they had, so that they could become viable.

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Mr Suzuki (Japan) said that earlier in the year he had visited the five countries of ASEAN. He had found them very eager to build their economies, and united in that cause. They were good examples of developing countries to which technological and economic aid should be provided in order to stimulate them to help themselves. Only when aid was accompanied by determination in the recipient to self-help would it be successful. The countries of ASEAN were very interested in the outcome of the Ottawa Summit Conference. They expected much to come out of Montebello. If the industrialised countries did not do anything about their fragilities, it would lead to domestic unrest and open up the risks of threats from outside, and particularly from Soviet expansionism. They could be a new gap of vulnerability. Hence the importance of technological and economic aid to the ASEAN countries.

Japan could not exercise military influence beyond her own borders, but, with their economic power they should be able to help countries in need of aid, such as Thailand, Pakistan, Turkey, Jamaica and Zimbabwe.

Mr Trudeau (Canada) said that in the draft communique language which was before the Conference for consideration Personal Representatives had managed to include answers to several of the questions which Heads of State or Government asked themselves at Venice. He thought that with language on those lines Heads of State or Government would have done pretty well in providing forward-looking answers on such questions as:-

- aid to poorer countries
- maintaining a substantial and in many cases growing level of aid
- the meagre contribution made by Soviet Russia and the Eastern European countries, and the suggestion that they should do more, while respecting the independence and non-alignment of developing countries
- support of the international financial institutions
- an invitation to surplus oil-exporting countries to do more by way of aid
- support of possible new mechanisms (with a suggestion of the possibility of an energy affiliate of the IBRD).

The draft communique language would constitute a forward-looking statement which corresponded to the needs expressed by Heads of State or Government at

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the Venice Summit. At this meeting they would wish to consider their approach to the global negotiations.

Signor Spadolini (Italy) said that he had read the report of the Aid Study of Personal Representatives. He thought that the report was a good work, and formed a useful basis for the communique. He paid tribute to the Canadian Chairman of the Personal Representatives for a document which offered a considerable body of thought and reflection on the subject of relations with developing countries. The recommendations in the Aid Study were for the minimum action required for a constructive atmosphere between developed and developing countries. He agreed that it was necessary to review the mechanism of aid so as to increase the technological capacity of the developing countries and their human resource capacity. In this context he recalled the importance of the Marshall Plan in Europe after the Second World War. He endorsed the proposed commitment to the International Financial Institutions, and the need to ensure that they had the financial resources necessary to discharge their responsibilities. The Italian Government considered that within the framework of these efforts to maintain stability considerable emphasis should be placed on the North/South dialogue. The rights and needs of the developing countries were the counterpart of the powers and opportunities of the developed countries. The way in which the developed countries rose to this challenge would be a symbol of their political will.

The global negotiations had not led to satisfactory progress. The Italian Government was aware of the difficulties of the global approach, and it was for those reasons that Italy would like to see a selective approach in aid, concentrating on energy, the agricultural sector, and structural adjustment (including the financing of balance of payments deficits). If the industrialised countries could reach agreement on more aid for energy development, they should also look at the problems of hunger and malnutrition. Faced with the threats of Soviet expansionism, it would not be possible to maintain a true solidarity which could develop peace, if we could not eliminate the malign anachronism of hunger and deprivation. We were pledged to make available additional aid for the development of food resources in the developing world. In this way we could defuse the explosive nature of

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differences in the world and strengthen the defence of political freedom. In this context he wished to say that Italy, which housed the specialised UN Agencies in food and agriculture, was ready to undertake, in co-operation with those agencies and after consultation with her partners in the European Community, an ad hoc initiative in the field of food aid for the poorest countries.

Mrs Thatcher (United Kingdom) said that at the Venice Summit Heads of State or Government had discussed relations with developing countries under four heads: bilateral aid, multilateral aid, private sector aid, and trade. Many of those present at Venice had felt that they would like to give more in bilateral aid: this would be in line with historic links, and would give aid to those who would make the best use of it. We should give a higher proportion of our aid to the poorest countries: the United Kingdom had a good record in this direction. The Venice Summit had been insistent that the integrity of the World Bank and the International Monetary Fund must be maintained, and that these institutions must continue to be governed by and to stick to their rules. The Venice Summit had also stressed the importance of private capital: the developing countries had a hungry need for private capital, and the potential was enormous. Private aid would develop better if there were a code of practice on the treatment of private capital, at any rate in the early years of an investment. This was a subject which could perhaps be discussed at the Cancun Summit. On trade, the industrialised countries were in the process of giving the developing countries aid in order to compete with their own industries. The aid given to the development of textile industries was a case in point. The industrialised countries had to agree that they would take a substantial proportion of their consumption of such products from the developing countries, but there had to be very careful negotiations about the volume of trade, in order to avoid trouble with domestic industries.

In general the industrialised countries had a good record in their relations with developing countries, and should not be defensive about it. They should not arouse too great hopes of the Cancun Summit. The trouble about summit conferences was that they tended to arouse expectations of great new programmes. She did not think that any such outcome was to be expected from

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the Cancun Summit, and those participating from the industrialised countries should make it clear that that Summit would discuss need, capacity and methods of help, rather than a great new programme.

Mr Trudeau (Canada) said that he thought that many of the developing countries saw the Cancun Summit as laying the groundwork for more fruitful discussion in the global negotiations. He did not think that there would be any difficulty in resisting proposals to pinpoint action at the Cancun meeting. The industrialised countries should agree among themselves on a rational approach, so as to heighten understanding. It would be wrong to heighten expectations, given the probability of only modest growth of the industrialised countries in the 1980s. There should be no question of ganging up on the G77.

President Mitterrand (France) said that he had very little to add to what previous speakers had said. He suggested that it might be useful to have from the Chairman a brief statement about the conditions in which the Cancun Summit was being prepared. He understood that some developing countries were still wondering whether to attend.

On the draft communique language President Mitterrand made the following points:

- a. The present draft spoke about the advantages which the developing countries would get, without going into the advantages which the industrialised countries might derive. The communique should indicate the benefits which the industrialised countries would derive from increased trade with the developing countries.
- b. He would wish to be cautious about statements about the level of aid.
- c. It was the intelligent combination of public aid and private investment that would provide the solution. Profits could not be assured from investment in developing countries, at any rate in the early years. The investment was nonetheless necessary. This was perhaps where public aid could make a contribution. He thought that this was well stated in the draft communique language.

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d. The communique language did not say enough about the International Financial Institutions. Those institutions should not be wide open to everybody, in particular to those who were going to be the main beneficiaries. But they could not be reserved for founder members. It was important to involve the oil exporting countries. It was easier for the International Financial Institutions than for national donors to raise money on international markets and to impose conditions on investments which would safeguard the invested funds without those conditions and safeguards being seen as interference in the domestic affairs of the recipient countries. The European Community had already achieved something in this direction, for instance through the Lome Convention.

e. It would be important to stress the importance of stability in relations between developing and developed countries. There had to be a certain framework of rules in relations between North and South. The International Financial Institutions could help as a means of introducing a measure of discipline and framework.

Herr Schmidt (Federal Republic of Germany) said that the industrialised countries should make it understood more often and more clearly both to their own publics and to the G77 that they wished to respect the independence and genuine non-alignment of the developing countries as a factor in international stability, and that they had no obligation to share the burden of the Soviet Union's wrong development policies. There was no need to colour North/South relationships by reference to the East-West conflict: East-West should be left out of North-South. It had been a welcome fact that the Muslim countries had regarded Soviet armed intervention in Afghanistan as an offence against the whole group of Muslim States. Indeed, it was a good thing that the whole of the G77 had so regarded it. The industrialised countries needed to tell the developing countries that the responsibility for their development had to be shared by themselves, the industrialised countries (including the industrialised Communist countries) and the surplus oil-exporting countries. It was true that the OPEC countries gave more than 0.7 per cent of their GNP in aid; but they had created the hunger by the increases in oil prices which they had inflicted upon the world, and recycling petro dollars

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could not help the developing countries. The OPEC countries had to be told not just to recycle their surpluses, but to give grants, or alternatively to adopt dual pricing systems for their oil. That might not fit market ideology, but it was what he would say at Cancun.

If one cause of the deteriorating position of the Third World was the successive rises in the price of oil, the second was the population explosion. This issue was being circumvented in public discussion. When he first went to school there were 2 billion people on the earth. Now there were 4 billion; and by the year 2000 there would be more than 6 billion. It would not be possible to find enough food, education, jobs, health care etc for all of these people. Popes and Bishops might speak against family planning, but he was in favour of it. The pussyfooting attitudes adopted on this matter were just pandering to people's desires to act in a moral way.

He agreed with President Mitterrand on the need for more Lomé-type solutions. He would like to see that system enlarged beyond the European Community and beyond the former French and British Colonies; and he would like to see it extended to a greater variety of goods.

He would also like to stress the importance of private aid for the developing countries. That was the only way in which technology could be transferred. In order to secure more private aid, the developing countries should be advised to engage in treaties and laws which would provide security for foreign capital.

Herr Schmidt said that he would speak up in favour of global negotiations. He did not see much prospect of success in them: there would be too many people talking at one time. But it was psychologically necessary to engage in these talks, if the developing countries were not to feel frustrated. He agreed with Mrs Thatcher that the international financial institutions should not be regarded as charities. On the other hand the industrialised countries should engage in the global negotiations. A refusal to do so would lead to uproar and misunderstanding in the Third World. They would draw adverse conclusions from the difference they would see in the way they were treated by the industrialised countries and by the Soviet Union.

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As regards the international financial institutions, their functionability had to be assured; on the other hand the surplus oil-exporting countries should be given a greater share in them and greater responsibilities. We had to understand and respect the fact that Saudi Arabia was now the largest international creditor, and give them the appropriate share in these institutions so as to show them that they were welcome and were regarded as full members in practice of the international community.

Herr Schmidt deplored the fact that commitments to the IDA Sixth Replenishment were coming too slowly. He hoped that the United States Administration would give this serious thought. He was in favour of full participation in the IBRD by the Saudi Arabian Government and by other oil-exporting countries who were prepared to take their share of the responsibilities; failing that, he would be in favour of the proposed energy affiliate. It would be a great political mistake to deny the Saudi Arabian and other similar Governments an appropriate degree of participation in the international financial institutions.

As to the Cancun Summit, he was not sure what would happen there. Too many people had given too many Press briefings, raising excessive expectations in too many countries. He would have preferred a small meeting of a few countries, like the meeting which he had attended in Jamaica with Heads of Government from Nigeria, Norway, Venezuela, Australia, Jamaica and Canada. The discussion at that meeting had been informal and wideranging; he had learnt a lot and he thought that the others had done so too. The Cancun Summit was going to be too big with too many people involved.

Monsieur Thorn (European Commission) stressed the importance of the part that the banking system would need to continue to play in recycling. In general, private sector aid to the developing countries would be of continuing great importance. But the private sector could not be expected to help the poorest countries: the risks were too great. In that field, therefore, governments would have to do more. He hoped that the United States Government would reconsider their attitude to the Sixth Replenishment of IDA, so that there could be respectable additional funds for this purpose. The European Community would support the proposal for an energy affiliate of the

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World Bank: they believed that the surplus oil-exporting countries should take a share in the responsibilities for developing countries. Setting up an energy affiliate would avoid having to call in question the equilibrium within the international financial institutions themselves, and it would at the same time provide additional resources for energy development, enabling the institutions to continue and increase their help in other fields.

President Reagan (United States) said that he was sorry that the United States Administration had had to delay its contribution to the general capital increase of the IBRD and to pay on the instalment plan. But, at a time when the Administration was asking the American people to accept sacrifices of \$270 billion, it would have been hard to explain increased external generosity. The United States had to get themselves on their feet again; if they failed to do that they would not be able to help anybody. He agreed with what had been said about the need to encourage private sector investment in the developing countries. If that was to come about, the private sector would need to be assured that their investments would not be expropriated. The President pointed out that only one quarter of the surface of the world had been explored for oil: three-quarters remained to be explored. There would be great scope here for private sector investment, if the companies concerned could be assured that their funds would be safe from expropriation. These ideas should be followed up in specific programmes with particular countries.

Mr Trudeau (Canada) said that he thought that the discussion had been useful, both as a general clarification of attitudes before the Cancun Meeting and as a basis upon which Personal Representatives could now revise the draft communique language, with a view to reporting a final text to Heads of State or Government the following morning.

ENERGY

Mr Trudeau (Canada) (Chairman) said that the report by the High Level Energy Monitoring Group indicated that reasonable progress was being made towards the objectives defined at the Venice Summit; but this was partly because of the recession, and the Group warned against complacency. He suggested that

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the report could be noted by Heads of State or Government, without further discussion; on this basis they could consider the draft communique language on energy the following morning.

The meeting took note, with approval, of the Chairman's statement.

Middle East

There was a brief discussion of the drafting of the reference to the Palestinian question in the proposed statement by the Chairman to the Press.

The meeting adjourned at 5.00 pm.

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OTTAWA ECONOMIC SUMMIT CONFERENCE

RECORD OF PLENARY SESSION HELD AT THE CHATEAU MONTEBELLO ON MONDAY 20 JULY 1981
AT 9.30 AM

Mr Trudeau, (Canada) (Chairman) after welcoming his colleagues to his opening Session, said that he proposed to start the Conference with a discussion of the macro-economic situation, including fiscal and monetary policies and trade. He proposed that over lunch Heads of State or Government and Foreign Ministers should discuss political matters, with a view to deciding whether he should be authorised to make a political statement to the press on behalf of the Conference that evening. Mr Trudeau went on to report a meeting which he had held with Labour leaders from the seven countries some days earlier. They had asked him to put their report before the Conference. The message in the report was essentially the same as that which they had submitted to the OECD: that Governments must be concerned with the social cost of monetary policies, and with fighting unemployment. They had indicated that they were supportive of Solidarity in Poland. They looked to the Conference to take a positive attitude towards the North/South dialogue.

At this point the press photographers left the room.

Mr Trudeau then reverted to the statement of objectives enunciated by President Mitterrand at dinner the previous evening. Heads of State or Government had discussed peace over dinner last night; another objective enunciated by the President of the French Republic was that each should help the other. He (Mr Trudeau) thought that this might be the theme for the macro-economic discussion. As Heads of State or Government they should try to go beyond technicalities to the root of the problem, and to reflect on the deep causes of inflation, and how the fight against inflation - still (he took it) the highest economic priority -

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could be pursued without undue social costs, particularly in unemployment. They should consider how they could minimise those social costs, whether by a different mix of policies or by remedial measures, and how to help each other, recognising that the policies of each affected the rest and that consultation should be an on-going process. He invited the Japanese Prime Minister to open the discussion, as the representative of a country whose Government had succeeded in fighting inflation without excessively high social costs.

Mr Suzuki (Japan) welcomed the opportunity to address the Conference. During his travels he had been fortunate in getting acquainted with many of his colleagues around the table. Their cultural and historical backgrounds might be different, but he had become aware of the significance and value of leaders of the main industrialised democracies getting together and dealing with their problems. He welcomed the opportunity of sharing his broad perceptions with his colleagues on this occasion. If the West was to achieve peace and stability, it was necessary to address the problems not only of the Third World but also of the Western nations in the longer term. The West needed to deal effectively with the continued Soviet military build up and Soviet incursions into the Third World. They needed to reorganise and revitalise the Western economies and revive the economic strength of the West. And they must work on North/South problems, and the stability of the Third World. They should tackle these issues from a political and economic as well as from a military point of view, and consider a wide range of measures in a comprehensive manner. It was up to the West to prove that its values, ideas and institutions were superior to all others. It was above all important to achieve a secure military balance with the East. It was for this reason that it was important to revitalise the economies of the West and to integrate the effort of the West, to its own benefit and to that of developing countries. He had often spoken of the need for a comprehensive strategy for the West. The strategy should be unified, and each nation should make its own contribution according to its own capacity and situation. There was a need for harmony: a spirit of solidarity and co-operation in the face of world problems. Harmony did not imply complete agreement of views: it was the total sum of all diversities, a blend of interdependence and diversity. From this Summit Conference there should issue a powerful message to the rest of the world on the political solidarity of the West and its determination to revitalise its economy through ingenuity and free trade.

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What should be the West's response to its basic problem? Of course the successive rises in oil prices had created problems, but most of the difficulties for the West were caused by structural weaknesses in their own economies. All the industrialised countries were doing their best to adapt. All needed to do as much as possible to adapt to high technology and to remove social injustices. This should accelerate growth and the recovering of employment.

For Japan the two oil price crises had been a time of severe test. Thanks to the stringent efforts they had made for structural adjustment by the private sector as well as by the Government, they had weathered the storm. They were also helped by favourable labour-management relationships. Japan had suffered from yielding to pressure to act as one of the locomotor economies in 1978. That had left them with a heavy fiscal deficit, currently of \$3 billion. Debt interest was costing them \$2.5 million an hour. They were continuing to pursue a growth pattern based on an increase in domestic demand. They were convinced that the open multilateral trading system was indispensable to the growth of the world economy. From this point of view the Ottawa Summit Conference was timely and significant. It should stress the necessity of the free trading system and send this message across the world. He would be opposed to the inclusion in the communique of any expressions which implied trade restrictions. If increases in imports were damaging particular domestic industries, they should be dealt with under the rules of the GATT. He supported the initiative for a ministerial meeting of the GATT in 1982. That meeting should discuss trade affairs for the 1980s, including the question of safeguards. Difficulties could be solved by suitable macro-economic and structural adjustment policies. Japan was fully prepared to co-operate with other countries in investment in high technology contributing to structural adjustment of traditional patterns of industry.

There still seemed to exist the myth that the Japanese market was closed. It was as open as markets of other countries. Japan would co-operate with others for the expansion of imports of manufactured goods.

There were in the Far East, near Japan, a number of newly industrialised countries. It was necessary to intergrate them into the world economic system. It was important to avoid putting them into a disadvantaged position in relation to other developing countries just because they were being successful. The newly industrialised countries were very interested in the outcome of this Summit conference.

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Interdependence between North and South was becoming stronger. It was therefore increasingly important to look at relations with developing countries with a view to promoting better international economic development and world peace and stability. Japan had doubled its official development assistance between 1978 and 1980, and was now committed to a further doubling by 1985. Assistance would be concentrated on manpower development, agriculture and food production. The industrialised countries should continue with a constructive North/South dialogue. The Asian and African countries were deeply aware of the need for assistance from the industrialised countries. If the industrialised countries did not help, the Soviet Union would get in.

Mr Suzuki supported President Reagan's statement on the prevention of nuclear proliferation and the utilization of nuclear power for peaceful purposes. He suggested that the conference should recommend developing countries to participate in the nonproliferation treaty. Japan hoped for progress in nuclear disarmament discussions. He also welcomed President Reagan's statement about the development of nuclear power and the fast reactor.

Mr Trudeau, commenting briefly on Mr Suzuki's observations, said that it was difficult to make as much progress as was desirable in structural adjustment against entrenched resistance to mobility.

President Reagan said that he would like to tell his colleagues what the United States administration were trying to do in their own country. He welcomed the observations of Mr Suzuki about free trade. The Summit countries should promote free trade and the removal of export credit subsidies. He had great fears of the development of protectionism, both ways, which could be counter-productive and destructive.

Inflation was now world wide, and the world had known the longest period of inflation ever. Previous United States administrations had gone in for intervention, using taxation and Government expenditure to try to influence the economy. When he took office, he inherited from his predecessor budgets for financial year 1981 and for financial year 1982. There was not much that the new administration had been able to do about the budget for 1981,

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but they had gone to work on the budget for 1982. They had gone for the greatest reduction of public expenditure ever attempted: a reduction of \$40 billion in 1982, and a total reduction by 1984 of \$270 billion. They were coupling that with a reduction in tax rates over three years, designed to stimulate the economy and increase productivity. It was not necessary to choose between fighting inflation and fighting unemployment: they would correct unemployment as they corrected inflation.

There had been criticism of the high level of interest rates in the United States. That was not part of the administration's economic package. They had inherited high interest rates. They hoped that, as inflation came down, interest rates would also - and shortly - come down. He felt as badly about the level of interest rates in the United States as colleagues round the table did: they were damaging to the building industry, to the real estate business, and the automobile industry and its dealers. He remained his colleagues that the Federal Reserve System was autonomous, and outside the control of the government. The administration thought that its policies were going to lead to a balanced budget by 1984, and to reduce or eliminate inflation. This should have a good effect world wide.

President Reagan hoped that in the Autumn there could be a high level meeting of COCOM to discuss the development of East West trade and its bearing on the growth of Soviet militarism.

President Reagan hoped that out of this Summit meeting there would come an atmosphere of unity, good will and determination to solve the problems of the free world. We should not be too pessimistic: these seven countries represented 80% of the gross national product of the industrialised world, and there was nothing we could not solve if we put our minds to it.

Herr Schmidt (Federal Republic of Germany) said that the co-operation which Mr Suzuki and President Reagan had talked about was the decisive reason for the fact that the world economy had withstood the upheavals of the last 8 years better than it had withstood those of the 1930s. In the 1930s they had acted in isolation, and the consequences were catastrophic: competitive devaluations, exchange controls, bilateralism, protectionism and export subsidies. The "beggar-my-neighbour" policies adopted at that time

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had led to a level of 6 million unemployed in Germany by February 1932. At least we had not been doing that this time. Nevertheless it was difficult to be too optimistic. The second oil price shock had hit the industrialised countries harder than had been expected, at a time when they had not recovered from the first. It had been a disaster for the non-oil developing countries. The continental countries of Western Europe had been especially hard hit. Only some of their problems had been home made: many of them had been international.

Moreover, since Venice the United States had embarked upon radically new policies. He welcomed the emphasis of these policies on the fight against inflation. As the London Summit conference had agreed, inflation does not reduce unemployment; on the contrary it is one of its major causes. He continued to believe that, and would work to it. But the high level of US interest rates had forced interest rates up in other countries. When he and his ministerial colleagues got back to Germany they would have to tell the German public of the need to tighten their belts, because he had the impression that there was unlikely to be a change in United States policies. He did not mean to be critical, but he had the impression that nobody knew when United States interest rates would go down.

Germany's problems had been exacerbated by previous world Economic Summits. In 1978 he had given in to pressure from the United State's Government to reflate in Germany, and they had accordingly reflated. Germany was still suffering from the effects of that now. They had also bought huge quantities of United States dollars to stem the depreciation of the dollar in the late 1970s. European central banks had acquired \$36 billion in 1977 in support of the US dollar. At that time Germany had been strongly criticised by the Chairman of the Banking Committee of the House of Representatives for pursuing tight monetary policies. The boot was on the other foot now. The economic scene could change extraordinarily quickly these days.

Co-operation still remained the leitmotiv of German economic policy. As he looked back he found a premium on pragmatic economic and monetary policies. Long before the discovery of monetarism, he had prevailed upon the Bundesbank to announce targets for monetary growth: not because he was a monetarist but because the Central Bank should make their plans known to other operators. The Bundesbank had announced targets for monetary growth

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since 1974. These were indicative, not rigid. The Government also used budgetary instruments, and the collective bargaining system was used to keep wage increases down. As a result of these policies the rate of inflation in Germany was the lowest in the world, and their rate of unemployment one of the lowest. They achieved this in the past without needing interest rates in double figures.

He was deeply persuaded that inflation was not just a monetary phenomenon. Autonomous decisions on wages and in the various layers of government played a great role in determining the level of inflation. On monetary growth, the Bundesbank had played it by ear all the time. He hoped that it would be possible to continue this way in the future. They had not sought to prevent short term changes in money supply. The German Government would continue with its middle of the road monetary policies. But he did not see how they could master their problems without some co-operation and a good deal of pragmatism. That approach had served us very well for the last 30 years, and would continue to do so. If we were to return to the "catch as catch can" policies of the 1930s, unemployment would be higher, inflation would be higher, stability would be threatened, and the domestic political fabric might not stand the strain. This would give opportunities for the communists, and for the Soviets, to benefit from wrong economic policies. Of course there was a great temptation to gain a little more time for one's own industry and workers by, for instance, the introduction of non-tariff barriers. We were all doing it, including the Germans. We were all tempted to subsidise declining industries, to intervene in exchange markets, to give export subsidies. We should pledge ourselves to resist the temptation to follow "beggar-my-neighbour" policies. The situation in continental Europe could quickly get out of hand, and the level of alienation of young people and of street protest could go far beyond that which had recently been seen in Britain.

He was not criticising President Reagan but the President should realise the effect of what was happening. Unemployment in Germany stood at 5%. Real interest rates in Germany were higher than at any time since the birth of Christ. This was hitting medium and small businesses very hard. They would not, indeed could not, afford to pay interest rates of 15 or 16%; and as a

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result the levels of activity and investment were declining. Interest rates were being forced up, not because of the high level of inflation in Germany but because of the international network of capital markets and financial flows.

The United States had a key responsibility which none of those represented at the Conference could share. The US Administration also had a responsibility to prevent erratic movements of interest rates. The rest of them wished the US Administration success in their objectives, but asked them to put long-term world needs before short-term national interests.

He had formed the feeling that American policy on interest rates would not be changing. The Federal Government in Germany would therefore have to see to it that public borrowing was controlled, so as to give the Bundesbank freedom of manoeuvre to lower interest rates. They would be forced to cut budget expenditure; they would use part of the proceeds for restructuring with a view to increasing exports and reducing the payments deficit. He would not seek to lay the blame for this on anybody; he would simply tell the German public that that was what he had to do.

Signor Spadolini (Italy) said that the Italian government attached great importance to the Summit Conference as being an expression of Western solidarity and a reaffirmation of Western values, at a moment when the balance between East and West was very important, and when Soviet militarism was on the march. The West must strengthen themselves for the East-West dialogue and for the negotiations on Theatre Nuclear Forces, which he hoped would start soon. The countries of Europe could not afford to make any errors and give the Soviets the advantage of that.

Italy was very seriously affected by inflation; she had the highest rate of inflation in the European Community except for Greece. His government had a policy of fighting inflation, in order together with the social partners to bring Italian politics back to coherence. This was a major challenge, made more difficult by the rise in oil prices. It was not possible just to adopt monetary policies: the economies of the major industrialised countries were inter-dependent, and what was needed was a collegial approach, avoiding the "begger-my-neighbour" policies

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of the type which in the 1930s had led to the destruction of political freedom. It was not possible to deal separately with inflation and unemployment: if we fought inflation, we should be fighting unemployment of which advantage was being taken to undermine democracy. This could only be done successfully with a co-ordinated but differentiated strategy in which the major industrialised nations co-operated according to their needs and situations. Changes in exchange rates in the last 12 months had not been justified by changes in the underlying economic situation, but reflected purely financial movements. That was why it was necessary to have a concerted policy with the United States. If national policies were closely linked simply to the internal situation and were not internationally co-ordinated, the task of all would become very difficult. Failure to achieve this co-ordination could damage political cohesion. Early in 1981 Italy had experienced a substantial decline in inflation and a reduction in interest rates, but the rise of the Dollar rate had pushed both inflation and the level of interest rates up; the widespread indexation prevalent in Italy had contributed to this movement. The level of interest rates had substantially affected the burden of public debt financing. This would lead to slower economic growth. Indexation had made for structural imbalances, with too high a level of resources in the public sector and no productivity in industry. The Administration were proposing higher expenditure in the backward areas of Italy and on industrial enterprise. In other areas of public expenditure, and particularly administrative expenditure, they were proposing reductions. They needed to encourage greater mobilisation of resources for investment in the energy sector, where they needed to catch up with Britain, France and Germany. Support for additional investment could come only from external financing, given the inflationary pressures at home: they would be exploring the possibilities of international co-operation.

For many developing countries external private financing was not possible. We should concentrate aid on these poorer countries. The industrialised countries could not be able to do this unless they encouraged the development of a new international economic order which was credible. Italy would

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play her part as one of the industrialised countries. If we did not help developing countries, we should weaken the integrity of the world economic system. Participation in free trade was necessary to achieve a free world.

President Mitterrand (France) said that the main cause of the current problems of the industrialised countries was not the level of United States interest rates but the structural crisis. France, like other countries, was suffering from inflation and unemployment. Various political experiments had been undertaken by previous administrations to fight first inflation, then unemployment, and then inflation again. The result was that France had both. Increasing the level of interest rates was not the only possible way of fighting inflation, though it was one possible way. He did not propose to discuss the principles of monetarism; he was no monetarist, and in his country inflation was running at 14 per cent and unemployment at 7 per cent. It was the same crisis everywhere, and our economic system was partly responsible. Each country struggled with its own problems: we should act together in co-operation. Policies should be co-ordinated within the European Community, and among the seven Summit countries. Nevertheless we should recognise that we did not agree on all points of analysis. France was adopting another way. In France they were about to reach unemployment levels at which there were risks of enormous social upheaval; these risks exceeded the risks of high inflation. This did not mean to say that he thought it more important to fight unemployment than to fight inflation. It was necessary to do both. But unless they brought down unemployment, the social realities would make nonsense of economic realities. They would follow a policy based on the growth of consumer demand and productive investment, with maximum energy independence. The task ahead was a very difficult one. The explosion of interest rates was damaging medium and small businesses, and leading to higher unemployment. It was no good going back to a simple policy of austerity which would lead to social upheaval and greater pressure for protectionism. In political terms therefore he had sought to obtain quantities of social peace and develop discussions among the social partners. They would be discussing the length of the working week, shift working, working hours and so forth.

Of course they were encountering difficulties. They were faced with the problem of interest rates and exchange markets. He did not blame the United States; they were doing what they could. He noted what President Reagan had said about

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the level of interest rates being inherited from previous administrations. France would try to understand the United States, and he asked his colleagues at the Summit to try to understand the French. Nevertheless, he had to say that economic theories did not help; we had to help each other. He did not wish to accuse or criticise the United States, but the level of United States interest rates was very troublesome for France, was reducing France's economic potential and affecting her political and military responsibilities. If we were to uphold our common goals and maintain our independence, we must act together. It was not just a question of the high cost of money: everyone would hope that the United States would bring their interest rates down when they could. It was the combination of high interest rates and erratic exchange rates. President Mitterrand recalled that the Venice Summit communique had included a commitment to the avoidance of disruptive fluctuations and to stability of exchange markets; he also recalled a similar commitment made by the International Monetary Fund after the Jamaica Conference. When the International Financial Institutions had been created, it had been accepted that there was need for some flexibility within margins. Other countries could accept a high level of interest rates, for 3, 4 or 6 months, since this would help to reduce inflation and thus could improve the situation for all the countries concerned. But the conjunction between high interest rates and fluctuating exchange rates created an impossible situation, in which all that other countries could do would be to act like a boxer who crouches and raises his arms to protect himself. He had his own people, the French people, with their problems and conflicts. They were not perfect; they tended to take the easy way out. If they could not count on the support of their partners, they tended, like other people, to turn in on themselves.

Turning to trade, President Mitterrand, noted the large amounts of goods coming in from Japan. All that happened in the name of free trade. He was not against the open multilateral trading system. He noted, however, that all the countries concerned used protectionist measures of one kind or another. He suggested that it would therefore be a good idea to take stock of all our mechanisms so that we could move towards dismantling those mechanisms and towards freer trade. It was not just a question of Japanese exports: there were problems within the European Community of Italian wine, German steel and American soya oil. No doubt France was not without guilt herself.

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We should set up a comprehensive list of all these problems. He was not against a Ministerial meeting of the GATT, but it would be vital for the Economic Community countries to meet in advance of such a conference, if conditions were to be created which enabled an agreement to be reached. Within the European Community this suggested that these questions might well need to be considered at a meeting of the European Council. There were problems for the developing countries with exports of raw materials; and there was no policy between the industrialised countries covering movement of manufactured goods.

He thought that the proposal for a meeting of COCOM was useful, and France would attend if such a meeting were organised. Here again it would be important to state clearly what was now being sold to the Soviet Union and other European countries. Could we do without that market? Would the products which we were asked not to sell in that market be those which we were able to sell best? Would the goods which were banned be those which would help the build-up of Soviet military strength? President Mitterrand recalled recalled that the British blockade of France during the Napoleonic wars had not worked. He asked why it should be permissible to sell grain to Eastern Europe and not goods. On these matters we needed to fight together against others, not amongst ourselves.

He was not attacking the United States, but he hoped that President Reagan and his colleagues would hear what the European countries were saying about the level of interest rates. The United States carried the main burden of the alliance and the rest of us had to be grateful; but we also hoped that the United States would hear what we said. He did not want to be faced with a social situation in France which might prevent him from fulfilling his alliance commitments. If the alliance was strong and clear, it would be able to negotiate from strength with the Soviet Union.

Reverting to the question of industries, President Mitterrand suggested that we should return to the 1971 situation. The Bretton Woods system had served a liberal world for 25 years; it was not illiberal to organise

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the fight against inflation and the defence of the free world. We should not succeed without a clear plan for the development of the free world.

As to the developing countries, it was of course necessary to make all the appropriate humane statements; but it was in our own interests to set up an improved trade position and to create new markets. We all wished to export more high added-value products, and to expand our export markets. It was no good just continuing to exchange goods among ourselves at ever increasing prices without any increase in the real volume of trade.

Mrs Thatcher (United Kingdom) said that she had not prepared a statement, and would like to offer some comments on what her colleagues had said. She said that Mr Suzuki was fortunate in the degree of discipline, solidarity and co-operation in the Japanese economy, including good labour-management relations and the high degree of plough-back of profits. The experience of the Japanese economy was an example of the fact that in a recession it was the most efficient economy that rode it out best.

President Reagan had suggested that there should be a high level meeting of COCOM; she would like to support that proposal. It would be timely to discuss the trading policies of the West with the Soviet bloc, particularly in the field of high technology.

She agreed with Chancellor Schmidt that, even if we had all followed sound economic policies, we should by now have been in trouble on employment as a result of the second oil price shock, which had had the effect of diverting into purchases of oil resources which would otherwise have gone into investment. For many of the industrialised countries, including the United Kingdom, a further problem arose as a result of competition from countries now producing the kind of goods in which the industrialised countries used to specialize. All these factors underlined the need for structural change and adaptation.

Mrs Thatcher endorsed the quotation from the communique from the London Summit to which Chancellor Schmidt had drawn attention: inflation was not a remedy for unemployment, but one of its major causes. If we were to have expansion

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it must be soundly based. This had not been the case in the United Kingdom, which had suffered from an explosive increase in the money supply far exceeding the expansion of output: over 10 years money supply had risen by over 300 per cent, while output had risen by only 16 per cent. This underlined the importance of fighting inflation as a means of fighting unemployment. Pouring money into the economy would just push up both inflation and unemployment. The policies which the British Government had been following had brought inflation down from 21 per cent to 11 per cent, had reduced wage settlements, and had laid the foundations for an increase in productivity. The Government was following strict budgetary policies, and though public expenditure had risen as a proportion of gross national product, the Government was intent on getting it down. The strict budgetary policies had enabled Britain to have a minimum lending rate of 12 per cent. These rates were still high, and it was to be hoped that, in order to improve the prospects for employment and expansion, United States interest rates would come down. She knew that President Reagan found the present level of interest rates in the United States as troublesome as the rest of the world did for its effect on medium and small businesses, on the real estate market, the construction industries and other industries, and she was sure that he would do everything in his power to bring about a fall in interest rates.

Recent changes in relative exchange rates were not wholly attributable to interest rate differentials. ~~Not all exchange rate problems would be solved when interest rates came down.~~

In the United Kingdom the Government had taken strong measures to change the structural distribution of industry, in the steel and shipbuilding industries, for instance. Like Chancellor Schmidt they were following middle of the road monetary policies.

Mrs Thatcher agreed that one of the objectives of this Summit Conference should be to stem the tide of protectionism. We should put aside the self-protection which we all practised. She would be one of those who would wish to see non-tariff barriers coming down. It did not help to pay lip service to free trade without reducing such barriers

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as the "Buy American" provisions in the United States, the barriers on agricultural imports into the European Community, and export credit subsidies. The industrialised countries should try to tackle these matters, because they caused distortions in the economic pattern. No country should concentrate its exports in one small sector of industry to a particular country. It was for these reasons that certain British industries had agreements with Japanese industries. That was in her view the right way to resist worse tendencies to protectionism.

Mrs Thatcher thought that some of those that had spoken were too pessimistic. The last 2 years had been chiefly dominated by worries about possible further price rises. For the moment the world economy did not face the prospect of an early rise in oil prices, thanks to the stabilising effects of Saudi Arabia's policies. That gave us a tremendous opportunity: if we could all agree to pursue soundly based economic policies, we could have soundly based expansion. We could not expect to get back the higher growth rates of ten years ago, with corresponding increases in the rate of growth of public expenditure, and we should not encourage our peoples to expect them. But there were grounds for cautious optimism if we all followed soundly based policies, co-operated to the maximum extent possible, and emerged from this Summit Conference united in our objectives.

M Thorn (European Commission) thanked Mrs Thatcher for her analysis of the causes of the crisis which we faced. Its origins lay partly in the problem of oil price rises but also in our own failures, including our failure to put sufficient research and development into alternative sources of energy. There should be no mutual recrimination; we should see how we could help each other. We needed solidarity among ourselves, and with countries not represented at the Summit.

The recession proved worse for Europe than for the United States and Japan. In the European Community the average rate of unemployment was rising towards 9 per cent. Some saw the possibility of a reasonably early recovery, but he was less optimistic. In Europe they expected, recovery of about 2 per cent - half that of Japan: the rate would be higher in Germany and lower in some other countries. With that moderate rate of recovery, unemployment was expected to increase still further.

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It was against this background that the countries of the European Community were concerned about the high level of interest rates in the United States and the erratic course of exchange rates, which were affecting prospects of recovery. They wanted the courageous attempts of the United States to fight inflation to be won, so that interest rates came down. President Reagan had said that it was not United States policy to have high interest rates; but because of the size of her economy and the importance of the dollar as a key currency, the United States had a special responsibility. If the recovery of the dollar went too far and too fast, it would be very damaging to Europe. The Japanese Prime Minister had stressed the importance of research and technological development; but that meant investment, and it was questionable whether Europe could at the present high rates of interest finance the debt burden imposed by such an investment. No one wished to criticise the United States, but it was desirable to study the reasons for the high level interest rates and erratic exchange rates. Countries in the European Community would have to take unpalatable but necessary measures, which would be the tougher given that monetary policy was already tight in Europe even before American interest rates rose to their present levels. The room for manoeuvre was limited, and, if action had to be taken to reduce payments deficits, it would be the more difficult to reduce unemployment and revive growth. It was to be hoped that the United States Administration would not be too dogmatic in their policies of non-intervention and monetarism. If the exchange rate of the dollar were to rise considerably and then to fall back sharply, there could be a disaster.

On trade, M Thorn said that co-operation among the industrialised countries was essential.

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The European Community favoured an open liberal trading system. They agreed that protectionism would be suicidal. They wanted to open up and liberalise trade flows, but that became more difficult as each country tried to protect its own industries. Words and speeches would not be enough. The European Community would support the initiative for a ministerial meeting of the GATT in 1982, but that meeting should be well prepared, certainly in the European Community and perhaps also in the course of preparations for the next Summit Conference.

To the Japanese Government he would say that, if the fight against protectionism was to succeed, they would need not to go too far. If freedom of trade was to be guaranteed, it needed to be generalised: markets needed to be open not only in Europe but also in Japan. The Japanese should also be mindful of the fact that the concentration of export growth in particular products could produce a reflex of panic in importing countries.

Mr Trudeau (Canada) said that there was very little he wished to add from the Canadian point of view. Canada's position was essentially one of interdependence. Seventy per cent of her trade was with the United States. When he heard other colleagues talk of the effects of interest rates and erratic exchange rate movements, he reflected that Canada was the classical case. Since misery liked company, he was glad to welcome others to the club.

Since the Venice Summit Canada had had the opposite experience from other countries: they had had some increase in inflation, but they had managed to reduce unemployment by a job creation rate which was the highest of any in the OECD. But Canada was caught in the same trend as the rest of the industrialised countries. If he drew any inferences from this Conference, it was that Canada would have to fight inflation even harder, and even at the expense of the rate of growth. In Canada wage demands had not come under the same pressures as in some of the other countries represented round the table. They were paying the price of growing a little faster than other industrialised countries in the last year. The effect of the high level

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of interest rates was to increase the cost of debt finance by \$1½ billion compared with the original estimates for 1981. Canada shared the concern of other countries in seeing an early reduction in United States interest rates.

He had considered, following the morning's discussion, what further directions could be given to Personal Representatives. They would wish to look further at the draft language on the international economic and financial situation in the light of the discussion. It would be for consideration whether the Summit Conference could establish mechanisms for consultation between Summits. Further work would have to be done on the trade section of the communique; this could perhaps be considered by Finance Ministers over their lunch.

The meeting adjourned at noon.

The discussion was resumed in plenary session at 3.00 pm.

President Reagan (United States), commenting on the morning's discussion, said that he agreed with Chancellor Schmidt that during the 1970s the United States had created problems for the European countries. He did not wish to see that process continued. His Administration had inherited a high level of interest rates, and was at least as keen as other countries to see them come down, because the cost of debt financing made it more difficult for them to cut their budget deficit. The prosperity of the United States for the first 150 years had been built on a total absence of intervention by the government in the American economy. This aspect of American affairs had been noted by De Torqueville. America had changed course after the Great Depression. There were now 79 million Americans employed in the private sector, who were the source of the Government's revenue. No fewer than 82 million Americans were dependent upon the Government in one way or another for their livelihood, and 1 out of 5 Americans were employed by the United States Government. His Administration was aiming at reducing the government's share of the GNP. For many years it had run at 18-19 per cent. Now it had

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gone up 23 per cent, and it was the object of his Administration to get it back to 19 per cent. They intended to achieve this reduction in public expenditure without significantly diminishing care for the genuinely needy. Grants to the disabled, the unemployed and the poverty stricken would continue at 95 per cent of their former levels. Most of the savings in that area should come from the elimination of fraud and mismanagement. As for aid to the Third World, too much of the United States aid had gone to line pockets and not to help those whom it was meant to help. They had formed a task force to go to the aid of Jamaica. They had got together with Canada, Mexico, Venezuela and others to help in the Carribbean.

They had not yet had an opportunity to deal with interest rates; but they were already beginning to see signs of the reduction of inflation, and that could be expected to continue as measures to reduce government expenditure took effect. They would be reducing government regulation of the United States economy. Their allies should watch what the United States Administration did, not what the press thought they were doing. What they were doing would be co-ordinated with their Allies to the best of their ability. The United States and her Allies should always be talking to each other rather than about each other.

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OXO



~~M. Alexander~~

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With the Compliments
of the
Chancellor of the Exchequer's
Private Secretary

Treasury Chambers,
Parliament Street,
S.W.1.

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20/7/81

CHANCELLOR'S MEETING WITH THE SECRETARY OF THE US TREASURY

The Chancellor called on Secretary Regan at Chateau Montebello on Monday 20 July 1981 at 0800. Mr. Marc Leland was also present.

Regan said the US Administration had been much preoccupied with domestic economic policy during their first months in office; he had been unable to attend the Libreville meeting because of the need for urgent discussions in Washington of the Administration's tax and expenditure proposals. Action on the tax cut should be complete in two or three weeks, and the way would be open for him to devote more attention to international economic questions in the autumn. He would want to establish closer relations with Finance Minister colleagues, if only by telephone.

Approach to the developing countries

Regan noted that interest rates had been fully covered at the Finance Ministers' dinner on 19 July. (The Chancellor commented that it was as well to have confronted this issue at an early stage, and in an informal way, even if there had been rather too much concentration on the US situation). What could the US now do in other areas which would be helpful? The Chancellor said there could be no getting away from the urgent needs of the developing countries, and that it was important therefore to support the work of the existing International Financial Institutions (IFIs). However, this should be directed, so far as possible towards helping developing countries to help themselves - they should be ready to take advantage of inward investment and to develop export markets. Conditionality should be maintained for IMF lending, but this should be done in a way which took into account developing countries' sensitivities: at the 1980 Commonwealth Finance Ministers' meeting, criticism had focussed on the "hauteur" of the IFIs rather than on their policies.

Both Ministers recognised the Budget constraints affecting the aid-giving capacity of most potential donors other than OPEC. The UK continued to have a good record in terms of aid volume, support for the IFIs and concentration on the poorest countries;

/but the growth

but the growth in aid planned by the previous Government could not be sustained when the volume of public expenditure had already been cut 5 per cent below the previously planned level, with expenditure on housing programmed to fall by more than 50 per cent in real terms. Regan said that the US simply did not have the budgetary capacity to sustain any sort of Marshall Plan for the developing countries.

Global negotiations

Regan criticised the concept of global negotiations (GN); no clear account could be given of what they should cover and what might come out of them. But it seemed that the developing countries wanted to set up some new arrangements to supersede the existing IFIs, in which they would have the majority of the voting power but to which the US would still be expected to contribute 30 per cent of the costs. The countries which provided the money could not accept this. Some of the other industrial countries were wasting their time commending GN to the US; Trudeau would have been much better employed urging on President Reagan the need to provide funds for IDA VI - but he had not mentioned this. The Chancellor agreed generally with the US approach; GN would tend to institutionalise North/South conflict, and in so doing threaten the work and achievements of the existing IFIs.

Energy Affiliate

The Chancellor said he had been sceptical about the possibility of setting up a new institution in the IBRD group, which would add further to international bureaucracy. But a recent conversation with the Kuwait Minister of Finance (Hamad) had suggested that this might be a way of mobilising more OPEC money through an institution in which OPEC would have a much larger share of the vote than in the IBRD itself. Regan said he saw no sign that the Saudis wanted a separate Energy Affiliate; and the US preference remained for working through the IBRD, while encouraging more partnership with the private sector. The main obstacle to the development of new energy sources in the third world was these countries' fear of foreign exploitation; thus India had sought IBRD assistance towards development of her most promising oil fields, which could perfectly well have been left to the private sector, while permitting overseas investors to participate only in the less attractive locations.

tive locations. There were also signs that some of the Arabs were beginning to have reservations about helping developments which would in time erode their position in the world economy.

Half yearly meeting of the IFIs

The two Ministers agreed that it would be better to discontinue the spring meetings of the Interim and Development Committees, which served no real purpose. An alternative would be to insist that they took place in Washington (competition for the 1983 meeting might open the way for this to be suggested). Leland suggested that the developing countries should in some way be offered the costs to the IFIs of meeting outside Washington as a free gift.

Export Credit

The two Ministers agreed on the need to maintain the consensus; the signs of greater flexibility on the part of the new French Government were a welcome development. Leland asked how far it was realistic to expect the Japanese to stick to a consensus rate higher than current market rates for yen financing; would it not be sufficient if they charged $\frac{1}{2}$ per cent over the equivalent market rate for officially provided export credit funds? The US agreed, however, that the Japanese should be pressed to allow banks and exporters in other countries to have access to yen financing on terms comparable with those available to Japanese exporters.

Trade with Japan

Regan commented on the problem posed by Japanese exports. The US customs had discovered documentary evidence that Mitsui had been dumping steel in the US on a large scale, while keeping false records in order to conceal this. Under such circumstances the system of trigger prices designed to prevent imports at prices below the benchmark set by Japanese production costs could not work satisfactorily. The case was likely to give rise to a good deal of difficulty in economic relations between the US and Japan. He also noted the problems caused by the "laser beam" technique whereby the Japanese concentrated very heavily on manufactured exports in narrow industrial sectors; they seemed to be planning now to seize a large share of the market in large computers by 1990, to the disadvantage of /IBM and other

IBM and other US producers. Action of this kind by the Japanese made it all the more difficult for other countries to resist protectionist pressures, as the US were very anxious to do - it was essential to maintain the advantages gained over 35 years through the open world trading system, despite present difficulties with unemployment.

Deregulation of US gas prices

The Chancellor endorsed the need to maintain a liberal regime for world trade. But the UK was bound to take notice of practices by other countries which seemed unfair. Access for US producers of man-made fibres to raw materials at prices well below market clearing levels were a case in point; US firms with the advantage of regulated gas prices were forcing the closure of modern plants in the UK - and particularly in Northern Ireland. Regan said that the US Administration wanted to make progress with deregulation in order to encourage exploration; there seemed to be a good deal of gas all down the Eastern seaboard and the Appalachian chain. But the speed with which they could move was limited by the need to avoid damage to confidence through an upturn in the CPI; the process should nevertheless be complete by 1983. The Chancellor undertook to arrange for Regan to be given further information clarifying the scale of the problems for UK industry represented by US gas prices.

JW

A. J. WIGGINS

20 July 1981

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cc: Hunt

DSS

10 DOWNING STREET

From the Private Secretary

20 July 1981

cc: Mester

Dear Brian

THE ITALIAN PRIME MINISTER

The Prime Minister had a discussion with the Prime Minister of Italy, Signor Spadolini, earlier today. Signor Spadolini was accompanied by Signor Berlinguer.

At the outset of the discussion, the Prime Minister invited Signor Spadolini to visit the UK at a convenient time. Signor Spadolini expressed his thanks but did not suggest a date or, indeed, indicate any intention of proposing a visit in the near future.

After a brief reference to the discussions yesterday evening and this morning, which both Heads of Government agreed had been positive, the Prime Minister asked Signor Spadolini for his assessment of the effects of President Mitterrand's electoral victory and of his decision to take Communists into the French Government. Signor Spadolini said that the fact that there were Socialist Governments in France and Germany undoubtedly made Italy easier to govern. It lent strength to the Italian Socialists. Signor Craxi's policies were on the same lines as those of Chancellor Schmidt. Signor Spadolini had the full support of the Socialists on such issues as the stationing of cruise missiles in Italy.

As regards the entry of Communists into the French Government, Signor Spadolini said that in one sense it was a negative development in that it created a precedent. Much had been done in recent years to exclude the Communists from Italian Governments and to strengthen the position of the Socialists. However, Signor Spadolini had found the justification given to him in Luxembourg by President Mitterrand for his action persuasive. He accepted that the long term consequences would be a further weakening of the position of the Communist Party in France. President Mitterrand had made it clear that he was prepared to part company with the Communists if they did not adhere to his policies. Moreover, President Mitterrand's firm commitment to the Atlantic Alliance, to the need for a strong Western European defence capability and, in particular, to the need for

/ a strengthening

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a strengthening of the military posture of the United States, created real difficulties for the Italian Communists. So long as the French Communists remain in President Mitterrand's Government, they were committed to the policies which he advocated. The Prime Minister agreed with this analysis and noted how useful it was to her to be able to contrast the policies of the Socialists in France with those of the Socialists in the United Kingdom.

Signor Spadolini said that he thought President Mitterrand's only mistake had been to give the transport portfolio to the Communists. The Prime Minister agreed. The Minister of Transport was in an influential and sensitive position. More generally, she thought it would be difficult for President Mitterrand to control the flow of information to his Communist Ministers. Signor Spadolini commented that given the Presidential structure of the French Government, it might be easier for him than it would be in, for instance, Italy or the United Kingdom.

In a brief reference to this morning's discussion, Signor Spadolini said that in his view President Mitterrand's restraint in commenting on the consequences for Europe of the high interest rates in the United States showed his gratitude for the restraint which the US had earlier shown in commenting on his decision to have Communists in his Government.

The remainder of the discussion between the two Heads of Government was about the domestic problems of the Italian Government and in particular about the economic situation in Italy. Signor Spadolini said that his Government were struggling against inflation which was currently running at 21% per annum. The basic political problem was how to cope with the Communist controlled trade unions who set an unacceptable political price - the entry of the Communists into the Government - on their co-operation. No social pact was possible in Italy. Many of the trade unions were content to see inflation continued since it weakened the present structure of Italian society. Signor Spadolini invited the Prime Minister to reflect on the difficulties of running a country which, in addition to the inefficiencies of a large nationalised sector and of universal indexation, had a work force the majority of whose members took as their model the Soviet Union.

The Prime Minister asked Signor Spadolini whether he thought he could implement the cuts in Government expenditure which he was seeking in order to reduce demand. Signor Spadolini said "I hope so". But in order to do so he would have to make concessions to the trade unions on price controls. There would have to be controls on some of the staple items such as bread and pasta. There were signs that some of the trade unions would be prepared to join in the fight against inflation provided the real value of their members' wages was kept intact. In return for price controls and some reduction in taxation, some trade unions had agreed to a review of the indexation system, and in particular the escalator clause in wage contracts.

/ The Prime Minister

The Prime Minister asked where the cuts in Government expenditure were likely to fall. Signor Spadolini referred to health, education, social security, local government expenditure and "movement of personnel". He was hoping to secure a 4% fall in the inflation rate, i.e. from 21% to 17%. This would enable him to cut interest rates which were presently at 26%. It was vitally important that he should succeed in doing so because at present small businesses in Italy were choking to death. This, if it continued, would have a most damaging effect on the nation's economy.

I am sending a copy of this letter to John Wiggins (HM Treasury).

Yours ever

Richard Alexander

Brian Fall, Esq.,
Foreign and Commonwealth Office.

SUBJECT

file 1/10

CONFIDENTIAL



10 DOWNING STREET

From the Principal Private Secretary

20 July 1981

BILATERAL MEETING WITH PRESIDENT REAGAN

The Prime Minister met President Reagan alone over breakfast this morning. Subsequently they were joined, on the British side, by the Foreign and Commonwealth Secretary and Sir Robert Armstrong, and I attach a note of the discussion.

I am sending a copy of this letter and of the attachment to John Wiggins (H.M. Treasury) and David Wright (Cabinet Office).

CAW

Brian Fall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

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NOTE OF A MEETING BETWEEN THE PRESIDENT OF THE UNITED STATES OF AMERICA AND THE PRIME MINISTER IN PRESIDENT REAGAN'S SUITE AT CHATEAU MONTEBELLO AT 0855 ON MONDAY 20 JULY 1981

PRESENT

The Prime Minister
Foreign and Commonwealth Secretary
Sir Robert Armstrong
Mr. C. A. Whitmore

President Reagan
The Hon. Alexander M. Haig, Jr., Secretary of State
The Hon. Donald T. Regan, Secretary of the Treasury
The Hon. Edwin Meese, III, Counsellor to the President
Mr. Richard Allen (National Security Adviser)

The meeting followed a breakfast at which the President and the Prime Minister met without advisers.

Global Negotiations

The Prime Minister said that she and the President had touched on what might be said about global negotiations in the Communiqué earlier at breakfast. The President did not like the term "global negotiations" any more than she did, for it was impossible to envisage negotiations that were genuinely global. At the Economic Summit in Venice last year, she had put forward the view - which President Reagan shared - that it was important that more aid should be given bilaterally and less multilaterally. This approach, however, was not acceptable to everybody, and she did not want to find that the United States and the United Kingdom were put in the dock and held to be against helping the Third World - not least when the Americans were giving more aid than anybody else. For this reason, she was prepared to go along with what was said in the Communiqué about the global negotiations. This was a matter on which tone of voice was very important.

Mr. Haig said that he agreed with the thrust of the Prime Minister's comments. This was a subject which could all too easily get out of hand, and it was essential to retain some control of it.

/Mr. Meese added

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Mr. Meese added that the United States had prepared a revised form of words which talked about "a readiness to participate in preparations for a global negotiation process". They felt that this was sufficiently low key to be acceptable. Mr. Trudeau was ready to go along with it.

The Foreign and Commonwealth Secretary said that it would not be possible for the Prime Minister to take the lead in responding to the new American formulation. The European Community had agreed on a form of words on the global negotiations at the last meeting of the European Council and since we had the Presidency, we could not simply abandon those words in favour of the American version. There would, however, be no difficulty about our giving support to the Americans, provided some one else took the lead and especially if the French and the Germans were content.

The Prime Minister said that Sir Robert Armstrong and the other Personal Representatives should pursue the matter.

Trade with Japan

The Prime Minister said that we had to get over to the Japanese ^{that} the practice of concentrating their export efforts on certain narrow fronts - the so-called "laser technique" - was likely to kill the industries concerned in the countries importing their products. They must understand that they could not continue in this way. The United Kingdom was an open trading nation and wanted to remain so. We exported 33 per cent of our GNP, more than any of the other countries represented at the Summit. We wanted the open trading system to continue. But if the Japanese went on trading in the present way, there would be a rising tide of pressure to introduce protective measures against them. We should have to work on the Japanese primarily behind the scenes, though we should need some suitable words in the Communiqué.

Mr. Meese said the Americans shared the concern expressed by the Prime Minister. The question was how to achieve our objectives without it appearing that we were ganging up against the Japanese. He believed this should be a minimal part of the Communiqué. Mr. Haig said that he believed that the wording in the draft Communiqué was satisfactory, though he understood that the French were seeking a more protectionist form of words.

/ Sir Robert Armstrong said

Sir Robert Armstrong said the European Commission had suggested a form of words which made reference to keeping the problem "under review". This would be a helpful means of keeping up the pressure on the Japanese.

The Prime Minister said that the problem arose largely because the Japanese were very efficient. They were already ahead in many sectors of advanced technology. They had virtually no strikes and their workers enjoyed a lower standard of living than their counterparts in the West. The Japanese labour force was very well disciplined. One-third of all Japanese profits was re-invested. The fact was that most Western countries simply could not match this kind of industrial competition. If we fired a warning shot now at the Summit, it might mean that all of us, including Japan, would face fewer problems later. Mr. Regan said that he was sceptical that the language in the Communiqué would have the desired effect. He accepted that it was better than nothing but he doubted whether the Japanese would back off. They would go on doing whatever they wanted to do and they would find the necessary means to do so.

The Lebanon

Mr. Haig said that the Americans had had confirmation that there had been an Israeli ground attack overnight in South Lebanon. There were also reports of a further ground incursion and a landing of helicopter-borne troops in South Central Lebanon. The PLO had continued their rocket attacks against Israel overnight, and Israel had responded with air strikes. Mr. Habib had seen Mr. Begin yesterday evening. Mr. Begin remained opposed to a ceasefire because he believed it would allow the PLO to build up their strength, particularly in heavy armaments, but he had told Mr. Habib that he would present his plan for a ceasefire objectively to the meeting of the Israeli Cabinet which was due to take place the following day. Generally, the situation remained very tense, and Israel was preparing to move substantial forces into the Lebanon.

/ President Reagan said

President Reagan said that the United Nations seemed to be largely ineffective in the Lebanon. He thought it would be a good idea to strengthen UNIFIL.

COCOM

President Reagan said that he thought there would be advantage in holding a meeting of COCOM at a high level in the autumn. The meeting would not deal with specific cases of trade with the Eastern Bloc but would concentrate on improving COCOM's guidelines and furthering the exchange of information between the member countries.

Mr. Haig said that he saw such a meeting as having two outcomes. First, he thought it should unblock the supply to Warsaw Pact countries of a host of non-critical, low-technology items which were at present held up. Second, it would result in tighter control being exercised over the supply of high technology items. COCOM was in a shambles at the moment and it was important that the member countries all brought their thinking into line. He did not think the Germans would cause difficulties.

The Foreign and Commonwealth Secretary said that we should have to be sure that enough agreement would be achieved to justify holding a COCOM meeting at a high level. Nothing could be worse than having such a meeting ending in disarray. There were no difficulties about the proposed meeting as far as the UK was concerned, but there might be problems with some of our allies.

Interest Rates

The Prime Minister said that she and the President had touched upon the problem of US interest rates over breakfast. The British Government had given the highest priority to bringing down the rate of inflation in the UK. This was essential for both future investment and the social fabric of the country. Low inflation was vital for confidence in the future. We had now brought down our rate of inflation from over 20 per cent to about 11 per cent, but it would be difficult to get it down any further now that the pound had fallen against the dollar because of US interest rates. We were, in effect, now importing inflation. The same was true of /other members

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other members of the Community. The UK had not responded by putting up its own interest rates. Nonetheless, nobody at the Summit wanted a public row about this. She would back President Reagan's strategy of giving the highest priority to the fight against inflation and she would support his policy of cutting public expenditure and taxation. But it would be very helpful if he could say that he did not want high interest rates and that he hoped that they would drop before long.

Mr. Meese said that it would be very helpful if the Prime Minister took that line later that day. President Reagan had inherited high interest rates and they were not a deliberate part of his policy. He was taking a number of measures which he hoped would bring down American interest rates. US tax cuts were not designed to increase the budget deficit but to deal with the fact that the Carter regime had built in a 22 per cent increase in taxation over the next three years.

Mr. Regan added that the decline in other currencies against the dollar was not due only to high US interest rates but also to increased confidence more generally in the United States and its economic policies.

The meeting ended at 0920.

JAW.

20 July 1981

CONFIDENTIAL

21.7.81

1. FLAVOUR OF MEETING

Tribute to Mr. Trudeau's chairmanship.

Excellent arrangements made by the Canadians in Montebello. Very good idea to have all the delegations and all the meetings in one building away from it all. This promoted a sense of coherence that was reflected in the discussions.

This is my third Economic Summit. Over that period we have increasingly given time in our discussions to the major political issues of the day, such as Afghanistan and the Middle East, as well as to the economic problems facing us. This development reflects reality. Political issues and economic matters cannot be isolated from each other and treated separately. They interact at every level, national and international. This reality was recognised more at this Summit than at any other.

Result was a workmanlike, balanced discussion comprehending all the major problems, economic and political, that face the Western world.

2. WORLD ECONOMY

At the last two Summits in Tokyo and Venice our work was overshadowed by the impact of the second oil shock on the world economy. We considered the impact it would have and how we should react to it. This time we have met in the trough of the recession which that shock produced, but have had to look at the whole range of economic questions - the twin evils of inflation and unemployment, the need to adapt our economies and attitudes in order to beat unemployment and monetary disorders producing high interest rates and volatile exchange rates.

We were agreed on the need to fight inflation as the precondition for defeating unemployment, and on the need for low monetary growth, for reduction of public borrowing and for tight control of government expenditure. We are all giving effect to these principles in our own policies, according to our different circumstances.

3. DEVELOPING COUNTRIES

I take away three salient thoughts from our discussions on relations with developing countries. The first is that we share many of the problems of the world economy with them: the need to develop energy resources, to encourage investment, to maintain creditworthiness, to fight inflation and unemployment, to expand trade. The second is that we welcome discussion

discussion with developing countries in whatever forms are useful. The third is the particular needs of the poorer countries. We agreed to direct the major portion of our aid to the poorer countries and the UK has a good record on that.

4. MIDDLE EAST

We have been meeting in the shadow of a further outbreak of fierce fighting in the Middle East; once again the unfortunate people of the Lebanon are bearing the brunt of a conflict that is not of their seeking.

Even if our analysis of the causes may differ, we all agree on the need for an urgent cease-fire in the Lebanon, for an end to the loss of innocent civilian life there and, above all, for a solution to the conflict between Arab and Israeli from which this violence flows. For the UK and for the European Community I pledge a continuing effort to use all our influence for this purpose.

5. EAST/WEST

We also discussed the East West scene, the concern that all of us feel about the extent of the Soviet military threat to our interests. I have been immeasurably heartened by the strength of common purpose that I sensed in our discussions. We all agreed - and agreed with real determination - on the need to maintain a strong defence capability and to insist on the reality of military balance.

/ Of course

Of course that goes hand in hand with our readiness to negotiate arms control agreements that will ensure genuine security for us all at a lower level of weaponry and resources.

But we have reasserted with total firmness our resolve to defend ourselves and to do what we can to help others who so desire to defend themselves too and to preserve their own independence and security.

PRIME MINISTER

YOUR VIEW OF SUMMIT

Because Fleet Street is five hours ahead the Press are obviously extremely hard pressed today to round up the Summit.

They would greatly appreciate a quote from you which they could incorporate in their stories, embargoed until 5 p.m. Canadian time (10 p.m. London)? Content with the following:

"This has been a very valuable Summit though it has unhappily been overshadowed by the deepening crisis in the Middle East.

I strongly reiterate our call for the utmost restraint in that area.

Our overall discussions and particularly on East-West relations, the world economy and North/South issues were conducted in an excellent and constructive atmosphere. All of us, I am sure, know each others minds much better on a very wide range of issues.

And I am impressed and encouraged by our general resolve to negotiate on armaments from a position of strength."

Bush

PRIME MINISTER

PRESS CONFERENCE

Mechanics

Your usual end of Summit press conference is to be held in the UK room at the Chateau Laurier (Salon Palladian) at 5.55 pm. We are trying to restrict it to the British, Canadian and a few US correspondents, though it is not possible to be absolutely certain of confining it to those nationalities.

It now appears that there is no shortage of time and that you will therefore be able to give separate radio and TV interviews to BBC, ITN, IRN and COI (five in all). Nonetheless, given the tendency for people to change their minds in Canada, I have agreed to their filming and recording the press conference.

At the end of the press conference (which I suggest you end after 25 minutes), we shall proceed to our press room on the first floor - one floor above the press conference room - for the short radio and TV news interviews.

I cannot I fear recommend you to give Canadian TV interviews; five is enough for anyone after a press conference.

/ Substance

Substance

As I see it you have four presentational problems:

1. To persuade the British public that the Summit rose to the occasion of the highly dangerous events in the Middle East (see Nick Fenn's brief Annex A);
2. To justify your cautious optimism expressed during the macro-economic discussion against the background of today's unemployment figures and economic forecasts;
3. To clarify your role on US interest rates and Japanese trade, given that others in Europe appear to have been less moderate than you on both accounts; and
4. To explain what some feel, perhaps because of the isolation in Montebello, has been your relatively low-key operation at this Summit; (one of the elements contributing to this feeling is the limited number of bilaterals you have held).

Background

By way of background on the last three points above:

Cautious optimism: I qualified that optimism in my briefing yesterday by the need for continuing oil price stability and the pursuit of sound

/ economic

economic policies; there may be some who will argue that you have implicitly admitted the West is at the mercy of the Arabs.

Your role re interest rates and Japanese trade: as I mentioned this morning there is some evidence that your colleagues have been briefing more toughly than they spoke.

Your low profile: I do not take this too seriously, but some may be trying to suggest that you have kept your head down because you have been shaken by the riots.

Other points

Other points which could come up are:

- Northern Ireland: did you raise it with President Reagan and what did he say/is he going to do?
- North/South: did you really make any progress here? (I said at yesterday's final briefing that you felt that North/South, taken together with the macro-economic discussion, had constituted a very useful and workmanlike day.) They may be particularly interested in your idea of a code of practice for private investment.

/ - Namibia

- Namibia: (See Annex A).

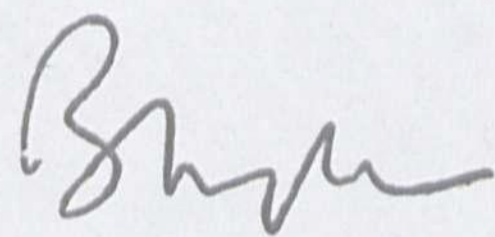
- East-West Relations: the extent to which you are at one on the need to negotiate from strength (see Annex A).

- COCOM: Mr. Haig's views on high/low technology; it is clear to me that the USA is much freer in its briefing on such East-West trade issues than us.

- Patriation: Any significance that you did not reinstate your bilateral with Trudeau?

- Your frustrated interviews with Canadian TV:
Here I have said you always like to give an interview (s) to the local media and that in normal circumstances you would only do this at the end of the Summit. But the time constraints were such that you could only offer yesterday and these had to be cancelled when it was agreed that no Head of State or Government should give interviews until the end.

- What do you think of the Summit (and Reagan/Trudeau contributions)?



21 July 1981

PRIME MINISTER'S PRESS CONFERENCE

POLITICAL QUESTIONS

Middle East

1. A keynote of the Summit was our shared concern and anxiety at the deepening crisis in the Middle East. Deplore violence from whatever quarter. Particularly dismayed at the extent of Israeli bombing in Lebanon and the heavy loss of life there.

2. Conclusions drawn by the Summit:

(a) support efforts to achieve ceasefire (Habib);

(b) call for restraint (in tune with thrust of statement as a whole: "restraint and responsibility");

(c) intensify search for just and peaceful settlement to Arab-Israel dispute. Welcome sense of urgency on American side (forthcoming visits to Washington of Sadat and Begin). The Ten will play their part. Determined to carry forward under British Presidency the work begun at Venice.

3. Comments on FI 6s? Respect/endorse the US view that shipment in present circumstances would be "inappropriate". Final decision for the Americans. Not for us to make a judgement.

East/West Relations

4. Full consensus on need for strong defence capability, political restraint and willingness for dialogue when Soviet conduct makes this possible. Negotiate from strength, e.g. TNF this autumn. Particularly encouraged by common mind among the seven on firm posture towards Soviet Union.

/Afghanistan

Afghanistan

5. Welcome support of Summit for constructive proposals of European Council. Proposal for two-stage conference remains on the table. Soviet coolness unsurprising: but neither the problem nor the proposals will go away. Gathering international support.

Terrorism

6. Welcome declaration. British delegation active to ensure not only utter condemnation of terrorism in all its forms but also effective implementation of Bonn Declaration on Highjacking.

Namibia

7. Not discussed at the Summit. Separate meeting of the Five Foreign Ministers (Canada, France, Germany, Britain, US). The Americans have made useful progress in their discussions with South Africa, but not yet enough. Determined to press on to achieve peaceful independence for Namibia which would command international approval in accordance with Security Council Resolution 435. Statement will be issued tomorrow.

The Ottawa Summit



Le Sommet d'Ottawa

PRIVATE SECRETARY

MESSAGE FROM MR BURNEY (VIA OUR LIAISON OFFICER)

MR TRUDEAU TRIED TO CONTACT MRS THATCHER BEFORE

HE LEFT BY HELICOPTER : BUT WITHOUT SUCCESS.

MR TRUDEAU WISHES MRS THATCHER TO KNOW

THAT

"HER CONCERNS HAVE BEEN TAKEN CARE OF"

PAT NOBLE

20.7.81.

6.20 pm.

July 20-21, 1981

Les 20 et 21 juillet 1981

ACFO

British High
Commission
Ottawa

Association canadienne-française de l'Ontario

Copy for our
records
requested

Le 20 juillet 1981

La très honorable Margaret Thatcher
Premier ministre du Royaume-Uni
a/s du Haut-Commissariat britannique
80, rue Elgin
Ottawa (Ontario)
K1P 5K7

Madame le Premier ministre,

À titre de président général de l'Association canadienne-française de l'Ontario (ACFO), j'ai le plaisir de vous souhaiter la bienvenue en Ontario à l'occasion du Sommet d'Ottawa.

Permettez-moi de profiter de votre bref passage en terre ontarienne pour vous faire part de détails relatifs à la situation que vivent les Franco-Ontariens.

Plus de cinq cent mille francophones vivent en Ontario et forment la plus importante communauté française du Canada, après celle du Québec. Leurs écoles de langue française ont existé ici plus de deux cent cinquante ans avant d'être officiellement reconnues, en 1968, par la Législature de l'Ontario. Nos ancêtres ont toujours réclamé des droits et des services similaires à ceux qui sont accordés à la minorité anglophone du Québec. À titre d'exemple, mentionnons le dossier de la gestion scolaire et celui des testaments; à l'instar des anglophones du Québec qui, via les Conseils scolaires protestants, ont pu gérer leurs écoles, nous revendiquons le droit de diriger nos institutions scolaires. En ce qui concerne les testaments, à cause des lois ontariennes, même à Ottawa, dans la Capitale nationale, on ne peut pas faire enregistrer un testament rédigé en langue française.

Avec le prochain jugement de la Cour suprême du Canada, le dossier de la constitution canadienne sera de nouveau au coeur de l'actualité. En ce qui nous concerne, nous jugeons inacceptable le fait que le Premier mi-

.../2

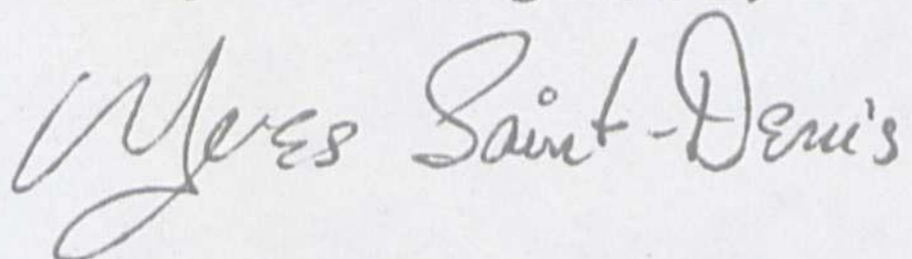
mistre Davis n'accepte même plus de s'engager constitutionnellement à reconnaître certains droits - comme la mise à la disposition des francophones de versions françaises des lois ontariennes - qu'il était disposé à reconnaître en 1971, lors des discussions relatives à la Charte de Victoria. Nous continuons donc nos démarches afin que les droits fondamentaux des Franco-Ontariens soient inscrits dans le texte final de la Constitution.

Nous vous serions hautement reconnaissants d'intercéder en notre faveur auprès du Premier ministre du Canada, ce qui montrerait que le Royaume-Uni se soucie du sort réservé à la minorité franco-ontarienne. Vous y avez certes une responsabilité puisque, historiquement, les droits reconnus dans le passé par votre pays aux francophones du Canada ne se bornaient pas aux limites de ce qui est aujourd'hui le territoire du Québec.

Nous espérons donc que vous serez en mesure de répondre d'une façon ou d'une autre à notre vœu afin que, à son tour, le Premier ministre du Canada puisse intercéder auprès du Premier ministre de l'Ontario, pour que soient enfin reconnus les droits historiques des francophones de l'Ontario.

Veillez recevoir, Madame le Premier ministre, l'expression de ma plus haute considération.

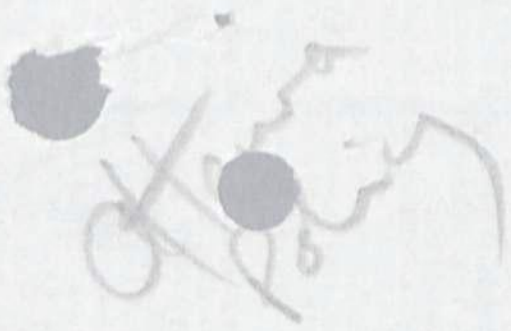
Le président général,



Yves Saint-Denis

YSD/st

c.c.: Lord Moran, Haut-Commissaire de la Grande-Bretagne



74

10 DOWNING STREET

Prin Anstli

Harold Lever has

asked me to draw your

attention to these pieces

he wrote in the Times

last week.

mb

12

17/7

Lord Lever: The Ottawa summit should end the gamble with our prosperity

The world's currency casino

At the end of the Ottawa Summit next month the leaders of the Western world will issue their previously prepared communique. It will no doubt express their determination to reduce inflation and unemployment, to increase economic growth and to restore greater stability to international economic and financial affairs. Such statements are not new. For some years now the world's road to economic decline has been paved with good intentions which, however, have never been supported by any serious commitment for action by the world's leaders.

Of all the items on their agenda, there is one to which their efforts ought to be directed with the highest urgency. The world is suffering from a generalized currency instability greater than anything known in modern times. Our leaders must agree to specific actions to restore order to international monetary affairs and to the world's exchange rates.

The money markets of the world have come increasingly to look like a casino in which the major currencies are turned from reliable investment and trading media into little more than gambling counters.

During the last decade there has been an enormous increase in the volume of internationally mobile funds. As a direct result of the parallel decline in effective financial co-operation between the major countries, these funds have gone on a rampage among the world's exchange rates.

Britain is especially vulnerable. Sterling dropped dramatically against the dollar to \$1.60 in 1976. By late 1980 it had gained no less than 50 per cent, to pass \$2.40, before starting a new and steep decline to near \$1.90, a drop of 20 per cent in less than 6 months. From mid 1970 to early 1980 the D mark rose 110 against the dollar, the yen and French franc rose respectively by 50 per cent and 37 per cent. In the 12 months to October 1978, the yen rose by 45 per cent against the dollar and the D mark by 27 per cent. Equally disruptingly in the last 18 months they have seen-sawed dramatically downwards. Few predicted these and many similar movements and no one would have proposed or justified them as policy. By no stretch of imagination were they related to changes in fundamental economic performance.

Bretton Woods was key arch

This situation stands in great contrast to the first twenty-five years after the war. There was a greater increase then in the wealth of nations than in any similar period of history. Throughout the century, while retaining nation states and national decisions, the world had been moving to greater interdependence. The 1930's should surely have taught us that nations could not achieve a common prosperity unless bridges could be found between ever increasing international interdependence and national decisions in some key areas.

The post-war financial scene was marked by just such a bridge. It was not chance but this bridge which made possible the unique prosperity of the post-war years. At its centre was that limited pooling of national sovereignties which constituted the Bretton Woods monetary system, involving a set of agreed parities to which members sought to adhere but which were adjustable subject to modest disciplines. At the heart of Bretton Woods was the dollar. Almost all the mobile funds of the world—of Governments, multi-national companies, banks and international traders—came to be held firmly in dollars and crossed frontiers mainly for the purposes of trade and long-term investment.

The dollar's key role was sustained by the preponderant United States' financial and political

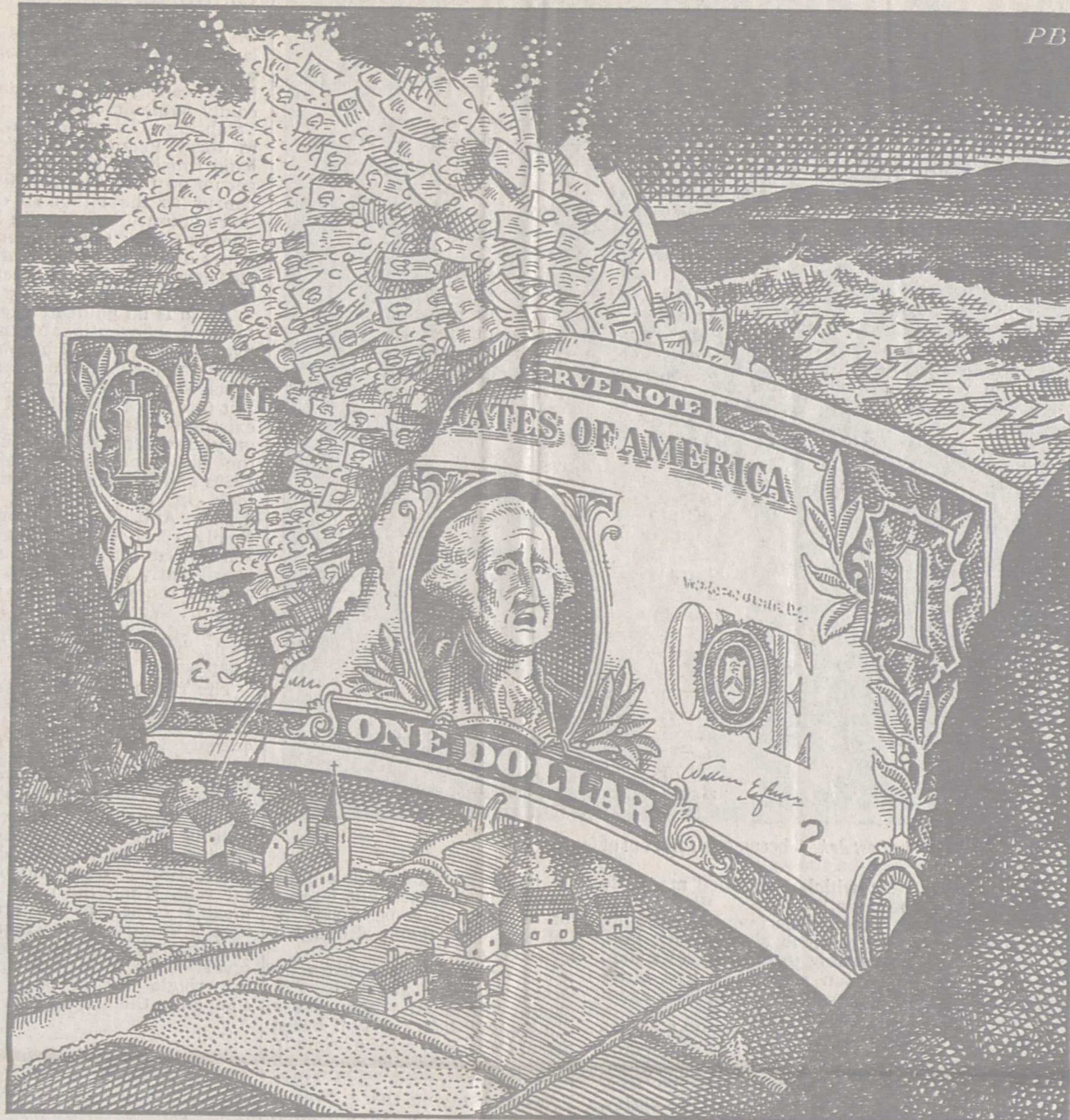


Illustration by Peter Brookes

strength after the war. But the very success of the system in providing the cooperation which made possible the remarkable rehabilitation of Western Europe and Japan inevitably reduced United States' dominance. The revived countries became impatient of the United States, and increasingly challenged the dollar's position as the world's currency.

The vast supply of dollars which had lubricated and financed the recovery began to be seen as a menace not an advantage. Instead of welcoming dollars, the world's governments and central banks began to resent them. Their actions and attitudes in the late nineteen sixties undermined what was inevitably to remain the world's main currency and ushered in a new era of dollar insecurity. By 1971 the Bretton Woods system was formally ended. The bridge which had made prosperous interdependence possible had lost its key arch.

None of the world's leaders, not even those of the United States, gave serious thought to where this would lead. At no point did they recognize that the adjustments in the dollar's role which were being demanded required them all to take new responsibilities. They failed to understand that the dollar and any other currency with an international role would continue to need a system of international support if they were to function effectively. The Europeans had resented the dollar's supremacy because of its supposed unjust advantages to the United States but they showed a pronounced unwillingness to gain those "advantages" for themselves by allowing their currencies to take on the same role.

The manifest contradiction in this posture was soon demolished by the markets. A process of unorganized conversion from the dollar commenced into other currencies. Gold, and some of the other com-

modities became havens too, for the excess dollars.

Governments and the central banks and the private sector became locked in a scramble out of the dollar to avoid currency losses. The reflexes of the market acted blindly to move us into a multi-currency position. This was accompanied by outpourings of approving rationalizations as if the movement had been consciously planned and intelligently brought about. In fact in their regression into financial disorder the world had blundered into it by default: we showed the wind and are reaping the whirlwind.

The dangers of the new situation were foreseeable. The world economy had reached the stage in which even the dollar had proved unable to sustain a world currency role without international cooperation. Its attempts to do so aggravated

the United States difficulties in coping with inflation, high interest rates and recession. Countries far weaker than the United States were even less able to undertake that role, and their currencies and economies were bound to prove even more vulnerable.

In the absence of cooperative management, diversification is a process which leads not to some fairly stable currency mix but to a restless series of movements back and forth between currencies. In such circumstances, diversification is the disease not the doctor.

In the misguided pursuit of the equality of currencies the nations leaders had failed to understand that the formal dethronement of the dollar could not bring about any permanent reduction in its predominance. Indeed in some respects it increased it. It removed restraints which had previously prevented temporary swings from the dollar automatically dislocating the parities of other currencies. They had not reduced the size of the giant, merely turned it loose. Thus, when the United States was repeatedly pressed to apply remedies for its own inflation and the dollar glut, and did so, their actions were universally denounced as damaging to everyone else.

But we, too, are the authors of the American actions and of our own misfortunes. We asked for it and we got it.

Towards the end of 1973 the Opec cartel had arrived on this chaotic scene. It was a grave blow to economic progress greatly magnified by our own inept economic responses, but its monetary aspects are merely an elephantiasis of the symptoms already caused by the collapse of the Bretton Woods system. Their impact on what was now a leaderless and disorderly monetary system brought great damage.

The Opec balances, like the rest of world money, are held mainly in

dollars. They have added greatly to the world's money mountain. All these funds are mobile and, when moved, contribute substantially to great upsets in currency parities of varying duration. It is impossible to estimate their size. One part of them, the Euro-currency markets, alone had grown to \$1,370 billion by September, 1980, against only \$150 billion in 1971. This total is annually added to by at least \$150 billion of interest receipts, and Opec's continuing surplus, running currently at over \$100 billion. Even movements in the placing of the interest receipts or Opec's accruing surplus are enough to cause violent movements in the strongest currencies. Any adjustment in the currency portfolio of these funds now dominates the international currency market.

All the huge funds of reserve holders, multi-national companies, traders and individuals tend to move in waves of sympathy or in anticipation of each other. All the world's traders and investors have been forced into competitive attempts to move backwards and forwards from one currency to another in an attempt to protect their position. Vast speculative funds have joined them.

Speculation dwarfs world trade

In every country, funds potentially unlimited in size and normally stable in their own national currencies are diversifying on a growing scale. Every day in every market of the world stupendous sums, many times the size of the world's trading and investment needs are traded in currencies: about £75 billion a day, over \$20,000 billion a year is being traded in the spot markets alone—something like 15 times the total of annual world trade.

The central principle presiding over this monstrous casino of currency disorder is what is dishonestly called the floating rate "system". The advocates of this system never took adequate account of even the smaller short-term capital movements of the past and the central banks who preached it never practised it. Interventions by them in the market have been far greater than was ever the case under Bretton Woods. The continuous movements of today's giant cash mountain take little account of long-term considerations. As one expert currency dealer remarked "people who act on long-term considerations in the currency markets usually end up in the bankruptcy court".

Decisions are increasingly based on short-term and political factors rather than any conscious appraisal of relative values based upon fundamental economic factors. These short-term movements, however, make a long-term impact because of their effects upon economic policies and interest rates. The realities of today have in my view totally and visibly bankrupted the case for floating exchange rates.

In today's conditions floating rates are an expression of unilateralism and a rejection of international order in an area where it is crucial for our well-being. Every change in the economic or political situation, eg Poland, will add new dangers and damage. A major political change could produce movements of a volcanic kind. Behind the barrage of wholly misplaced self-congratulations on how well the flexible new monetary arrangements have coped with the difficulties of recent years lie the real returns of this monetary anarchy.

There is little any one country can do alone. The leaders at Ottawa must recognize that theirs is the key responsibility to tackle the problem, by acting together to restore order and by announcing convincing specific proposals directed to this end.

Tomorrow: some remedies

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Harold Lever, former Chancellor of the Duchy of Lancaster.

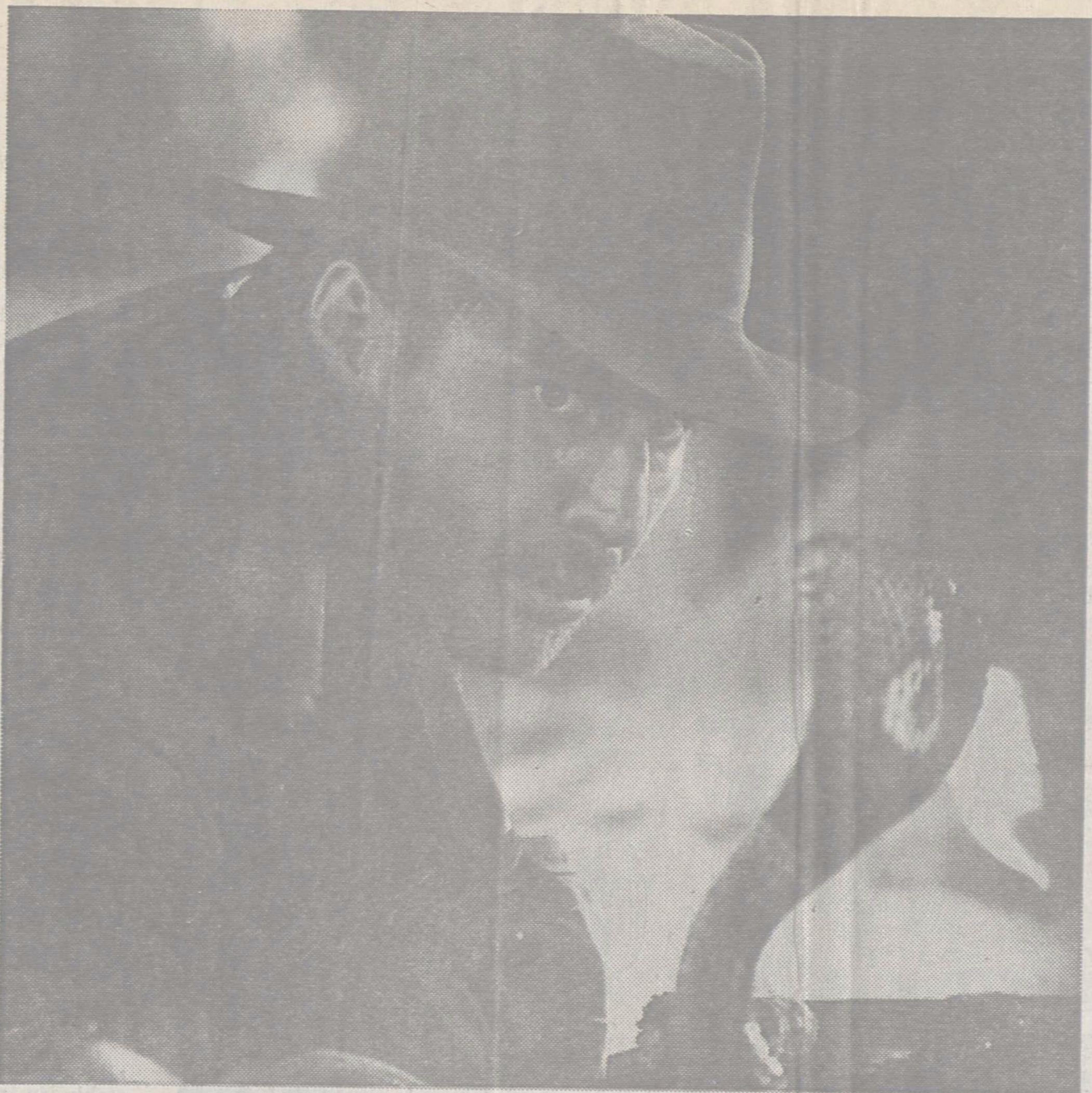
THE ARTS

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es

are technically very so that the actors have a long time between sit and stare at the walls k around and bump into t and the back of my Either I'm thinking e next scene or I'm in a mental suspension. I ead or concentrate on g else. It's the worst out being an actor for

ather was in advertising ago. He'd been a radio one point in his career ave a grandfather who vaudevillian. I was English and Philos college and I got out for failing all my in my senior year. I ting married that sum- idn't know what to do. I to be an actor. I had no w to go about it, but I at, to be an actor, you go either to New York or Angeles, so that part was got married and we o California. I was very Within six months I was ed as an actor for 150 a week."

was in the early 1960s Hollywood studios were lacing photogenic un- under contract, a e they have since discon- Ford remained as a t player for Columbia, r Universal, for several working mostly in small television series like ke and *The FBI*. "Then I didn't want to do TV any more because I aid I'd burn myself out I got the chance to do cent feature films. Be- was too young — I was ooked 19. So I became a er for eight years. at that time, I only did ting jobs, but three of were good ones — n *Graffiti*, *The Conver-* and a role in *The Court of Lieutenant Calley* for Kramer. After eight obody thought of me as



Raiders of the Lost Ark: "I became an actor out of fear..."

a person who'd been in anything but these good films"

Despite his down-to-earth approach, Ford has evolved into a dedicated actor, determined not to let the success of the *Star Wars* saga imprison him. But, to date, none of Ford's other films has made much impact with the exception of *Apocalypse Now*. His chilling portrayal in that of the general's aide was evidence his talents go well beyond his swashbuckling roles for Lucas.

Does he enjoy his work? "I became an actor out of fear. I'd acted in a couple of plays at college and all it did was scare the bejesus out of me. But it was the need to deal with that

fear which compelled me to do it again."

Though the fear has left him, the force is always with him. According to Lawrence Kasdan, Harrison was much less interested in playing Han Solo again in *Empire* than he was in Indiana Jones in *Raiders*. As *Star Wars* goes on, that could be an increasing problem. Nevertheless, he will be back for the third film in the series, *The Revenge of the Jedi*, shooting next winter, and he seems resigned to the prospect.

When he is not working Ford returns to carpentry, these days as private therapy instead of a way to make a living. "I stay at home with resolution," he says.

"I don't go out and mingle much. I'm divorced but I see a lot of my two sons. I stay in California for them, although I love to travel."

One country he has distinctly mixed feelings about is England. "Since the *Star Wars* films and *Raiders* are all based there, I've spent a lot of time in London. It's changed out of all recognition in the five years I've been staying there. You've got a wonderful film community, but the rest of it — I've been overcharged and cheated every time. England's a tourist economy now and that's no state for a developed nation to be in."

Joan Goodman

Theatre

One Mo' Time!

Cambridge

On seeing this marvellous show last month in a beery Cologne night-spot, I had doubts about its repeating its magic in the coldly hygienic expanses of the Cambridge. There was no need to worry. From the moment the band finish their solo riffs and get up on their feet for the last chorus as the lights go down, there you are back in the Lyric Theatre, New Orleans for two hours of the most concentrated pleasure within theatrical memory.

There is no point in straining to find conventional superlatives for this show. I have never seen a better black company, or a better vaudeville programme. But *One Mo' Time* belongs to no existing entertainment category. It began as a tribute to the black performers of the 1920s and their material; then it took in their working conditions. And in the version that finally reached the New York Village Gate, it had also become a brilliantly scripted play built around the personalities of its creator, Vernel Bagneris and his team, Sylvia Kuumba Williams, Thais Clark, and Topsy Chapman.

The characters are based on research into the lives of the old performers — and the queenly Miss Williams in particular has powerful echoes of Bessie Smith — but they are composite figures; and one reason why the script works so well is that the company are playing that, too, as a vaudeville game, rather than showing it for real. When the ratty white theatre owner comes on and insults the house, or when Miss Williams picks him up by the scruff of his neck when he tries to wriggle out of paying the company, this is another rou-

tine, alongside musical sketches like "The Party" or the duet for the two rival girls who decide to share the same man "on the cooperation plan."

The stage is split between a performance area festooned with red curtains and match-wood palm-trees, and a cramped dressing room where a fan slowly revolves over the company's off-stage dramas. We rarely get more than a couple of minutes in here before the next number comes up; but that is enough for two separate lines of action to develop. The first is assembled from their wretched working conditions, and shows the crafty company manager succeeding in by-passing the contract small print by converting two of the group into a black-face comic and an exotic dancer. The second shows the manager stealthily transferring his attentions from Miss Williams to another girl in the troupe.

It is all put over through good jokes, and comic rows, which often work in parallel with the numbers. But nothing is ever forced to fit into the pattern; and the atmosphere is of total spontaneity in the dressing room, and total formal command of the audience during the numbers, with the individual personality of each performer coming through equally strongly on and off stage.

Mr Bagneris himself cultivates extremely slick suits and an eye-shading cap, in which he operates both as a wily off-stage fixer, and a spell-binding snake-haired dancer, his long legs lazily curling around blue steps as if separated from the rest of his body. Thais Clark, the company's chief blues singer (look out for "Muddy Water", is also their resident comic.

Irving Wardle

Mr Gray closes in on the scene with a portrait of a journalist voluntarily uprooted from mid-America to Vietnam and calls him simply the Reporter. The images of Indo-China are varied and populous, but only one actor is entrusted to be Madame Ing, a GI, an Ambonese psychological warfare officer, nuns, guerillas, bar-girls, and all the other characters who gradually alter the reality seen by the Reporter. The Reporter's response is to go native, after richly imaginative recreations of the war experience, including trugges down corridors, through the streets and the jungle and including the crash of a bomber.

Ron Cook is all the voices, characters and sound effects of "the historical event", and he is superbly flexible in his movements and abrupt changes of character: he chats briefly as a monk and is soon busy bullying as a newspaper bureau chief. He flutters delicately as a bar-girl and threatens the Reporter in the guise of first, a GI, and second a guerrilla. It is no wonder that Robert Lindsay is bewildered as the Reporter, but his performance moves as far as Mr Cook's, from the blank innocence of his arrival to the dazed tranquility of his effort to become Asian. Nancy Diuguid's production is skilful, funny and alarming, but it may not say much to those who missed the War on television.

Ned Chaillet

How I Got That Story

Hampstead

Maybe every generation must have its war to understand the horror. Yet there are grounds for saying that the United States never understood any war properly after the War between the States and until the war in Vietnam, although every generation fought one. Certainly the First World War never received the documentation and dramatization accorded to Vietnam. But how much of that terrifyingly specific experience can pass on to people who did not see it on the news, lit by the self-immolation of monks and the mature understanding of loss?

Amlin Gray's play, *How I Got That Story*, hides Vietnam behind the thin gloss of "Amboland", but there is no real effort to disguise and the comic horror of the play was chilling — and here I must add — for me. The play attempts to confront the particular alienation of the American in Vietnam, but that is not significantly different than the alienation of the French in Vietnam, as it is a confrontation of European culture with distinctive Asian culture. The difference is in the magnitude of the destruction and the constant relay of the images of destruction.

ists' ethereal world of reality and appearance: How "real" was the threat of crime? was it crime itself or simply the fear of crime that threatened the stability of our lives? Of the two hundred people interviewed by the astonishing and fearless Celia Fremlin on the streets of London late at night, none had ever actually been assaulted; were the police getting their priorities right?

To the last question, at least, some timeless suggestions carried sympathy and force: there was — everyone, including the police, agreed — too little protection from violence in the family but *War on crime* only really sniffed the imminence of dynamite yet to come when Michael Levy and Anthony Bottoms spoke of their research into the largest undetected and unpunished area of all — middle-class, white-collar crime. There was no doubt, Professor Bottoms concluded, that there is "a serious and systematic bias of a class kind in our criminal justice system". Mr Rose is a fastidious worker, but I hope he gets that story filmed and out before the VAT-dodgers and tax-fiddlers depart for the Cayman Islands leaving a trail of shredded Inland Revenue records from Southampton to Gateshead.

Michael Ratcliffe

Dance

LSCD

The Place

Even though none of the big dance companies is appearing in London this week, the dedicated addict has the chance to pick up no fewer than 18 new works in a single day. Two-thirds of them are on show each evening at The Place, where the London School of Contemporary Dance is offering the chance to see what its senior pupils can achieve.

Eight of them are represented as choreographers, and many more take part as dancers. Each year the school invites a guest choreographer and this year there are two. Christopher Bruce's *Holiday Sketches*, set to four songs recorded by Billie Holliday, starts with an ensemble for three women, each of whom then takes one of the succeeding numbers to present a character in solo or duet.

The dances are kept within the abilities of the young and inexperienced performers, but Bruce shows that it is possible within such limits to present an incisive theatrical effect, using elements of showbiz technique to add punch. Unfortunately the other guest choreographer, Jacky Lansley, flails so wildly and self-indulgently at her chosen subject that the young performers can make only momentary impact.

The intention was a modern feminist commentary on fairy tales, using multi-media techniques, but the treatment is so ineffectual that it

Television

War on Crime

BBC 1

There was no attempt to disguise the tiny bits that had been tacked on. Stephen Rose began his programme with pictures of a smashed shop window, and Derek Cooper, who narrated in the classic manner of Leslie Mitchell, that is to say with an indiscriminately uniform interest in absolutely everything that was being said, threw in a classic getout clause near the start: "Apart", he said, "from the disturbing events of recent days..." Apart from that, Mrs Lincoln, how did you enjoy the play?

It was, to be sure, bad luck on this patient, refined and low-keyed enquiry, into crime and the police in contemporary Britain, that most viewers would be too distracted by events of recent days sufficiently to admire the insight of the Director of Research Related to Police Practice and Crime Prevention at the Home Office when he declared that, yes, over-zealous law enforcement could be counter-productive and induce a disrespect for the law.

To the sound of ever-receding hooves we gazed through an open stable door into a theor-

Reggae

Black Uhuru

songs are always questioning and usually aggressive. Some-

when the soldiers find sweethearts' marriage as: Mr Burrows gave the way too soon.

perfection of Mozart's invention, in *Cost fan* more properly served sir Colin Davis. Kiri te brought honey as well as to Fiordiligi's music, mbles, not only the two us arias. Agnes Baltsa's la was an apt match for

as Allen's Guglielmo, te as firmly imperson- before, was a joy to to, and dramatically ag at the end, when the are restored to their partners. There was chrestal heaviness, and ensemble, but much spirited and sensitive aking.

William Mann

Dance
Theatre

We need a new international bank to make our money work for us



Lord Lever follows up his attack on the world's currency casino with a call to action at the Ottawa Summit next week

Policies to deal with unemployment and inflation enjoy little prospect of sustained success against a background of world monetary disorder. Thus in my article yesterday I argued that, far from adding to the freedom of governments in the management of their domestic economies, floating exchange rates must in modern conditions produce a currency disorder which deforms and frustrates their policy options.

Our leaders should now be painfully aware of this and at the Ottawa summit should be seeking to repair the consequences of the abdication of control over internationally mobile funds. They must, once again create a system within which they can operate constructively.

Ultimately this will require the creation of a New International Bank backed by the leading powers. The general mandate of the NIB would be to impose a general management and broad strategies on the mobile and chaotic international funds, channelling them from short-term and destructive purposes to long-term and creative ones. This bank, however, would require a considerable period of preparation. The Ottawa summit ought to commission an urgent examination of the detailed problems involved; but, while this is proceeding, there are other immediate steps to take.

The summit leaders should make clear their awareness of the perils of the present currency casino and their determination to stabilize parities. They must, for action at the very earliest date, set up a working party to agree broad value zones for the main parities and to establish the continuous collective consultation which will be required for future parity adjustments. This working party should be instructed to prepare the vast currency swap arrangements, to be put into place at the earliest date, which will be needed to support the objective of currency stability.

Once these transitional arrangements have been made and are operating, attention should be switched to the New International Bank. This Bank would in effect be the central bank of the central bankers and would operate under the collective guarantee of their governments. As the safest and most convenient credit bank of the world, it could attract a

great volume of the loose international funds which, even now, are only a small proportion of the potential total. This would stabilise the remaining funds, which would continue to be held as now by banks, companies and countries.

To attract funds the new bank would offer deposit accounts and a range of interest-bearing notes, of obligation, short and medium-term, in every main currency. It would do so at rates and parities prevailing from day to day, as determined by the markets but within the target parity zones decided at government and central bank level. These zones should be sufficiently wide to ensure that speculation would not be a one way option. Given the power of the bank to enforce them, they would make currency speculation in aggregate unprofitable.

The funds attracted to the bank would normally be deposited harmlessly with the related central banks. Their movement would, therefore, not deform the money supplies of the countries concerned. In effect, conversions from one currency to another within the bank would become harmless book entries rather than, as now, menacing and destabilising forces.

It is unrealistic for governments to seek to prevent other governments—as the Europeans are attempting at Ottawa—from applying to their economies the interest rate levels they judge necessary at any given time. But it is the exaggerated effect on parities of these interest rate differentials—often of short duration—which forces other governments to compete. The bank's operations would reduce to relatively small margins the impact on parities of these interest rate differentials.

I cannot here elaborate the detailed mechanics by which the bank would achieve its objectives. I must confine myself to more general issues.

Some observers assert that market movements cannot be vanquished, whether by swap arrangements or by new international banks. They claim that parities will ultimately be pushed to levels determined by the weight of the movement of money in the market whatever governments or central banks may do in the way of intervention.

But the NIB would not be operating to push obstinately against fundamental economic factors. Indeed, its whole pur-

pose would be to allow these to emerge in an orderly way. And the Bank would be acting to counter disorderly and erratic market movements, often relatively temporary see-saws, which are themselves not supported by basic factors. It is admitted that governments will have difficulty—indeed will often be in error in making the judgments required. This cannot justify abdicating decision to the wildest and most dangerous restlessness of present day markets.

In my view, the notion that erratic market movements cannot be vanquished by resolute collective purpose is a total fallacy. It has arisen because our concepts of the size of the interventions required have lagged hopelessly behind the increasing size of the markets over which control is being sought. These concepts have hardly changed from the few billions formerly thought reasonable, whereas the markets themselves have burgeoned dramatically. For example, the Euromarkets alone have increased seventy-fold in 17 years. In 1981 we need perhaps 50 or 60 billions to have the impact of 1 billion in 1964.

The failures of Government intervention have been failures of scale. They have been defeated because they have not co-operated to provide sufficient troops. It cannot seriously be questioned that collectively the world's governments could successfully and flexibly manage

the markets within broadly desired zones. Indeed, they did it for 25 years. There were errors then perhaps in deciding parities but these were far less costly and damaging to the world system than parities which have since been left to the decision of anarchic markets.

The power of government lies in control of currency, for every billion which moves from one currency has to move to another. Governments have the power to counter these movements by reversing them—but only if they are convinced of the imperative need to do so. It is their lack of will and purpose which has allowed even relatively trifling currency movements to produce large and erratic changes in their parities.

Governments have realized that in the modern world they cannot opt out of their responsibilities to be a factor in the markets. Their choice is whether to be a puny and ineffective factor by acting unilaterally, as they do now, or by acting collectively and systematically to be a factor of sufficient weight to guarantee effectiveness.

This lack of will has been justified by a chorus of incantations implying that the market movements were irresistible, rationally inspired, and wiser in their directions than government purposes. Rhubarb. Where anything like real determination has been shown order has been maintained and anarchy

routed. For example, after the 1967 devaluation of sterling Britain endured sustained speculative movements against the pound many times the size of those which brought about the 1949 and 1967 devaluations. With unchanged parity and policies they were fought off by determined internationally supported interventions and within a year or so were put to flight.

Again, look at November, 1978 when the dollar slide was moving ever more dangerously out of control. The US authorities then mobilised the largest international support operation in history and implied that they intended to use whatever resources were required to defeat any continuation of these ruinous movements. The tidal waves of speculation were halted and reversed and the foundations for the recovery of the dollar were laid. The lesson is that speculation can be defeated by resolute action and that the judgments which supported it can prove ultimately much wiser, and in our interest, than the supposed rationality or irresistibility of the movements of money in the markets.

Of course, it would be wrong to intervene to defend with obstinacy either an unrealistic parity or a manifestly inadequate domestic policy. But this argument can never be an excuse for allowing all government policy options to be

deformed or frustrated by the leaderless chaos in world money or by the raids of concerted speculation large enough to trigger a stampede whenever temporary weakness appears in any nation's prospects.

Apart from providing the institutional solution to many of the world's parity problems, the New International Bank could be developed to alleviate other problems. For example, although it would normally deposit most of its funds with the central banks of the countries concerned, the NIB could also make a part of them available to help finance the balance of payments deficits of chronically and temporarily weak deficit countries.

In the case of the chronically weak, it could operate with the IMF and other public bodies but under a separate and realistic mandate to provide deficit finance on a far more secure basis than the existing chaotic melange of public authorities and private banks. At present both guidance and support are dangerously inadequate. The NIB could also develop the power to guide the capital investment programmes which are required both in the advanced countries and in the less developed countries again working with existing public and private agencies, but giving some general co-ordination to their efforts. This will be necessary if we are to retreat from the nightmare levels of chronic unemployment.

In summary, I envisage the potential range of the NIB's responsibilities as being

- (1) To stabilise a great deal of the internationally mobile funds, by turning into harmless book entries conversions from one currency into another.
- (2) To give confidence that currencies would be kept within adjustable currency zones.
- (3) To develop a system of deficit financing for a range of deficit countries.
- (4) To encourage the evolution of greater economic harmonization between nations in their economic and financial policies and to support and finance broad strategies for the greater capital investment required for a return to growth and full employment.

The creation of such a bank would be a clear demonstration that the leading nations of the Western world were determined to reverse the trend to protectionism and chauvinism which is economically ruinous and also threatens to undermine political cooperation at its most crucial points.

A summit which made these decisions would be in striking contrast to the televised fiestas of hollow bonhomie which have preceded it. By their decisions the world leaders would signal that they are no longer content to stand by impotently. They would demonstrate great commitment to provide the structure for an effective assault on unemployment and inflation which bedevils their citizens.



Illustration by Peter Brookes

THE ARTS

film industry — another South Sea Bubble?



left: Bruce Beresford, from *Breaker Morant* to *Puberty Blues*; above: Peter Weir, hunting finance

for *The Year of Living Dangerously* after *Gallipoli*;

right: Judy Davis, *Winter of Our Dreams*,

Heatwave, and then a graceful retirement for the

rest of the year



boom with too much money chasing too little talent. More importantly, the tax concessions as originally envisaged would have lost them a scant £1 million a year in revenue. But, with 170 films clamouring to be made under the foreshadowed legislation, the loss in annual revenue could have been over £60 million, a figure likely to interest the Labour Opposition.

Amid the acrimonious debate, some films, already dubious financial propositions, fell apart. Most survived, but the dust from the skirmish is not likely to settle for some time yet, although the most vigorous opponents of the government's final decision admit privately that the strain caused by so few people producing so many films would have been immense.

Had the government not moved, the Australian film industry could well have collapsed under its own weight. Since December 18 last year, when the government made its first announcement, perhaps the only person not to be working constantly was the actress Judy Davis. Surrounded by two BAFTA awards, praise, adulation and offers to star wherever and whenever she

wished, Miss Davis decided to retire gracefully for the rest of the year. She had already completed leading roles in two films, *Winter of Our Dreams*, in which she played a prostitute, and *Heatwave*, in which she played a student radical fighting against the development of high-rise buildings in the inner city. It was, she felt, enough for anybody. Her sentiments were not shared by her colleagues, all of whom were busy churning out miles of film footage each day around the country.

Up to 1980, the industry had existed from hand to mouth, spurred on by praise from English and American critics, and very little else simply because few of the pictures made returned money to their investors. There were, of course, notable exceptions. *My Brilliant Career*, *Mad Max* and *Breaker Morant* have reaped millions in international markets.

The remainder had to make their own way as best they could until the Federal Government under the fateful announcement that investors could claim 150 per cent tax concession on investment and a

50 per cent concession on takings. Activity in the film industry accelerated dramatically. Technicians, actors and directors began dashing from set to set with just enough time to pick up their wages. Films were being made on every conceivable subject: female gangsters, kidnappings of schoolchildren and their teachers, outback epics, urban love affairs, sagas of drug addiction, adventures of war, thrillers and urban comedies.

Bruce Beresford, who helped write and who directed *Breaker Morant*, was busy editing *Puberty Blues*, the title of which is self-explanatory, before turning to his next project, *Fortress*, based on the true story of a young female teacher and her class who were kidnapped.

Gillian Armstrong, the director of *My Brilliant Career*, was planning the schedule of *Starstruck*, a rock and roll rags to riches saga. Peter Weir, who had just finished directing *Gallipoli* for Patricia Lovell and R and R Films, the company formed last year by Rupert Murdoch and Robert Stigwood, was busy hunting finance and actors for *The Year of Living Dangerously*, based on a novel

by C. J. Koch about a journalist working in Indonesia under the late President Sukarno.

Not surprisingly, stock-brokers and solicitors began to devote time and attention to film investors and film funding bodies began to bloom. Among the most prominent were Film Bancor, formed early this year by a businessman, Mr Neil Ohlsson, to advance funds for viable film projects on which it charged 15 per cent interest; Antipod Productions, the brainchild of the media tycoon Kerry Packer and the film producer and advertising consultant Phillip Adams; and Filmco, a recently floated financing and investment company.

But not all investors had the artistic considerations of the true patron. Some, caught up in the flurry of easy money and showbiz, indulged in questionable business ethics. Schemes involving flagrant cost inflation, excessive brokerage fees and commissions, false management charges and doubtful overheads abounded.

The cracks were beginning to appear and it was not long before it became apparent that too much was happening too

fast. The Australian film boom, barely in its infancy, was encountering some serious problems. Put simply, there was not enough of most things to go round, except money.

There were not enough distributors. As Mr Ben Gannon, a senior executive for R and R Films, noted: "There would have to be an Australian premiere of a local film almost every week if they were all to gain distribution for release. And that was not very likely as the three main distributors, Village Roadshow, Hoyts and the Greater Union Organization, have still to release their share of foreign product. There is just no way that all these films could be released and shown at the box office."

A halt had to be called by someone some time. And it was just one of the many ironies of Australian life and politics that the frenzied and sometimes futile activity in the film industry had to be stemmed by the very government which had whipped up the storm only seven short months earlier.

Suellen O'Grady

Television

Playhouse: Contract

Thames

Hugh Whitmore's latest play is a morality tale about the transferability of guilt. A two-hander, it is set in a cold black, white and chrome flat of flashy modernity. A Kenneth Noland abstract illuminates one wall while a Giacometti figure revolves slowly in the background.

The superb Jeremy Kemp plays George, a businessman determined to explain to Billy (Eric Deacon) why he hired him to kill an investigative journalist. But Billy does not want to know and only by the application of more cash is he persuaded to listen to George's excuses about protecting his company and its employees from the muck-racking journalist and to his paranoid attacks on socialism and the information fad.

Gradually a religious over-tone creeps in. Billy's name is derived from billy goat — the scapegoat. Billy himself compares the ease and anonymity of the killing with the lack of attention which would be given to Christ if he walked across the Serpentine. So George's obsession with explanation becomes the human need to transfer guilt and, once the transfer is complete, the denouement is inevitable. Perhaps "Covenant" would have been a better title.

But, for a variety of reasons, it does not come off. Kemp is the best thing in it, realizing the self-justifying, cowardly businessman with a wealth of effortless detail. His talent lies in the mysterious ability to manoeuvre the stiff mask-like face from superiority to terror with no definable changes in expression.

However, it was not enough to lift the fable off the ground. Whitmore wheels in some vogueish use of a telephone answering machine to emphasize the hermetic, icy flat, and as a line to the accusing outside world, as well as some freeze frames of faces caught in camera flashes. But it all looks glued on, imposed rather than fully realized.

Finally the cool schematic air is not filled with enough dramatic meaning and, for all the mythic bones of the drama, the clash between collective responsibility and individual guilt has been too well-aided elsewhere. The metaphysics, so to speak, are not strong enough to lift the slightly ordinary debate.

At the lower level of simple thriller there were some pleasures from the coolly ordinary murder and the movement from chat to threat in the long dialogue at the heart of the play. There was also an unresolved image of a dish of steak tartare whose pleasantly incomplete meaningfulness provided light relief from the otherwise inert schema.

Bryan Appleyard

Concerts in London

St Michael's Singers

Cornhill

St. Michael's in Cornhill, is one of those Wren churches from which any presence of the past

who resurrected the St. Michael's Singers two years ago. Their concert for the City of London Festival last night began and ended firmly in the Darke repertory, with big, solid English pieces for choir and organ. First came Dyson's "Sweet Thames Run Softly" an

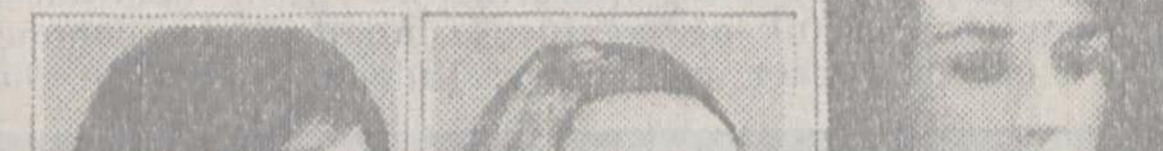
soloist. If those solemn, sensuous angels of Burne-Jones could be induced to open their mouths, then this, I imagine, is the sort of performance they might produce.

Rightly, the full choir offered a more upright and angular style in the C major mass, long



ISABELLE ADJANI

Voted Best Actress





Foreign and Commonwealth Office

London SW1A 2AH

17 July 1981

Dear Michael,

President Reagan's statement on non-proliferation and
peaceful nuclear cooperation

President Reagan yesterday issued the Administration's first statement on non-proliferation policy. We have received information that the President may refer to the subject at Ottawa (although it is not clear how and with whom). I therefore enclose supplementary briefing on the President's statement.

It is possible that Mr Haig may raise the subject with Lord Carrington when they meet later today. Similar briefing has been sent by telegram to Washington.

It has been impossible to show the brief to Ministers here. But a copy will be in the Lord Privy Seal's weekend box.

Yours ever,
F N Richards
(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing St

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PMVL (81)

17 July 1981

OTTAWA ECONOMIC SUMMIT

19-21 JULY 1981

PRESIDENT REAGAN'S STATEMENT ON NON-PROLIFERATION
AND PEACEFUL NUCLEAR COOPERATION

Brief by Foreign and Commonwealth Office

POINTS TO MAKE [if raised by President Reagan]

PRESIDENT REAGAN'S STATEMENT

1. Welcome reaffirmation of US commitment to non-proliferation. Further spread of nuclear explosives would constitute a major challenge to world security. Agree that we must continue to work to ensure that nuclear energy is developed for peaceful purposes under adequate safeguards.

TRANSFERS OF SENSITIVE NUCLEAR ITEMS

2. We would not supply sensitive nuclear materials or technology to areas of clear proliferation risk. Problem is to do this without weakening support for the NPT, which must remain the cornerstone of the non-proliferation regime.

BACKGROUND

4. We understand President Reagan intends to raise non-proliferation in Ottawa, though we do not know how and with whom.

/4. Summary

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5. Summary of President's statement is at Annex A. Few specific proposals. Mainly a framework for non-proliferation policy. Emphasis, as explained by US officials, is on:

- (a) US commitment to prevent the further spread of nuclear explosives; also support for NPT and improving IAEA safeguards.
- (b) Non-proliferation policy on a case-by-case basis; US will not apply same criteria to reliable friends as to countries where proliferation risk exists, eg the US will no longer inhibit reprocessing and fast reactor development in countries with advanced power programmes which pose no proliferation threat.
- (c) Effort to reduce incentive to acquire nuclear weapons (eg in Pakistan) by increasing confidence in conventional capability and in US support.
- (d) Re-establishment of US position as reliable nuclear supplier, in order to prevent states going their own way and to gain support for dealing with non-proliferation problems.

6. We can welcome:

- (a) the emphasis on non-proliferation as fundamental foreign policy objective. US policy will have a decisive effect on international efforts to deal with a major potential threat to stability.
- (b) increased US recognition that non-proliferation is as much a political as a technical problem.
- (c) the cessation of US efforts to curb reprocessing and fast breeder developments by major industrialised countries.

7. But there is also risk that more liberal regime for reliable countries may be seen as discriminatory by other NPT parties. Unless handled carefully this policy could undermine efforts to build wide international consensus on vital balance between nuclear trade and non-proliferation arrangements. This balance will be important factor in restoring confidence in the NPT.

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MAIN POINTS OF PRESIDENT REAGAN'S 16 JULY STATEMENT

1. Prevention of spread of nuclear explosives is a fundamental US security and foreign policy objective.
2. US will seek to reduce incentive for acquiring nuclear explosives by working to improve regional and global stability.
3. Support for adherence by non-parties to the Non-Proliferation Treaty (NPT) and Treaty for the Prohibition of Nuclear Weapons in Latin America (Tlatelolco).
4. Violation of these Treaties would have profound consequences for international order and US bilateral relations.
5. Support for strengthening IAEA safeguards regime.
6. US will inhibit transfers of sensitive nuclear items, particularly where there is a risk of proliferation, and will seek agreement on full scope safeguards (a commitment to safeguard all existing and future nuclear activities in a state) as a condition for any new supply commitment.
7. The Senate will be asked to ratify Protocol I of the Treaty of Tlatelolco (under which states outside the Treaty zone undertake to apply its denuclearisation provisions to their territories in the zone).
8. Cooperation with others with peaceful uses of nuclear energy, in order to reestablish the US as a predictable and reliable supplier, and to gain support for dealing with proliferation problems.
9. US procedures for handling export licence requests to be speeded up.
10. The US will not inhibit civil reprocessing and breeder reactor programme in countries with advanced nuclear power programmes where it does not constitute a proliferation risk.

The full text of the statement is attached.

Covering CONFIDENTIAL



Foreign and Commonwealth Office

London S.W.1

17 July 1981

Dear Michael,

Ottawa Summit: Briefing for the Prime Minister:
Northern Ireland

/ I enclose a brief for the Prime Minister's use should Northern Ireland be raised when she meets President Reagan in the margins of the Ottawa Summit.

I am copying this letter to David Wright in the Cabinet Office.

yours ever
R M J Lyne

(R M J Lyne)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

Covering CONFIDENTIAL



OTTAWA SUMMIT : 19 - 20 JULY 1981

NORTHERN IRELAND

POINTS TO MAKE

1. HMG are grateful for US Government's position.
2. We want to see the end of the hunger strike but not at the price of breaching fundamental principles. Solution not as easy as is sometimes suggested. We have a common interest in standing up to terrorism and blackmail.

ICRC

3. Northern Ireland Secretary has accepted ICRC's offer to visit prisons concerned. An ICRC team started work at Maze Prison on 16 July and have seen the hunger strikers and other prisoners. They will be reporting back to the Northern Ireland Secretary in due course.
4. We are grateful to the leaders of the Irish-American community for their generally moderate stance. We know how much pressure they are under.
5. Mainstream US opinion seems to be broadly with us, but we are concerned at the possibility of its erosion. We do not want to escalate a propaganda war with PIRA.

Arms for the RUC (Defensive)

6. The guns were acquired legally in the United Kingdom through normal commercial channels. (If Pressed) We would, of course, like to see the US Administration rescind the ban. But we have no wish to make an issue of this.

BACKGROUND NOTEUS Government Policy on Northern Ireland

1. On 14 July the Irish Ambassador to Washington, Mr Sean Donlon, appealed to President Reagan to intervene in the hunger strike. Dr FitzGerald also sent the same day a message asking the President to intervene with the Prime Minister to urge the British Government to implement the understanding reached with the Irish Commission for Justice and Peace. The Government has received no representations from President Reagan. White House press briefing took the line that the US Government doubted whether US intervention would be helpful at this point, and that it would stand by the President's St Patrick's Day statement.

✓ A

2. US Government policy is summed up in President Reagan's St Patrick's Day speech and remarks made by General Haig when he was asked at a press conference on 2 June why the Reagan Administration insisted on treating Northern Ireland as an internal British matter:-

'I think precisely because it is that. That does not suggest that there aren't external forces involved from time to time in one or another aspect of this anguishing problem. But I think it's clear that this is a problem that must be worked out internally by the parties. It's an historic agony for those parties and has been. One might make the case if there were not a Great Britain playing the role that it's playing there today, we might even have to create one to prevent a blood bath.

I think what we are all interested in is patiently and sympathetically to do all we can in an empathetic way to seek a resolution to these historic problems, but to recognise that they are internal and that for a public official in my position to make offhand public comments about it only aggravates a problem which needs no aggravation: so I won't do it.'

3. Both the Reagan Administration and its predecessor have taken a robust line on pro-PIRA fund-raising. The Department of Justice has brought a successful case against NORAID under the Foreign Agents Representation Act. The judge ruled on 30 April that NORAID's true principal is the IRA. But this is subject to appeal.

Information Effort

4. The great majority of serious US newspapers support HMG. But TV plays a greater role for the man in the street, and its reporting is sensational and superficial. There are over a thousand TV stations in the USA. We cannot reach many of them.

Arms for the RUC

5. It is unlikely that this will be raised. Some two years ago, the US Administration imposed a ban on the export of arms to the RUC as a result of pressure from Congress. But the RUC needed American revolvers and were able to circumvent the ban perfectly legally, by ordering them through a dealer in the United Kingdom, rather than direct from the USA. The American Consul-General in Belfast has known about this for some time but the authorities in Washington gave no sign of knowing what was going on until the beginning of June, when the State Department raised it with the Washington Embassy in a low-key way. The Embassy replied along the lines of the Points to Make.

International Committee of the Red Cross (ICRC)

✓ B 6. In their statement of 4 July, the protesting prisoners said that they were not now looking for preferential treatment. In these circumstances it was decided to take up the offer made
✓ C by the ICRC in their note of 14 May, 'to visit on a regular basis all persons incarcerated as a result of the events in Northern Ireland, in order to submit, confidentially, its reports and suggestions on material and psychological conditions of



detention to the competent authorities.'. The offer went on to say 'as is known to the British authorities the sole aim of such visits is to improve, if necessary, the detention conditions and they can in no way affect the legal status of the prisoners visited'. On 15 July, the Northern Ireland Secretary issued a statement, agreed with the ICRC, announcing their visit to HM Prison Maze.

Background to ICRC Involvement in Northern Ireland

7. The ICRC has paid half a dozen visits, at HMG's invitation, to Northern Ireland prisons between 1971 and 1974, to inspect and report on the conditions under which internees and detainees were held. They have not at any time previously visited convicted prisoners, special category or otherwise.

8. The ICRC made approaches to the present Government in December 1980 (orally and just at the time the first hunger strike ended) and again in May 1981, in writing, (their note of 14 May).

9. At the end of April, three TDs (Blaney, O'Connell and Sile de Valera) asked the ICRC to intervene under the Geneva Convention. In its reply the ICRC said it remained prepared to visit Northern Ireland prisons if invited to do so by HMG.

ICRC's Locus

10. In their reply to the TDs and in the message which accompanied their note of 14 May, the ICRC made it clear that it would be operating outside the various Geneva Conventions which deal with the conditions of prisoners of war in international and non-international armed conflicts. Under Article 6 of their Statutes, they can undertake any humanitarian initiative which comes in their field of competence. It is on this basis that they are now visiting HM Prison Maze.

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TO IMMEDIATE F C O

TELEGRAM NUMBER 904 OF 17 MARCH

INFO IMMEDIATE DUBLIN, NIO LONDON, NIO BELFAST AND

M I P T: PRESIDENT REAGAN'S ST PATRICK'S DAY STATEMENT.

FOLLOWING IS TEXT QUOTE.

ST PATRICK'S DAY IS NOT ONLY THE FEAST DAY OF A GREAT MAN OF GOD, IT IS A SYMBOL OF THE COMMITMENT OF THE IRISH PEOPLE TO FREEDOM, TO JUSTICE AND TO THE VALUES UPON WHICH WESTERN CIVILISATION ARE BUILT.

WE IN THE UNITED STATES KNOW THE GREAT CONTRIBUTION MADE BY CITIZENS OF IRISH ANCESTRY. FROM OUR REVOLUTION TO THE PRESENT DAY, IRISH AMERICANS HAVE BEEN AT THE FOREFRONT OF THE DEFENCE OF FREEDOM. BY THEIR LABOUR AND BY THEIR SACRIFICE THEY HAVE BEEN A MAJOR FORCE IN BUILDING OUR NATION.

IT IS THEREFORE GRATIFYING ON THIS ST PATRICK'S DAY TO BE ABLE TO PAY TRIBUTE TO THE GREAT ROLE IRELAND AND THE IRISH HAVE PLAYED IN DEFENDING AND RENEWING THE VALUES WE CHERISH.

BUT WE ARE ALSO CONSCIOUS OF THE VIOLENCE, BLOODSHED AND DESPAIR WHICH NOW HAUNT ALL OF THE PEOPLE OF NORTHERN IRELAND. THIS TRAGEDY CANNOT GO UNNOTICED BY THE UNITED STATES WHICH OWES SO MUCH AND HAS SUCH CLOSE TIES TO THE IRISH.

AS AN AMERICAN PROUD OF HIS IRISH ANCESTRY AND AS PRESIDENT, I RECOGNISE THE VITAL IMPORTANCE TO OUR NATION AND THE WESTERN ALLIANCE OF A PEACEFUL, JUST AND SWIFT SOLUTION TO CURRENT PROBLEMS IN NORTHERN IRELAND.

THE UNITED STATES WILL CONTINUE TO URGE THE PARTIES TO COME TOGETHER FOR A JUST AND PEACEFUL SOLUTION. I PRAY AND HOPE THAT THE DAY WILL COME WHEN THE TRAGEDY OF HISTORY WHICH NOW AFFLICTS NORTHERN IRELAND WILL BE OVERCOME BY FAITH, THE COURAGE AND LOVE OF FREEDOM AND JUSTICE OF THE IRISH.

WE WILL CONTINUE TO CONDEMN ALL ACTS OF TERRORISM AND VIOLENCE, FOR THESE CANNOT SOLVE NORTHERN IRELAND'S PROBLEMS. I CALL ON ALL AMERICANS TO QUESTION CLOSELY ANY APPEAL FOR FINANCIAL OR OTHER AID FROM GROUPS INVOLVED IN THIS CONFLICT TO ENSURE THAT CONTRIBUTIONS DO NOT END UP IN THE HANDS OF THOSE WHO PERPETUATE VIOLENCE, EITHER DIRECTLY OR INDIRECTLY.

I ADD MY PERSONAL PRAYERS AND THE GOOD OFFICES OF THE UNITED STATES TO THOSE IRISH -- AND INDEED TO ALL WORLD CITIZENS -- WHO WISH FERVENTLY FOR PEACE AND VICTORY OVER THOSE WHO SOW FEAR AND TERROR. UNQUOTE.

HENDERSON
STANDARD

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REL. AUTH. Star Taken

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(65)

Text of H-Blocks statement from Republican prisoners

OF 4th July 1980

THE FULL text of the weekend statement from the Republican prisoners in the H-Blocks is as follows:

We, the protesting Republican prisoners in Long Kesh, having replied in short to H Atkins's statement of June 30th, wish to expand our view of this statement.

1. The British Government are responsible for the hunger-strikes in Long Kesh. The ending of special category status was a political tactic, used by the British Government in its attempt to criminalise the Republican attack on British imperialism in Ireland. The existence of special legislation, special courts and special interrogation, plus the British administration's refusal to acknowledge a special category of prisoners, all contribute to the placing of the responsibility for this issue on that administration's shoulders.

Furthermore the British Government have had ample opportunities during the course of this issue to avoid the occurrence and re-occurrence of hunger-

strikes. The Cardinal O'Fiaich-NIO talks, and the refusal to honour the December 18th agreement, are prime examples of this.

2. Lord Gardiner, like so many other British-appointed examiners, was sent to Ireland to do a specific job — to recommend the ending of special category status so that legal credibility could be attached to the criminalisation policy.

3. It is wrong for the British Government to say that we are looking for differential treatment from other prisoners. We would warmly welcome the introduction of the five demands for all prisoners. Therefore, on this major point of British policy, there is no sacrifice of principle involved.

4. We believe that the granting of the five demands to all prisoners would not in any mean that the administration would be forfeiting control of the prison, nor would their say on prison activities be greatly diminished; but the prisoner could have his dignity restored and cease to occupy the role of establishment zombie.

5. The ECHR criticised the British Government for being inflexible and for allowing such an impasse to develop. Flexibility is in not perpetuating protest but rather trying to remove or resolve the cause of dissent which ferments such protest.

6. Mr Atkins outlines the present work routine under the title, "Prison Activity." It is a crude system which Mr Atkins disguises with flowery jargon. Yet, it should not be a major point of contention between the administration and ourselves. What the British Government recognises as "prison work" we do not. Therefore, with goodwill, "work" and the achieving of compatible arrangement, should be available without loss of principle.

Besides self-education, which would be the main prop in any agreement, we are prepared to maintain our cells, wings, blocks and engage in any activity which we define as self-maintenance.

7. Mr Atkins is either misinformed or exaggerating the free association demand. Free association means that there would be freedom of movement within the wings. Supervision need not be

restricted. That is a matter for the régime's discretion. There would be no interference with prison officers who would maintain their supervisory role. It must be remembered that H-Blocks are control units and each wing is built to accommodate 25 prisoners. So it is rather a red herring to speak of the régime losing control of the prison if the prisoners had freedom of the wing.

Equally, it is misleading to quote figures of 100 prisoners presumably associating together. We believe there should be wing visits but we do not envisage ourselves (although Mr Atkins does) running around the block as we please in large numbers.

It is unrealistic to expect Loyalists and Republicans to integrate satisfactorily together. Forced integration, or the deliberate creation of a confrontation between those who bear arms in respect of their highly conflicting political ideologies is wrong and can only lead to trouble. Even Mr Paisley recognised this fact several years back.

If studied carefully it will be seen that our definition of free association is far removed from what seems to be Mr Atkins's.

8. Prison clothes are prison clothes. It is illusory to minimise the wearing of prison clothes to half the week. Prisoners, like everyone else, sleep and for most of the other half are forced to wear prison clothes. The women in Armagh wear their own clothes and there is no objective reason why all prisoners should not be allowed to wear their own clothes.

9. If we accept that toiletries, and to a lesser extent reading material, are essential, then the weekly parcel amounts to four pounds of fruit. That speaks for itself.

10. Lost remission is a result of the protest and is not connected with the cause of it. As the British Government says, the machinery exists to reclaim it — yet, for some reason the British Government is being ambiguous on this matter. What constitutes a "subsequent good behaviour period"? What does one fifth return of remission mean? This should not be an area of disagreement for it does not directly affect the running of the system. But it is of

mutual benefit to all whom it affects that full remission is given back to we prisoners.

In giving our views on what Mr Atkins said, we have outlined what should be the basis of a solution, without loss of principle to either side in this conflict.

It could well be that Mr Atkins has been misinformed about our demands. It certainly appears from his June 30th statement that this is so. We ask all parties involved to study this statement closely. We particularly ask the British to study it. It should not be taken lightly.

By asking the British administration to come in to discuss a resolution we ask nothing unreasonable. It is common for officials from that administration to visit this prison and converse with prisoners. It has been done before.

Comrades of ours have died and eight of our other comrades presently face death on hunger-strike. Our people on the outside have died and more may die. That is why we seek immediate talks with the British administration to seek a solution to the H-Block protests. It is a reasonable request.

Signed: PRO, H-Blocks.

GRS 250A

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FM UKMIS GENEVA 141626Z

TO IMMEDIATE FCO

TELNO 167 OF 14 MAY 1981

INFO PRIORITY DUBLIN

MIPT : ICRC AND NORTHERN IRELAND

1. FOLLOWING IS TEXT OF ICRC NOTE:

THE INTERNATIONAL COMMITTEE OF THE RED CROSS (ICRC) PRESENTS ITS COMPLIMENTS TO THE PERMANENT MISSION OF THE UNITED KINGDOM TO THE UNITED NATIONS OFFICE AND THE OTHER INTERNATIONAL ORGANISATIONS IN GENEVA AND HAS THE HONOUR TO INFORM IT THAT THE ICRC IS PREOCCUPIED BY THE ACTUAL AND POTENTIAL HUMANITARIAN CONSEQUENCES OF EVENTS IN NORTHERN IRELAND AND EXPRESSES ITS WILLINGNESS TO CARRY OUT ITS HUMANITARIAN MISSION IN THAT PART OF THE UK.

THROUGH THE PRESS, THE ICRC HAS LEARNT ABOUT THE RECENT DECLARATION OF MR. HUMPHREY ATKINS, SECRETARY OF STATE FOR NORTHERN IRELAND, THAT THE BRITISH GOVERNMENT IS PREPARED TO DISCUSS PRISON CONDITIONS IN THAT SITUATION. THROUGH ITS REGULAR VISITS TO PRISONERS AND DETAINEES IN COUNTRIES AND REGIONS CONFRONTED WITH INTERNAL DISTURBANCES OR TENSIONS, THE ICRC HAS ACCUMULATED CONSIDERABLE EXPERIENCE REGARDING PRISON CONDITIONS. THE ICRC THEREFORE REITERATES THAT IT IS PREPARED TO VISIT, ON A REGULAR BASIS, ALL PERSONS INCARCERATED AS A RESULT OF THE EVENTS IN NORTHERN IRELAND, IN ORDER TO SUBMIT, CONFIDENTIALLY, ITS REPORTS AND SUGGESTIONS ON MATERIAL AND PSYCHOLOGICAL CONDITIONS OF DETENTION TO THE COMPETENT AUTHORITIES.

AS IS KNOWN TO THE BRITISH AUTHORITIES THE SOLE AIM OF SUCH VISITS IS TO IMPROVE, IF NECESSARY, THE DETENTION CONDITIONS AND THEY CAN IN NO WAY AFFECT THE LEGAL STATUS OF THE PRISONERS VISITED.

THE INTERNATIONAL COMMITTEE OF THE RED CROSS AVAILS ITSELF OF THIS OPPORTUNITY TO PRESENT TO THE PERMANENT MISSION OF THE UNITED KINGDOM THE ASSURANCE OF ITS HIGH CONSIDERATION.

ENDS.

MARSHALL

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Ulster Office,
11 Berkeley Street, London
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Telex 21839

15 July 1981

The following statement was issued by the Secretary of State for Northern Ireland, Rt Hon Humphrey Atkins MP, today:-

In my statements of 30 June and 8 July I set out once again the Government's clearly stated position in relation to the hunger strikes and the prisons protest in Northern Ireland. I also made it clear that the Government shared the concern which has been expressed in responsible quarters. I am grateful for the efforts that have been made in recent days. The Government deeply regrets that the hunger strikes are continuing and has naturally been considering further what steps it can properly take to persuade those concerned to end their action.

The Government has received an offer from the International Committee of the Red Cross to visit the prisons concerned in Northern Ireland under that part of its statutes which enables it to study the conditions of prisoners other than prisoners of war. The Committee has made it clear that its offer of assistance is made, not on the basis of the Geneva Conventions of 1949 which deal with the conditions of prisoners of war, but in exercise of its right to take humanitarian initiatives. I have decided to take up the ICRC's offer to visit the Northern Ireland Prisons concerned. A team from the ICRC will begin its work forthwith.

The ICRC have made it clear to the Government that the sole aim of their visit will be to assess and, if necessary, to make recommendations to improve the conditions of imprisonment in Northern Ireland.

It is the practice of the Committee to follow up an initial visit with subsequent visits and reports and I shall arrange for this to be done in Northern Ireland if the Committee so wishes.

Cousling

From: THE PRIVATE SECRETARY

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NORTHERN IRELAND OFFICE

GREAT GEORGE STREET,

LONDON SW1P 3AJ

Michael Alexander Esq
10 Downing Street
London
S W 1

17 July 1981

Dear Michael

You asked me this evening for a straightforward account of the talks with the ICJP in case the controversy which followed them is raised during the visit to Canada. In the time available, I think I can do no better than to send you two telegrams which describe the exchanges with the ICJP.

*Yours sincerely
Julie Hopkins*

M W HOPKINS

SD

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TO IMMEDIATE DUBLIN

TELEGRAM NUMBER 541 OF 9 JULY

MIPT : NORTHERN IRELAND : HUNGER STRIKE

FOLLOWING IS BACKGROUND ON WHICH YOU MAY DRAW AS NECESSARY:-

1. THE COMMISSION HAD BY MONDAY EVENING FORMULATED A LENGTHY STATEMENT OF WHAT THEY BELIEVE THE GOVERNMENT OUGHT TO DO AND WHAT, IN THE LIGHT OF THE LONG DISCUSSIONS MR ALISON HAD HAD WITH THEM, THEY BELIEVED WE HAD A MORAL OBLIGATION NOW TO DO. THEY, AT THAT STAGE, PROPOSED TO PUBLISH THE STATEMENT AND THEN TAKE IT INTO THE PRISON. THEY SOUGHT OUR ENDORSEMENT OF IT. MR ALISON POINTED OUT THAT IF THAT STATEMENT WERE PUBLISHED WE WOULD HAVE TO REPUDIATE ELEMENTS IN IT. THIS WOULD NOT HELP A RESOLUTION OF THE HUNGER STRIKE. IT WAS AGREED BETWEEN US THAT THE BEST WAY TO PROCEED WAS FOR THE GOVERNMENT TO CLARIFY ITS POSITION TO THE PRISONERS. WE WOULD NEED TIME UNTIL TUESDAY MORNING BEFORE BEING IN A POSITION TO DO SO. THE COMMISSION SUGGESTED THAT WE COULD DO THIS IN A NUMBER OF WAYS AND THAT THE BEST WAS FOR ONE OF THE OFFICIALS PRESENT AT THE DISCUSSIONS TO TAKE ON THE TASK. THEY NOW SEEM GENUINELY TO HAVE BELIEVED THAT IN ACCEPTING THE OBLIGATION TO CLARIFY OUR POSITION WE HAD ACCEPTED THE METHOD THEY SUGGESTED.

3. THE METHOD OF CLARIFICATION HOWEVER, THOUGH IMPORTANT IN THE VIEW OF THE COMMISSION, WAS NOT THE PRIME ISSUE FOR US. WHAT WE HAD TO DO WAS TO FIND A VERY PRECISE FORM OF WORDS WHICH A) REFLECTED THE MOVEMENT WE WERE PREPARED TO MAKE AFTER THE HUNGER STRIKE ENDED (INTER-WING ASSOCIATION: EXPANSION OF THE RANGE OF PRISON ACTIVITIES TO INCLUDE THINGS LIKE BUILDING A CHAPEL, MUTUAL SELF-EDUCATION, AND WORK FOR CHARITY: AND BY IMPLICATION OWN CLOTHES) BUT B) ALSO REFLECTED THE REALITIES OF A PRISON

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REGIME WHICH WOULD REMAIN - IN PARTICULAR THAT NO PRISONER WOULD BE ALLOWED TO OPT OUT OF WORK WHICH THE PRISON AUTHORITIES REQUIRED HIM TO DO AND THAT SEGREGATION IS NOT A RIGHT. THE APPROPRIATE TEXT REQUIRED EXTENSIVE CONSULTATION BETWEEN BELFAST, WHERE MR ALISON AND THE RESPONSIBLE OFFICIALS WERE, AND LONDON WHERE THE SECRETARY OF STATE, WHOSE AUTHORITY WAS NEEDED, HAPPENED TO BE. THE AGREED FORMULATION WAS READY EARLY ON WEDNESDAY MORNING AND READ TO THE PRISONERS BY THE GOVERNOR SHORTLY BEFORE IT WAS PUBLISHED. AN NIO OFFICIAL WAS PRESENT.

4. THE REALITY IS THAT ON AT LEAST ONE IMPORTANT POINT OF SUBSTANCE (WORK) WE AND THE COMMISSION ARE NOT AT ONE. THIS AND NOT THE MECHANICS OF CONVEYING OUR VIEWS TO THE PRISONERS IS WHAT STOOD IN THE WAY OF ENDING THE HUNGER STRIKE, EVEN IF THE COMMISSION ARE RIGHT THAT THEIR FORMULATION SET OUT WHAT THE PRISONERS WOULD SETTLE FOR.

CARRINGTON

NORTHERN IRELAND LIMITED

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TO IMMEDIATE DUBLIN
TELEGRAM NUMBER 540 OF 9 JULY.
TELECON HMA/EYERS
NORTHERN IRELAND : HUNGER STRIKE

1. YOU WILL HAVE SEEN STATEMENTS MADE TO THE PRESS BY THE ICJP IMPLYING THAT HMG HAS BEEN IN BAD FAITH IN THEIR DEALINGS WITH THE ICJP. IT IS IMPORTANT TO AVOID THE IRISH GOVERNMENT COMING TO THE SAME CONCLUSION. GRATEFUL IF YOU WOULD CONVEY THE FOLLOWING TO THE TAOISEACH'S OFFICE AS SOON AS POSSIBLE.

BEGINS

'1. THERE HAVE BEEN ACCUSATIONS THAT HMG ACTED IN BAD FAITH IN ITS DEALINGS WITH THE ICJP. THERE IS NO SUBSTANCE IN THOSE ACCUSATIONS AND HMG GREATLY REGRET THAT THEY HAVE BEEN MADE. THEY HAVE BEEN DEEPLY CONCERNED TO SEE THE HUNGER STRIKE BROUGHT TO A LASTING END. THEY WELCOMED THE COMMISSION'S WISH TO HELP AND GAVE THEM EVERY FACILITY THEY COULD. THEY ADMIRE THE COMMISSION'S DETERMINATION AND DEDICATION TO ITS TASK. THEY REGARD THE COMMISSION'S EFFORTS AS HAVING BEEN EXTREMELY HELPFUL AND HAVING SUBSTANTIALLY CLARIFIED AREAS OF DIFFICULTY.

2. AGAINST THAT BACKGROUND THEY PARTICULARLY REGRET THAT THE COMMISSION APPEARS TO HAVE CONCLUDED THAT THEY HAD BEEN DELIBERATELY MISLED, AND ARE CONCERNED TO ENSURE THAT THE IRISH GOVERNMENT SHOULD NOT ALSO HAVE THIS IMPRESSION.

3. THE PROBLEMS APPEAR TO HAVE ARISEN BECAUSE THE COMMISSION BELIEVED THAT WHEN WE ACCEPTED THE OBLIGATION FURTHER TO CLARIFY OUR POSITION TO THE PRISONERS WE HAD AT THE SAME TIME ACCEPTED THE METHOD AND TIMING WHICH THE COMMISSION HAD SUGGESTED. WE HAD NOT. THEY MAY ALSO HAVE MISUNDERSTOOD THE SIGNIFICANCE OF WHAT WE SAID TO THEM ABOUT CLOTHES AND WORK. THAT SUCH MIS-UNDERSTANDINGS SHOULD HAVE OCCURRED IS PERHAPS NOT SURPRISING

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/GIVEN

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GIVEN THAT THERE WAS A SERIES OF DISCUSSIONS EACH LASTING SEVERAL HOURS. THE DETAILS OF THESE MISUNDERSTANDINGS ARE OF SECONDARY IMPORTANCE. HMG'S CONCERN IS TO ASSURE THE IRISH AUTHORITIES THAT THEY HAVE NOT ACTED IN BAD FAITH AND THAT THEY CONTINUE TO BE DEEPLY CONCERNED TO SEE THE HUNGER STRIKE ENDED. DESPITE THE SETBACK OF MCDONNELL'S DEATH, THEY DO NOT REGARD THE HUNGER STRIKE AS INSOLUBLE IN THE CONTEXT OF PRISON REFORM IF THE PRISONERS ARE PREPARED TO ACCEPT THE REALITY OF A PRISON REGIME AS SUCH. HMG WILL BE REDOUBLING THEIR EFFORTS TO BRING IT TO AN END. THEY ARE GRATEFUL TO THE TAOISEACH FOR THE GREAT EFFORTS WHICH THEY KNOW HE HAS MADE AND HOPE THAT HE TOO WILL CONTINUE WITH THEM.'

ENDS

2. MIFT CONTAINS DETAILED BACKGROUND ON WHICH YOU MAY DRAW AT YOUR DISCRETION.

CARRINGTON

NORTHERN IRELAND LIMITED

RID	PS/MR RIDLEY
NAD	
INFORMATION DEPT	PS/PUS
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Foreign and Commonwealth Office

London SW1A 2AH

17 July 1981

Sir Robert Armstrong KCB CVO
CABINET OFFICE

John R. ...

OTTAWA ECONOMIC SUMMIT

1. In paragraphs 20 to 25 of your minute to the Prime Minister of 13 July regarding the resolutions of the final preparatory meeting for the Economic Summit next week, you treat the question of how the European Community as a whole should be represented if, as we expect, the next in the series of Economic Summits is held, next year, at a time when the Presidency will be held by either Belgium or Denmark. I have had some research done into the back history of this question and conclude that the matter is rather more straightforward than we had thought.
2. This question has already been the subject of considerable discussion within the Community, and the original Community decision on the matter goes back to the Foreign Affairs Council of 21-22 November 1977, which stated in terms that 'at any future western economic group meetings the Presidency and the President of the Commission would be invited to take part in those sessions at which items which are within the competence of the Community are discussed' (UKRep telno 7323 of 29 November 1977). This followed earlier agreement by the European Council on 25-26 March that year that both the President of the Commission and the President of the Council should take part as appropriate at the 1977 Downing Street Economic Summit.
3. Against this background, we and our European partners are really bound to support the first of the solutions which you suggest in paragraph 24 of your minute to the Prime Minister, ie that the Belgian or the Danish Prime Ministers (whichever is President of the Council at the time), should be invited to the 1982 Summit. Such a solution would be in line with existing

/Community

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- 2 -

Community decisions. Any other solution would require a new, and different, decision by the Community.

4. The question then arises of whether, as you suggest, we need to contemplate the need for a decision on this being taken at the next meeting of the European Council in November. Given the clarity of the existing text on the subject I doubt if this is needed, and since the next Economic Summit does not look like being held until the second half of 1982 a decision by the time of this November's European Council is not strictly speaking necessary. It would probably be better to clear this point up, however, before the countries immediately concerned take over the Presidency, the main need being for informal agreement between the French, Germans, Italians and ourselves. Only if this is not possible might reference to the Foreign Affairs Council or to the European Council be necessary. I suggest that we bear this in mind when we are in Ottawa, and take stock of the position again if we have had an opportunity of talking to the French, Germans and Italians.

Yours ever,

Michael Palliser

Michael Palliser

cc:

Michael Alexander Esq, No
10 Downing Street.

Sir K Couzens KCB, Treasury
Sir K Clucas KCB, Dept. of Trade
Sir D Maitland GCMC OBE, Dept of Energy

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OTTAWA ECONOMIC SUMMIT: 19-21 JULY 1981

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ECONOMIC SUBJECTS

2. INTERNATIONAL ECONOMIC AND MONETARY SITUATION
(INCLUDING INTEREST RATES)

Brief by HM Treasury

3. a. RELATIONS WITH DEVELOPING COUNTRIES: THE AID STUDY
b. MEXICO SUMMIT

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4. TRADE (INCLUDING EC/JAPAN)

Brief by Department of Trade

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Brief by Department of Energy

6. EAST-WEST TRADE

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13. MEETING WITH PRESIDENT REAGAN

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Brief by Foreign and Commonwealth Office

15. PATRIATION OF THE CANADIAN CONSTITUTION

Brief by the Secretary of the Cabinet

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Cabinet Office

17 July 1981

*R Pannon
2 Nov. 10*

IA



Foreign and Commonwealth Office

London SW1A 2AH

17 July 1981

Dear Michael,

Prime Minister's meeting With Sr Spadolini

I understand that Sr Spadolini is anxious to see the Prime Minister during the Ottawa Summit.

/ I attach a brief. Like earlier supplementary briefs, this has not been seen by a Minister here, but a copy will be in the Lord Privy Seal's weekend box.

I am sending a copy of this letter and its enclosure to David Wright in the Cabinet Office.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing St

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their house in order. He sees it in interest of all Italians that he should have a long tenure.

TNF

Failure to go ahead on the TNF double decision could particularly embarrass his government. He has good personal relations with the Americans and is likely to try to put this point across and perhaps also to ask us to do so.

"MITTERRAND EFFECT"

Any references to possible spill-over effect of French Socialist victory would be likely to embarrass Spadolini who would not welcome an internal debate in Italy on this subject.

OTTAWA SUMMIT

See Rome telegram 258 of 3 July (attached) for Italian position on the main issues.

MIDDLE EAST

← Colombo has told Lord Carrington in confidence that Spadolini has taken a pro-Zionist line in Cabinet.

UK DEVELOPMENTS

Spadolini has been consistently friendly towards Britain. He is likely to be interested and concerned by

- (a) position of the Labour Party on Europe
- (b) developments in Northern Ireland
- (c) social disturbances in Britain.

He is an intellectual who has specialised in the history of church/State relationships and has not got a closed mind on these issues.

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FM ROME 031210Z JULY 81

TO IMMEDIATE F C O

TELEGRAM NUMBER 258 OF THE 3RD JULY 1981

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AND UKREP BRUSSELS.DISTRIBUTION SELECTED
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YOUR TELNO 208 TO OTTAWA: ECONOMIC SUMMIT.

1. THE NEW ITALIAN PRIME MINISTER, SPADOLINI, WILL HAVE LITTLE TIME FOR A REALLY CONSIDERED STUDY OF THE DOSSIERS BEFORE THE HEADS OF GOVERNMENT AT THE OTTAWA SUMMIT. IT IS EARLY DAYS TO ASSESS WHERE HIS PRIORITIES WILL LIE, THOUGH YOU AND THE PRIME MINISTER MAY HAVE FORMED AN IMPRESSION AT LUXEMBOURG.
2. ACCORDING TO HIS STAFF, HIS BRIEF WILL SET OUT THE PRINCIPAL ITALIAN PREOCCUPATIONS AT THE SUMMIT AS FOLLOWS:
 - A. THE INTERNATIONAL ECONOMIC SITUATION. ALTHOUGH HIS TREASURY MINISTER, ANDREATA HAS BEEN MAKING BELLIGERENT NOISES, SPADOLINI HIMSELF WILL BE ANXIOUS NOT TO PROMOTE CONFRONTATION WITH THE US OVER ECONOMIC POLICY WHICH HE REGARDS AS INSEPARABLE FROM EUROPEAN/US RELATIONS ON THE POLITICAL PLANE, AT A TIME WHEN THE POLITICAL DANGERS OF RUSSIAN EXPANSIONISM ARE AT LEAST AS GREAT AS THE TEMPORARY EFFECTS OF CURRENT US ECONOMIC POLICIES ON EUROPE. HE WILL, HOWEVER, REGARD IT AS QUITE LEGITIMATE, IN LINE WITH THE CONCLUSIONS OF THE EUROPEAN SUMMIT AT LUXEMBOURG, TO DRAW ATTENTION, IN THE CONTEXT OF A DISCUSSION OF WORLD ECONOMIC PROBLEMS WITH THE US, TO THE EFFECTS OF US ECONOMIC POLICIES ON THE ECONOMIES OF HER PRINCIPAL PARTNERS.
 - B. THE NORTH/SOUTH DIALOGUE. THE ITALIAN LINE IS THAT IN THE INTERESTS OF THE FUTURE HEALTH OF THE WORLD ECONOMY THE LDCS SHOULD BEGIN TO SEE THEMSELVES AS AN IMPORTANT ECONOMIC BLOC WHICH WOULD BENEFIT FROM DEVELOPMENT ON THE WESTERN ECONOMIC MODEL, RATHER THAN PLAYING OFF EAST AGAINST WEST IN THE INDUSTRIALISED WORLD. TO ACHIEVE THIS THE INDUSTRIALISED COUNTRIES MUST NOT ONLY GIVE GENEROUS DEVELOPMENT ASSISTANCE BUT MUST ALSO ACCEPT THE COMMERCIAL CONSEQUENCES. (IT REMAINS TO BE SEEN WHETHER THIS RETORICAL LINE WILL BE BACKED BY SUBSTANTIAL ITALIAN POLICIES IN FAVOUR OF THE THIRD WORLD.) ON THE OTHER HAND, THE LDCS SHOULD RECOGNISE WHAT THE INDUSTRIALISED COUNTRIES HAVE DONE ALREADY BY WAY OF CONTRIBUTION TO OPPORTUNITIES FOR GROWTH. THE ITALIANS REGARD THE CANADIAN DOCUMENT ON NORTH/SOUTH AS INSUFFICIENTLY ROBUST ABOUT INDUSTRIALISED COUNTRIES' CONTRIBUTIONS SO FAR.

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/C. INTERNATIONAL

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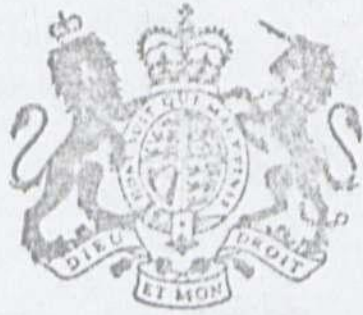
- C. INTERNATIONAL TRADE. THE ITALIANS ACCEPT THAT IN PRACTICE THIS MEANS DISCUSSION OF TRADE RELATIONS WITH JAPAN. THEIR OWN VIEW IS NOT VERY COHERENT. THEY WILL NOT TAKE THE LEAD IN CALLING FOR JAPANESE RESTRAINT, SINCE THEIR OWN SYSTEM OF NON-TARIFF BARRIERS AND QUANTITATIVE RESTRICTIONS SHIELDS THEM FROM THE WORST EFFECTS OF JAPANESE COMPETITION. BUT THEY SUPPORT THE PRINCIPLE THAT THE JAPANESE AUTHORITIES SHOULD BRING PRESSURE TO BEAR ON JAPANESE EXPORTERS TO LAY OFF EUROPEAN MARKETS TO GIVE A BREATHING SPACE TO ALLOW THE EUROPEANS TO IMPROVE THEIR OWN SALES TO JAPAN. (THE ALSO FEAR BEING SQUEEZED OUT OF THIRD MARKETS).
- D. ENERGY. THE ITALIANS TAKE THE VIEW THAT THE PRESENT WORLD SUPPLY/DEMAND SITUATION IS BROADLY SATISFACTORY., THE VENICE OBJECTIVES REMAIN ON COURSE., WHAT IS NEEDED IS CONTINUING VIGILANCE., THIS TOPIC SHOULD NOT TAKE UP MUCH TIME AT THE SUMMIT.

3. I WOULD NOT EXPECT SPADOLINI TO PLAY A VERY PROMINENT ROLE WHEN HE IS SO NEW TO THE JOB AND THERE ARE NO SPECIFIC, CLEARLY DIFINED, ITALIAN OBJECTIVES TO SECURE, BUS AS A REPUBLICAN HE MAY BE ANXIOUS TO MAKE HIS MARK WITH THE NEW US ADMINISTRATION.

ARCULUS

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CS

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000
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Sir Kenneth Couzens KCB
Second Permanent Secretary
Overseas Finance

17 July 1981

C A Whitmore Esq
10 Downing Street
London SW1

Dear Mr. Whitmore,

OTTAWA SUMMIT

At yesterday's briefing meeting the Prime Minister asked Sir Kenneth Couzens to provide a note on objectives in the discussions on the world economy at the Summit, and a speaking note for her use.

I attach the two documents as requested.

Yours sincerely,

Julia Rutter

PS/Sr K Couzens.

OTTAWA SUMMIT: OBJECTIVES FOR THE WORLD ECONOMY DISCUSSION

The Prime Minister may wish to make some of the following points in order to secure the right balance in the discussion and to get them reflected in the Communique and associated media reports:-

1. to sustain the line that there cannot be sustained progress on unemployment if inflation is allowed to rise; and to avoid a situation in which what is said publicly after the Summit on the fight against inflation is relegated below the fight against unemployment;
2. to make the point that unemployment requires structural remedies and moderate pay settlements, not reflation;
3. to say that in a world of recession it is particularly important that trading partners avoid export drives concentrated on narrow sectors, which create strong political pressures for protection;
4. to make the point about the impact of US interest rates on Europe in a moderate way, supporting the US objective but urging policies which take the strain off high and volatile interest rates; but to avoid a hostile outcome;

5. to say that we all want the non-oil LDC's to come through this period with least damage but that in their own interests they need to retain the confidence of markets in their policies or obtain IMF support with an appropriate programme;

6. to say that it is helpful if the Summits convey a sense of continuity in the leadership they give, and give some clear guidance on broad economic matters. On that ground the paragraphs for the Communique already agreed seem preferable;

7. to correct any impression that UK economic policy is a "failed experiment in monetarism" by emphasizing the success in reducing inflation; moderation in pay settlements and acceptance of improved productivity; and the history of inflationary conditions and structural problems.

OTTAWA SUMMIT

Some Paragraphs for the Prime Minister's intervention in the Economic Discussion

1. At the first Economic Summit which I attended in Tokyo 2 years ago we were faced with the second major round of oil price increases. We are now meeting at a time when the effect of those increases on inflation and on output has reached or just passed its peak but when unemployment is still rising.
2. Europe in particular has suffered and is suffering very badly from unemployment in this second oil price recession. Over many years in my country the level of unemployment has risen from one recession to the next, and I believe this has happened in many developed countries. The effect of structural factors has mounted in our economies and caused increasing damage to employment. Many of these factors have also added to inflation. A development of this kind over a long period takes time to reverse. Many of our economies have become less flexible and adaptable in the face of change. These are stubborn obstacles to reducing unemployment, but we must tackle them if we are to achieve lasting success.
3. Meanwhile we face tragic problems of youth unemployment and some of our social problems are made worse by recession. Some of us know the special problems of getting people to live harmoniously together where there are differences of race, colour or religion. Those problems have often been just as acute in times of prosperity as in times of recession. Occasionally, affluence seems even to produce more of them. And sometimes we face violence which is nothing to do with race, colour or religion. Unemployment may contribute to some of these problems but what is certain is that these situations of violence and hostility are themselves an obstacle to employment. They are part of our structural problems.
4. These Summits began in the shadow of the first oil price increase. I think it is worth considering for a moment how well the world and its economic leaders have coped with the second oil price increase

compared with the first. The IMF said recently that we had managed things better this time. Total output in the developed countries fell in 1975, but not in 1980 or indeed probably in 1981. Bad as it has been, experience on output and on inflation have both been better this time round. The fight against inflation has been pursued with more determination. It is unemployment, not output, that has been worse and that goes back to the cumulative structural problems I have mentioned.

5. Within this better story we have had different experiences. My own country has passed through higher inflation, lost more output, and suffered a bigger rise in unemployment than most because when the oil price increase came we had a worse history than most of pay inflation, more productivity problems and greater structural rigidities. But we have brought down inflation dramatically. We have achieved important productivity improvements, and brought down sharply the rate of pay settlements. I believe we can hold and reinforce these gains.

6. We support the efforts of the United States which are also directed at reducing a stubborn inflation and improving productivity. I believe they are right to give priority to control/^{of}monetary growth and reduction of public expenditure. We hope that in the interests of their partners they will do all they can to reduce the extent to which they have to rely on interest rates to achieve their objectives. We believe they understand why that is important to Europe in particular and we think it is in their own interests also. In the UK we have managed by a strict budgetary policy to give our industry for some months interest rates lower than in the United States and other countries.

7. There is another important area in which those of us in the eye of the recession in Europe seek the clear understanding of our friends and trading partners. At a time of such acute recession export efforts to our countries beamed on rather narrow sectors can be disruptive and expose us to great political pressures for protection. We need to avoid these risks through amicable international co-operation. I agree too that we need to avoid

wasteful and damaging competition in export credit.

8. What is striking is that our Western market system and the international financial markets have again survived the shock and served us well. Funds have been successfully recycled to the LDC's and the developed countries in deficit. The most striking financial problem has been in Eastern Europe. Perhaps the international market system is more flexible and responsive even than some parts of our domestic economies. There is no ground here for complacency, but some ground for satisfaction.

9. My conclusion is that there are important grounds for hope in the world economy alongside much reason for concern and perplexity. We are past the worst of the recession. The world is rather less dependent on imported oil than it was. Unemployment will begin to fall if we are spared further shocks to the international system and allowed to work steadily for the further reduction of inflation and improvement of the structure of our economies.

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FROM ROME 171550Z JUL 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 288 OF 17 JUL 81

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CS

PS/N^o 10
Prime Minister to see

N.P.G. Mitchell
Duty Clerk
18/7/81

PROPOSED BILATERAL SUMMIT: TELCON ARMOUR/TOMKYS

1. SPADOLINI MAY BE SEEKING BILATERAL MEETINGS WITH A NUMBER OF PARTICIPANTS AT OTTAWA AND MAY NOT HAVE VERY SPECIFIC ANGLO/ ITALIAN OBJECTIVES IN MIND. HIS PRINCIPAL PREOCCUPATIONS, HOWEVER, WILL INCLUDE --

(A) THE WISH TO ESTABLISH HIMSELF A SOMETHING MORE THAN A TEMPORARY SUBSTITUTE, FOR A CHRISTIAN DEMOCRAT-LED COALITION. SPADOLINI AND THE OTHER LAY PARTIES TO A LESSER EXTENT WILL SEE HIS APPOINTMENT AS A SUBSTANTIAL AND PERHAPS IRREVERSIBLE CHANGE WHICH WILL COMPEL THE CHRISTIAN DEMOCRATS TO PUT THEIR HOUSE IN ORDER AND MAY LEAD TO A PROLONGED TENURE OF THE PREMIERSHIP BY MEMBERS OF THE LAY PARTIES. SPADOLINI WILL WANT TO KEEP THE JOB FOR HIMSELF, THE SOCIALISTS SEE HIM AS THEIR STALKING HORSE. HIS MESSAGE SHOULD BE THAT THIS DEVELOPMENT MARKS A HEALTHY PROGRESSION IN THE ITALIAN POLITICAL SYSTEM WHICH BADLY NEEDED REGENERATION AND THAT IT DESERVES OUR SUPPORT. THERE IS SOMETHING IN THIS ARGUMENT THOUGH WE SHOULD NOT BECOME INVOLVED IN THE JUNGLE OF ITALIAN DOMESTIC POLITICAL DISPUTE, AND SPADOLINI WILL HAVE A DIFFICULT RIDE.

(B) HE WILL WITH TO STRESS THE FACT THAT HIS POSITION COULD BE UNDERMINED BY INTERNATIONAL DEVELOPMENTS, EG. BY FAILURE TO PROCEED WITH NEGOTIATIONS ON TNF OR BY INSENSITIVE WARNINGS, FOLLOWING DEVELOPMENTS IN FRANCE, IN STATEMENTS BY HIS WESTERN ALLIES (PARTICULARLY THE US) ABOUT THE PRINCIPLE OF INVOLVING THE COMMUNISTS IN GOVERNMENT. ON BOTH THESE ISSUES IT IS AMERICAN ATTITUDES WHICH WILL MOST CONCERN HIM BUT HE WILL WANT OUR UNDERSTANDING AND SUPPORT.

2. ON OUR SIDE, THE PRIME MINISTER WILL NO DOUBT WISH TO CONSOLIDATE THE GOOD WORK ALREADY DONE WITH COLOMBO IN SMOOTHING FEATHERS RUFFLED BY THE CHEVENING MEETING. SPADOLINI MAY WISH TO TALK ABOUT THE EUROPEAN COMMUNITY AND MAY EXPRESS CONCERN OVER LABOUR PARTY COMMITMENTS TO WITHDRAWAL. THE ITALIAN POSITION ON THE 1% CEILING AND THEIR INTEREST AS THEY SEE IT IN INCREASED EXPENDITURE ON MEDITERRANEAN AGRICULTURE CONFLICT WITH OUR POLICY. HE COULD BE BROUGHT ALONG GENTLY ON THESE COMMUNITY ISSUES ON WHICH THE ITALIAN POSITION WILL NOT NECESSARILY PROVE UNHELPFUL IN THE LONG RUN BECAUSE OF THEIR OVERRIDING INTEREST IN THE DEVELOPEMENT OF THE COMMUNITY.

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3. IF THE PRIME MINISTER HAS AN OPENING TO TALK FRANKLY WITH SPADOLINI ABOUT NORTHERN IRELAND, IT MIGHT HELP GREATLY. AS A JOURNALIST AND AN ACADEMIC PREOCCUPIED WITH CHURCH HISTORY, SPADOLINI WILL CERTAINLY BE CLOSELY INTERESTED IN THE PROBLEM AND SHOULD NOT HAVE A CLOSED MIND. LIKE OTHER ITALIAN MINISTERS HE WILL BE CONCERNED ABOUT THE CIVIL DISTURBANCES IN BRITAIN.
4. IT WOULD ALSO HELP IF IT WERE POSSIBLE TO OFFER HIM THE PROSPECT OF A SUMMIT MEETING IN LONDON IN THE AUTUMN BEFORE THE EUROPEAN COUNCIL, AS I HAVE ALREADY RECOMMENDED.

ARCULUS

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WED

ECD (1)

NAD

RID

MR BULLARD

2

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cc N/S
Summit
file

OVERSEAS DEVELOPMENT ADMINISTRATION
ELAND HOUSE
STAG PLACE LONDON SW1E 5DH
Telephone 01-213 4819

17 July 1981

Sir Peter Preston KCB
Permanent Secretary

Michael Alexander Esq
Private Secretary
No. 10 Downing Street

Dear Michael,

OTTAWA SUMMIT: DEFENSIVE MATERIAL ON AID

...
...
As agreed at the Prime Minister's meeting yesterday, I submit a table giving factual material on our comparative performance which can be drawn on at Ottawa. I also attach a table prepared for the OECD Development Assistance Committee last November which provides a league table both of aid performance and economic indicators. This needs handling with some care as the figure for ODA as a percentage of GNP for the UK is at the artificially high level of 0.52. This placed us seventh in OECD. Our 1980 figure (artificially low) would take us down several places. But it does illustrate that our aid is high in proportion to our economic strength.

I am sending copies of this letter and enclosures to Michael Palliser, Ken Couzens, Robert Armstrong and Nicholas Bayne.

Yours ever
Peter.

Peter Preston

OTTAWA SUMMIT: ANNEX TO BRIEF FOR ITEM 3(a)
DEFENSIVE NOTE ON UK COMPARATIVE AID/ECONOMIC PERFORMANCE

	1980 Total Aid £m	1980 Bilateral Share %	1980 Aid GNP %	1979 Aid to low income countries (1) %	1979 Aid to least developed ⁽²⁾ countries %	Share in IDA VI Replenish- ment	1979 Private flow GNP %	1980 Share of "Summit" GNP %	1980 Imports from non- oil ldc's £ m	1980 Imports from non- oil ldc's %
UK	1,781	70 ⁽³⁾	0.34 ⁽⁴⁾	25	25	10.10	2.30 ⁽⁵⁾	8.3	17.6	10.0
USA	7,091	62	0.27	11	11	27.00	0.51	41.7	64.8	36.7
Germany	3,518	65	0.43	24	24	12.50	0.45	13.0	25.0	14.1
France	4,041	82	0.62	10	10	5.38	0.88	10.3	17.4	9.8
Japan	3,304	59	0.32	18	18	14.65	0.46	16.4	33.2	18.8
Canada	1,036	62	0.42	38	38	4.30	0.50	3.9	3.6	2.0
Italy	678	11	0.17	n.a.	n.a.	3.85	1.02	6.3	15.1	8.5
Summit Total	21,449	65	0.34	17	17	77.78	0.69	100.0	176.7	100.0
All OECD Develop- ment Assistance Committee members	26,719	66	0.37	19	19	91.13	0.73	-	214.8 ⁽⁶⁾	-

(1) Low-income countries are those with a GNP per capita less than \$450 in 1978 (slightly broader than the definition of the "poorest" used by UK)

(2) As defined by the UN

(3) Figure atypically high because no promissory note issued to IDA; 1979 figure of 55% more representative

(4) This, the lowest percentage yet recorded by the UK, compares with the unusually high figure of 0.52 in 1979. Two exceptional factors account for a large part of the fall - the delay in coming into effect of the IDA replenishment as a result of US Congressional difficulties, and slow drawings of aid by some major bilateral recipients. Net aid in 1980/81 was £948m as against £899m in 1979/80.

(5) 1980 figure, still provisional, likely to be about 1.8% (not 1% as earlier quoted in the brief for item 3(a))

(6) All OECD.

Table 1
Aid performance and selected economic indicators for DAC countries

	ODA as % of GNP		GNP per capita		Notional rankings of economic indicators ^a		Average growth of GDP 1978-80		Unemployment rate 1980		Inflation rate ^b 12 months to August		Budget deficit ^c as % of GDP 1980		Current account balance as % of GNP, 1980	
	1979		1979		rank		%		%		%		%		%	
	%	rank	\$	rank	rank	rank	%	rank	%	rank	%	rank	%	rank	%	rank
Sweden	0.94	1	12,240	3	11	8	2.8	2.3	5	12.3	12	-3.8	13	-4.3	13	
Norway	0.93	2	11,300	6	1	4	3.7	1.6	2	11.4	10	+4.2	1	+1.2	1	
Netherlands	0.93	3	10,740	8	10	13	1.7	6.3	10	7.0	4	-4.6	15	-1.2	6	
Denmark	0.75	4	11,700	4	14	14	1.5	6.3	11	11.2	9	-1.5	7	-5.2	15	
France	0.59	5	10,700	9	8	9	2.7	6.6	12	13.6	11	-0.7	4	-1.4	9	
Belgium	0.56	6	11,430	5	15	10	2.3	7.6	15	6.3	3	-6.9	16	-4.3	14	
United Kingdom	0.52	7	7,080	15	13	16	0.7	7.0	13	16.3	15	-3.0	9	+0.7	2	
Australia	0.52	8	8,320	14	6	7	2.9	5.9	9	10.7 ^d	7	-3.0 ^d	10	-1.3	7	
Canada	0.46	9	9,390	10	12	12	1.9	7.8	16	10.7	8	-2.8	8	-1.6	10	
Germany	0.44	10	12,410	2	4	5	3.3	3.3	6	5.5	2	-3.3	12	-2.0	11	
New Zealand	0.30	11	6,397	16	17	17	-0.6	4.5	7	17.9	16	-0.5	3	-5.4	16	
Japan	0.26	12	8,730	12	3	1	5.7	1.9	3	8.7	6	-4.5	14	-1.3	8	
Finland	0.21	13	8,510	13	5	2	4.8	4.6	8	12.3	13	+1.0	2	-3.9	12	
Switzerland	0.21	14	15,320	1	2	15	1.5	0.3	1	4.2	1	-1.3	6	-0.2	4	
United States	0.20	15	10,740	7	9	11	2.0	7.2	14	12.8	14	-1.1	5	+	3	
Austria	0.19	16	9,110	11	7	6	3.1	1.9	4	7.3	5	-3.0	11	-5.9	17	
Italy	0.08	17	5,700	17	16	3	3.8	7.8	17	22.0	17	-8.3	17	-1.1	5	
Total DAC	0.35	-	9,730	-	-	-	2.9	(6.0)	-	12.7	-	-2.8	-	-0.9	-	

a/ Unweighted average of ranking performance of the five indicators selected.

b/ Consumer prices.

c/ General government net lending.

d/ 1979 data.

e/ 12 months to June.

Notes: In addition to GNP per capita which remains the best single indicator for comparing basic economic aid giving capacity, the Secretariat has assembled information on a number of indicators of current economic conditions. Delegations generally found this presentation interesting but a number of them stressed the problematic character of the "Notional ranking of economic indicators."

Source: Recent OECD Secretariat sources.

file SIC

17 July 1981

Ottawa Bilaterals: Mr. Trudeau

As I have already mentioned to you on the telephone, the Prime Minister will be happy to spend half an hour with Mr. Trudeau to talk about the Canadian Constitution immediately after her arrival at Montebello on Sunday.

MICHAEL ALEXANDER

Roderic Lyne, Esq.,
Foreign and Commonwealth Office

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Foreign and Commonwealth Office

London SW1A 2AH

16 July 1981

Dear Michael,

Ottawa Bilateral with Trudeau

/ I attach a copy of Ottawa telegram No 377, received this morning. Would you like us to reply in the affirmative to paragraph 2?

Yours ever

Roderic Lyne

(R Lyne)
Private Secretary

M O'D B Alexander
Private Secretary
No 10 Downing Street

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TO IMMEDIATE FCO

TELEGRAM NUMBER 377 OF 15 JULY

AND TO PRIORITY WASHINGTON (FOR PRIVATE SECRETARY)

SUMMIT: CANADIAN BILATERAL

1. AT PRIME MINISTER'S LUNCHEON TODAY HIS PRIVATE SECRETARY, FOWLER SUGGESTED TO ME THAT MR TRUDEAU'S TALK WITH MRS THATCHER ON THE CONSTITUTION MIGHT TAKE PLACE DIRECTLY AFTER HER ARRIVAL AT MONTEBELLO. THERE IS LIKELY TO BE A GAP OF AN HOUR AND A QUARTER BETWEEN HER ARRIVAL AT 2.25 AND THAT OF PRESIDENT REAGAN AT 3.40 AND FOWLER THOUGHT THE DISCUSSION MIGHT TAKE PLACE WITHIN THAT PERIOD. HE DID NOT THINK A LONG MEETING WOULD BE NECESSARY SINCE MRS THATCHER AND MR TRUDEAU HAD HAD A FULL DISCUSSION OF THE CONSTITUTION SO RECENTLY. BUT MR TRUDEAU WANTED TO BRING HER UP TO DATE ON THE QUESTION.

2. WOULD THIS PROPOSAL BE AGREEABLE TO THE PRIME MINISTER?

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FM PARIS 160926Z JUL 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 622 OF 16 JULY 1981

INFO PRIORITY WASHINGTON, BONN, OTTAWA.

INFO SAVING TO TOKYO, ROME, UKREP BRUSSELS.

OTTAWA SUMMIT

1. THE COMMUNIQUE ISSUED AT THE END OF THE FRENCH COUNCIL OF MINISTERS MEETING YESTERDAY STATED THAT DISCUSSION ON FOREIGN AFFAIRS HAD MAINLY CENTRED ON PREPARATION FOR THE OTTAWA SUMMIT. ACCORDING TO THE COMMUNIQUE, "THE FRENCH GOVERNMENT IS DETERMINED TO OBTAIN A FREE AND DIRECT DISCUSSION ON THE MAJOR PROBLEMS OF THE HOUR, NAMELY THE ECONOMIC AND SOCIAL SITUATION IN THE INDUSTRIALISED COUNTRIES AND RELATIONS BETWEEN THESE COUNTRIES AND LDCS, UNDERLINING THE UNACCEPTABLE NATURE OF UNEMPLOYMENT IN THE INDUSTRIALISED COUNTRIES AND OF THE MISERY AND GROWING IMPOSSIBILITY OF ACHIEVING DEVELOPMENT IN THE THIRD WORLD. THE FRENCH GOVERNMENT ON THIS OCCASION WILL UNDERLINE THE INAPPROPRIATENESS OF CERTAIN RESPONSES NOW BEING PROPOSED TO THE CRISIS SUCH AS THE GAME OF HIGH INTEREST RATES, THE SOARING RISE OF CERTAIN CURRENCIES AND THE SUDDEN FLUCTUATIONS IN THE PRICES OF RAW MATERIALS."
2. WHEN FINANCIAL COUNSELLOR SAW MOREL (ECONOMIC ADVISER AT THE ELYSEE DEALING WITH THE SUMMIT) YESTERDAY EVENING THE LATTER GAVE AN ACCOUNT OF FRENCH AIMS WHICH BROADLY FOLLOWED THE ASSESSMENT IN PARIS TELEGRAM NO 595 BUT HINTED AT A CHANGE OF TONE. MOREL SAID THAT FOLLOWING HIS DISCUSSIONS AT THE EUROPEAN COUNCIL, HIS BREAKFAST WITH MRS THATCHER AND THE FRANCO/GERMAN SUMMIT PRESIDENT MITTERRAND NOW HAD A CLEAR IDEA OF THE APPROACH TO ADOPT. HE WOULD GO TO OTTAWA NEITHER TO PREACH NOR TO BE PREACHED AT. HIS INTENTION WOULD BE TO EXPLAIN TO OTHER HEADS OF GOVERNMENT THE FUNDAMENTAL OBJECTIVES OF HIS ECONOMIC POLICIES WITHOUT EXPECTING THAT OTHERS WOULD NECESSARILY FIND THIS STRATEGY APPROPRIATE IN THEIR OWN COUNTRY. THE AIM OF THE SUMMIT SHOULD NOT BE TO TAKE DECISIONS BUT TO ENABLE THE WORLD LEADERS TO GET TO KNOW EACH OTHER AND TO DISCUSS FUNDAMENTAL LONG - TERM ECONOMIC PROBLEMS AGAINST A LARGER PERSPECTIVE THAN THE IMMEDIATE TECHNICAL ISSUES NORMALLY DISCUSSED. HENCE FRANCE HAD PLACED A RESERVE ON HAVING ANY COMMUNIQUE, SINCE PRESIDENT MITTERRAND WAS CONCERNED THAT DISCUSSION SHOULD NOT BE CONSTRAINED BY A PREFABRICATED DOCUMENT, THOUGH MOREL ADDED THAT A COMMUNIQUE WOULD OF COURSE BE NEEDED: THE SHORTER THE BETTER.

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/3.

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3. AS PART OF THIS APPROACH, MOREL CONTINUED, PRESIDENT MITTERRAND WOULD NOT WANT TO MAKE US INTEREST RATES A CONFRONTATIONAL ISSUE OR GIVE AMMUNITION TO THOSE CRITICS, CHIEFLY AMERICAN, WHO THOUGHT THAT HE WAS TRYING TO MAKE AMERICAN POLICY A SCAPEGOAT FOR FRANCE'S OWN ECONOMIC DIFFICULTIES. PRESIDENT MITTERRAND WOULD SIMPLY WANT TO EXPLAIN DIRECTLY TO PRESIDENT REAGAN THE CONSEQUENCES FOR THE FRENCH ECONOMY OF PRESENT HIGH INTEREST RATES WITHOUT HAVING ANY ILLUSIONS ABOUT AN EARLY CHANGE IN US POLICY.

4. SIMILARLY PRESIDENT MITTERRAND WOULD NOT WANT TO LECTURE PRESIDENT REAGAN ABOUT THE IMPORTANCE OF GIVING A CAREFULLY - CONSIDERED SIGNAL TO THE LDCS AT THE SUMMIT. ONE OF THE AIMS SHOULD BE TO ESTABLISH AMONG WESTERN COUNTRIES A RANGE OF ACCEPTABLE MAXIMUM AND MINIMUM RESPONSES TO G77 DEMANDS PARTICULARLY IN THE CONTEXT OF THE GLOBAL NEGOTIATIONS. PRESIDENT MITTERRAND WOULD SPEAK IN FAVOUR OF THE ENERGY AFFILIATE TO THE WORLD BANK.

5. ACCORDING TO MOREL, PRESIDENT MITTERRAND WOULD NOT EXPECT ENERGY ISSUES TO FIGURE LARGELY IN THE DISCUSSIONS BUT HE WOULD WANT TO PUT OVER THE MESSAGE THAT WESTERN COUNTRIES SHOULD NOT RELAX THEIR EFFORTS SIMPLY BECAUSE OIL MARKETS WERE SLACK AT PRESENT. HE WOULD EXPLAIN THAT FRANCE WOULD MAINTAIN THE ESSENTIALS OF THE EXISTING NUCLEAR PROGRAMME WHILE PLACING GREATER EMPHASIS ON NEW AND TRADITIONAL ENERGY SOURCES. PRESIDENT MITTERRAND WOULD MAINTAIN HIS INTENTION OF TAKING A FIRM LINE ON JAPANESE TRADE POLICIES DESPITE INDICATIONS THAT THE US AND CANADIAN GOVERNMENTS WANTED TO PLAY THIS DOWN. ON EAST/WEST TRADE, PRESIDENT MITTERRAND COULD PROBABLY GO ALONG WITH THE BASIC AMERICAN APPROACH PROVIDED THAT IT WAS FLEXIBLY FRAMED AND WAS NOT FOCUSSED ON INSTITUTIONAL CHANGES.

FCO PLEASE PASS SAVING TO TOKYO, ROME, UKREP BRUSSELS.

HIBBERT.

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Foreign and Commonwealth Office

London SW1A 2AH

16 July 1981

Dear Michael,

Ottawa Economic Summit:
Bilateral Meeting with President Reagan.

Flag A / I promised to write about the Prime Minister's meeting with President Reagan. General background is in Sir N Henderson's telegram No. 2112 (enclosed). We see the following objectives for this meeting:

- a) To reinforce Reagan's confidence in Britain as an ally;
- b) To develop further the good personal relationship already established, and
- c) To make some points on major issues where perspectives differ.

Flag B / With these aims in view, we suggest that the Prime Minister might begin with the central issue of East/West relations. After pointing to the difficulties facing the Soviet Union, Mrs Thatcher might mention the need for European opinion to be convinced that US policy is not confined to building up stronger defences, crucially important though that is. (There are Points to Make in the attachment to this letter and in the addendum to PMVL (31)13.)

Flag C / The Prime Minister might then speak about the UK, in particular the economy and defence priorities. Sir N Henderson's telegram No. 2125 (also enclosed) is relevant. The Prime Minister may also wish to ensure that our policy toward Northern Ireland is correctly understood.

The Prime Minister might then turn to the Middle East and Namibia, major subjects on which there are differences between the US and UK. (There are Points to Make in the attachment and in PMVL (81)9(6) (Revise) but this briefing will need to be reviewed in light of Lord Carrington's talks with Mr Haig in Washington.)

/Mrs Thatcher

M O'D B Alexander



Mrs Thatcher will presumably also wish to renew the invitation to President Reagan to visit the UK (Details in PMVL (81)13).

I should be grateful to know if, in the light of the Prime Minister's briefing meeting, you require any additional briefing for the Reagan bilateral.

Yours ever

Roderic Lyne

(R Lyne)
Private Secretary

MEETING WITH PRESIDENT REAGANPOINTS TO MAKEI EAST-WEST

1. Western firmness in recent months has helped put Soviet Union on defensive. Notably: US determination to redress the military balance; NATO's up-holding of double decision on Theatre Nuclear Forces; plans for a Rapid Deployment Force; development of relations with China; stronger warnings by West against Soviet intervention in Poland backed by progress in contingency planning.

2. This puts the West in a position of advantage / to test Soviet Union's readiness to negotiate in earnest. Neither Soviet Union nor public opinion in West has mistaken Ten's Afghanistan proposal for sign of weakness. Same approach could work well on TNF.

3. This approach demonstrates to our own people and world at large that our ultimate objective is more civilized East-West relations. Crucial if we are to maintain public support for stronger defences.

II UKIII MIDDLE EAST

1. How does President Reagan see the way ahead?
2. Looking at short-term, we fully support Habib mission.
3. Looking to longer-term, we see need:
 - a) to restrain Israelis from new provocative acts
 - b) to define an approach to comprehensive settlement that can take up where Camp David leaves off, and
 - c) to associate PLO with negotiations and to respond if PLO demonstrate publicly their readiness to recognise Israel and

negotiate peacefully.

IV NAMIBIA

1. Appreciate major effort US has been making to get South Africans on board a settlement.
2. In long run, Five together can achieve more than any one nation separately. Very important to hold together, share assessments, discuss steps forward.
3. Share wish of US and South Africans to see Cuban troops leave Angola but convinced neither Front Line States nor SWAPO will accept this as pre-condition of Namibia settlement.

... of members a role to play in the process of negotiations in earnest. ...
 ... in the past has been a major factor in the ...
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1. How does President ... see the way ahead?
2. Looking at short-term, we fully support ...
3. Looking at longer-term, we see need:
 - (a) to establish ... from new provocative ...
 - (b) to ... to comprehensive settlement ...
 - (c) to ... where ... leaves off, and ...
 - (d) to ... with negotiations and to ...

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TELEGRAM NUMBER 2112 OF 11 JULY
INFO SAVING TO UKMIS NEW YORK, UKDEL NATO, OTTAWA, PEKING, TOKYO,
TEL AVIV, CAIRO, JEDDA, AMMAN, MOSCOW, WARSAW, CAPETOWN, NEW DELHI,
E.C. POSTS.

US FOREIGN POLICY

1. BEFORE YOUR VISIT HERE, AND BEFORE OTTAWA, YOU MIGHT LIKE A REVIEW OF US FOREIGN POLICY.

2. THE DECISION MAKING PROCESS REMAINS INCOHERENT. HAIG IS NOT FIRMLY IN THE SADDLE: HE DOES NOT HAVE THE PRESIDENT'S TRUST IN THE WAY THAT WEINBERGER DOES, AND IS ACTIVELY DISTRUSTED BY REAGAN'S CLOSEST WHITE HOUSE ADVISERS, WHO MAY WELL BE DOING LITTLE TO COUNTER PRESS CRITICISM OF HIM. HE HAS ALSO PROVED A CONSISTENT OWN-GOAL SCORER.

3. THE WHITE HOUSE'S ROLE IN FOREIGN POLICY IS ALSO IN DOUBT. ALLEN'S CONTRIBUTION IS UNCERTAIN EXCEPT THAT HE CAN BE RELIED UPON TO OPPOSE HAIG. I THINK THAT MEESE'S INFLUENCE IS STRONG ACROSS THE WHOLE BOARD OF POLICY, BUT HE WILL BE URGING PRIORITY FOR THE DOMESTIC: AND IT MUST BE SAID THAT, STEADY MAN THOUGH HE UNDOUBTEDLY IS, HE IS NOT A MASTER OF THE FOREIGN SCENE. THERE HAS BEEN MUCH PUBLIC CRITICISM RECENTLY OF THE PRESIDENT'S CAPACITY AS A FORMULATOR OF FOREIGN POLICY AND OF THE ABSENCE OF A GENERAL THEME, SET OUT IN A MAJOR FOREIGN POLICY SPEECH. THE PRESIDENT HAS REPLIED, SAYING THAT YOU DO NOT NEED TO MAKE A SPEECH TO PROVE THAT YOU HAVE A FOREIGN POLICY. BUT IT REMAINS TRUE THAT REAGAN HIMSELF IS NOT DEEPLY VERSED IN FOREIGN AFFAIRS. HE HAS A CLEAR VISION OF THE IMPORTANCE OF RESTORING AMERICA'S STRENGTH AND TOUGHNESS IN ITS RELATIONS WITH THE SOVIET UNION, AND OF BEING SEEN TO STAND BY AMERICA'S FRIENDS. BUT HE IS STILL NOT AT HOME WITH THE INTRICACIES OF FOREIGN POLICY ISSUES. MOREOVER HE HAS BEEN HANDICAPPED BY THE EFFECT ON HIS HEALTH OF THE ATTEMPT ON HIS LIFE AND HAS WISHED, IN ANY CASE, TO FOCUS GOVERNMENT AND PUBLIC ATTENTION ON THE ECONOMY - AND HE MAY WELL CONTINUE TO DO SO UNTIL HE HAS SEEN THE BUDGET THROUGH ALL ITS STAGES IN CONGRESS I.E. WELL INTO THE AUTUMN. THIS MEANS, INCIDENTALLY, THAT HE WILL NOT BE VISITING EUROPE BEFORE NEXT YEAR. WE KNOW THE PRINCIPLES AND PREJUDICES WITH WHICH HE ARRIVED AT THE WHITE HOUSE: BUT WE DO NOT YET KNOW HOW THESE HAVE DEVELOPED OR BEEN MODIFIED BY OFFICE.

4. THE MAIN THEME AND AIM OF THE NEW ADMINISTRATION'S FOREIGN POLICY, AS PROMULGATED FROM THE OUTSET, WAS TO CORRECT A SUPPOSED SHIFT IN THE GLOBAL BALANCE OF POWER IN FAVOUR OF THE SOVIET UNION (MILITARY SUPERIORITY, CUBAN PROXIES, AFGHANISTAN ETC) RELYING, TO ACHIEVE /THEIR

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THEIR AIM, ON TOUGH LANGUAGE, HEIGHTENED DEFENCE PREPAREDNESS, AND A DELIBERATE ATMOSPHERE OF UNCERTAINTY. WHILE THIS THEME HAS NOT BEEN RENOUNCED, I SENSE A NEW AWARENESS OF THE NEED TO PERSUADE THE SOVIET UNION THAT THE UNITED STATES, THOUGH FIRM, IS NOT CONFRONTATIONAL AND TO REASSURE THE ALLIES THAT THE AMERICAN GOVERNMENT IS READY TO NEGOTIATE, I THINK THEREFORE THAT AN IMPORTANT INGREDIENT OF POLICY OVER THE NEXT SIX MONTHS OR SO WILL BE A MORE SERIOUS FOCUS ON ARMS CONTROL, WITH THE AIM OF GETTING INTO NEGOTIATIONS WITH THE SOVIET UNION AND OF TRYING TO STEM WHAT THE AMERICANS ARE INCREASINGLY AFRAID OF, NAMELY THE RISING TIDE OF NEUTRALISM IN EUROPE. IT IS TOO EARLY TO SAY WHAT WILL BE IN THE AMERICANS' ARMS CONTROL QUIVER. THEY ARE LIKELY TO GO FOR DEEP CUTS IN THE STRATEGIC ARMS FIELD WHILE, PROBABLY, ADOPTING A TNF APPROACH SOMEWHAT CLOSER TO THAT OF THE CARTER ADMINISTRATION. THEY ARE CONSCIOUS OF THE DANGERS VIS A VIS THE GERMANS OF TOO RADICAL A DEPARTURE FROM EARLIER POSITIONS IN THAT AREA. THE FIRST STAGE MAY BE THE SPEECH BY HAIG ON 14 JULY WHICH, SO EAGLEBURGER HAS TOLD ME, WILL GIVE A NON-CONFRONTATIONAL SIGNAL TO MOSCOW. EAGLEBURGER AND HAIG HAVE GOT THE MESSAGE, BUT THEY WILL CONTINUE TO HAVE TROUBLE WITH THE HARD-LINERS.

5. A FURTHER MODIFICATION OF US POLICY MAY BE SOME ADJUSTMENT TO THE ANTI-UN, ANTI-HUMAN RIGHTS, ANTI-LIBERAL TONE OF EARLY DAYS. THIS WILL AMOUNT TO A CHANGE OF TACTICS AND PRESENTATION, RATHER THAN OF HEART. ATTEMPTS TO DRAW DISTINCTIONS BETWEEN AUTHORITARIAN AND TOTALITARIAN REGIMES HAVE BEEN DROPPED. EVEN MRS KIRKPATRICK HAS LEARNED THAT THE UN CAN OCCASIONALLY BE USED TO AMERICAN ADVANTAGE. THEY ARE NO LONGER BEATING THE DRUM ON EL SALVADOR EXCEPT TO MAINTAIN THAT, THANKS TO THEIR SUPPORT FOR THE GOVERNMENT THERE, THE WAR AGAINST THE GUERRILLAS IS AS GOOD AS WON. SIMILARLY, AND JUST AS OVER-OPTIMISTICALLY, THEY ARE TRYING TO COUNTER CUBAN INFLUENCE IN THE CARIBBEAN BY MEANS OF THEIR CARIBBEAN BASIN SCHEME, WHICH INVOLVES ENCOURAGING OTHERS TO HELP DEVELOP A MULTINATIONAL APPROACH TO THE ECONOMIC PROBLEMS OF THE AREA. MORE GENERALLY IN CENTRAL AMERICA, THEY ARE CONCERNED TO IMPROVE RELATIONSHIPS WITH THE REGIMES IN AMERICA'S BACKYARD. REAGAN HIMSELF ATTACHES PARTICULAR IMPORTANCE TO CULTIVATING THE MEXICAN RELATIONSHIP AND WORKING WITH THE MEXICAN GOVERNMENT TO REDUCE THE POLITICAL AND ECONOMIC STRAINS BETWEEN THE TWO COUNTRIES. THIS WAS A MAJOR DETERMINANT IN HIS DECISION TO ATTEND THE MEXICAN SUMMIT IN OCTOBER.

6. IN PRACTICE AID EXPENDITURE IS NOT BEING CUT - INDEED SO FAR IT IS TO BE SLIGHTLY INCREASED OVER PREVIOUS LEVELS. BUT THERE IS A PRESUMPTION, SHARED BY CONGRESS, THAT THE MULTI-LATERAL INSTITUTIONS, SUCH AS THE IDA AND THE REGIONAL DEVELOPMENT BANKS, ARE WASTEFUL CHANNELS FOR US CONTRIBUTIONS TO WORLD DEVELOPMENT, BOTH IN ECONOMIC AND POLITICAL TERMS. THERE IS ALSO DEEP SCEPTICISM ABOUT THE VALUE TO THE US OF WIDE-RANGING DISCUSSIONS ON ECONOMIC ISSUES, WHETHER IN THE UN OR ANY OF ITS PARTS, WHERE THE WEIGHT OF OPINION IS SKewed AGAINST THE FREE MARKET SYSTEM. BUT THERE IS INCREASING RECOGNITION HERE THAT THIS WILL ADD UP TO A SET OF US POLICIES THAT WILL LOOK UNCARING AND NEGATIVE IN THE DEVELOPING WORLD. I UNDERSTAND THAT THE PRESIDENT MAY SHORTLY DEVOTE A SPEECH TO THE PROBLEM OF RELATIONS /WITH

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S.A.T. - Eugene
Roller. - Don't know
Start 9/14

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WITH DEVELOPING COUNTRIES: BUT THE OVERALL US APPROACH TO THE DEVELOPING WORLD WILL BE HARDER-HEADED THAN THAT OF CARTER: THE AIM WILL BE TO HELP FRIENDS AND TO THWART THE SOVIETS.

7. IN THE FAR EAST THE ADMINISTRATION WILL CONTINUE TO PLACE PRIME IMPORTANCE ON THEIR RELATIONS WITH JAPAN AND ON THEIR NEW-FOUND LIKING FOR CHINA. GALLING THOUGH IT MAY BE FOR US, WE HAVE TO RECKON WITH THE FACT THAT WHEN THE US GOVERNMENT TALKS OF ALLIES THEY HAVE IN MIND JAPAN JUST AS MUCH AS EUROPE. HAIG IS ALSO PLACING IMPORTANT EMPHASIS ON KAMPUCHEA, PERHAPS AS A REFLECTION OF CHINESE PREOCCUPATION WITH THE ISSUE. IN THIS, AS IN SO MANY ASPECTS OF FOREIGN POLICY, THE ADMINISTRATION IS SUBJECT TO CONFLICTING POLITICAL INFLUENCES. ONE ELEMENT SEES ADVANTAGE IN INTENSIFYING RELATIONS WITH CHINA, LARGELY TO OFFSET THE SOVIET UNION. ANOTHER PLACES EMPHASIS ON BASIC LOYALTIES TO OLD ALLIES, IN THIS CASE TO TAIWAN. I SUSPECT THAT THE US GOVERNMENT WILL CONTINUE TO PAY ELOQUENT LIP-SERVICE TO THE TAIWAN TREATY WHILE IN PRACTICE DOING JUST ENOUGH TO SATISFY TAIWAN BUT FALLING WELL SHORT OF ANTAGONISING THE CHINESE. IN ALL THIS THE REGIONAL ASPECTS CARRY LESS WEIGHT IN US THINKING THAN THE STRATEGIC. THE ADMINISTRATION DO NOT SEEM TO FACE UP TO THE DANGEROUS IMPLICATIONS OF THEIR NEW FOUND RELATIONSHIP WITH CHINA AND WITH PAKISTAN FOR THEIR LONG TERM INTERESTS IN INDIA. NOR DO THEY SEEM MUCH CONCERNED ABOUT THE IMPACT ON RELATIONS WITH MOSCOW.

8. FOR SIMILAR REASONS, POLICY TOWARDS AFRICA WILL BE GOVERNED BY A POLITICAL REFLEX IN FAVOUR OF SOUTH AFRICA, LINKED TO THE DESIRE TO EVICT THE CUBANS. THE AMERICANS DO NOT FEEL ANY PARTICULAR CONCERN ABOUT TAKING A NEW COURSE ON NAMIBIA, CONFIDENT THAT THEY CAN WITHSTAND THE BROUHAHA AT THE UNITED NATIONS AND THAT, HOWEVER IRRITATED THEIR PARTNERS AMONG THE FIVE MIGHT BE, THEY WILL, AT LEAST FOR THE TIME BEING, HAVE LITTLE OPTION BUT TO ALLOW THE AMERICANS TO EXPLORE POSSIBLE MODIFICATIONS TO THE UN PLAN.

9. AS REGARDS THE MIDDLE EAST IT LOOKS AS THOUGH HAIG'S QUOTE STRATEGIC CONSENSUS UNQUOTE IS GOING TO CLOCK UP JUST AS SHORT A SHELF-LIFE AS THE CARTER DOCTRINE. NOTHING IS EMERGING TO PUT FLESH AND BLOOD ON THE IDEA. YET THE GAP REMAINS: THE AMERICANS NEED SOME FRAMEWORK FOR THEIR STRATEGIC REQUIREMENTS IN THE AREA, AND THIS WILL HAVE TO AMOUNT TO MORE THAN THE SIMPLE ATTEMPT TO BUY THEIR WAY IN THROUGH EVER MORE SOPHISTICATED ARMS SALES, WHICH IS WHAT THE CURRENT POLICY CONCENTRATES UPON. THE U.S. SHORT TERM AIM IS TO PREVENT THE EGYPT/ISRAEL TREATY FROM UNRAVELLING AND TO ENABLE ISRAELI WITHDRAWAL FROM SINAI TO TAKE PLACE AS SCHEDULED IN /APRIL

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APRIL 1982. THEY ARE AT THE POINT OF SECURING FIRM AGREEMENT ON A MULTINATIONAL FORCE FOR SINAI. THEY SEE NO ALTERNATIVE TO THE AUTONOMY TALKS AS A MEANS OF CONTINUING THE PEACE PROCESS: OFFICIALS ARE NOW TRYING TO DEVISE IDEAS FOR BREATHING LIFE INTO THEM WHICH MIGHT BE DISCUSSED WITH SADAT AND BEGIN ON THEIR VISITS TO WASHINGTON IN EARLY AUGUST AND SEPTEMBER RESPECTIVELY. THEY REMAIN CONCERNED THAT EUROPEAN ACTIVITY SHOULD NOT CUT ACROSS THEIR OWN (THOUGH SOME OFFICIALS SEE MERIT IN IT AS A MEANS OF COUNTERING THE STRONG PRO-ISRAELI ELEMENT IN WASHINGTON). THE US FACE TWO OTHER IMMEDIATE PROBLEMS IN THE MIDDLE EAST - HOW TO RESUME F16 DELIVERIES TO ISRAEL, SUSPENDED AFTER THE ISRAELI ATTACK ON THE OSIRAK REACTOR - WITHOUT OFFENDING MODERATE ARAB STATES, AND THE DIFFICULTY OF SECURING CONGRESSIONAL APPROVAL FOR THE SALE OF AWACS TO SAUDI ARABIA WHICH THE ADMINISTRATION SEE AS ESSENTIAL NOT ONLY FOR BILATERAL RELATIONS WITH SAUDI ARABIA BUT FOR THEIR OVERALL STRATEGIC OBJECTIVES IN THE REGION.

10. APART FROM CONCERN REGARDING EUROPEAN RESOLUTION ON DEFENCE QUESTIONS, I THINK IT CAN BE ASSUMED THAT THERE IS A WIDER ANXIETY DEVELOPING HERE ABOUT EUROPE: ABOUT POLITICAL TRENDS IN FRANCE AND GERMANY, AND ABOUT THE CONTINUED ECONOMIC WEAKNESS OF THE UK COMPOUNDED NOW BY VIOLENCE IN MANY ENGLISH CITIES AS WELL AS IN NORTHERN IRELAND. REAGAN, LIKE HAIG, DOES SEE A NEED TO STRENGTHEN RELATIONS WITH THE ALLIES. I BELIEVE THAT THE ADMINISTRATION HAVE TAKEN ON BOARD THE IMPORTANCE FOR THE ALLIANCE OF MAKING A SERIOUS ATTEMPT AT NEGOTIATIONS WITH THE SOVIET UNION. TO SOME EXTENT. THIS CHANGE OF TACK REFLECTS THE TRIUMPH OF EXPERIENCE OVER RHETORIC. BUT I MUST EMPHASISE THAT IT REPRESENTS A CHANGE OF TONE, RATHER THAN DIRECTION. DETENTE REMAINS A DIRTY WORD. THE ANGEL OF POWER IS ABROAD IN REPUBLICAN CIRCLES THROUGHOUT THE LAND AND HAIG CANNOT BUT HEAR THE BEATING OF ITS WINGS. THE ADMINISTRATION WILL NOT DISAVOW THE STRONG STAND THEY HAVE TAKEN SO FAR. THE TONE THEY HAVE ADOPTED DURING THE FIRST FEW MONTHS HAS SERVED THEM QUITE WELL DOMESTICALLY AND MAY MAKE IT EASIER FOR THEM TO ADOPT A SLIGHTLY Milder TONE, LESS CONFRONTATIONAL AND ABRASIVE, OVER THE COMING MONTHS.

FCO PASS SAVING ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN, UKREP BRUSSELS, LUXEMBOURG, PARIS, ROME, THE HAGUE, UKDEL NATO, OTTAWA, PEKING, TOKYO, TEL AVIV, CAIRO, JEDDA, AMMAN, MOSCOW, WARSAW, CAPETOWN, NEW DELHI.

HENDERSON

[REPEATED AS REQUESTED]

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TO PRIORITY F C O

TEL NO 2125 OF 13 JULY 1981

U S VIEWS ON THE BRITISH ECONOMY.

1. BEFORE THE OTTAWA SUMMIT YOU MAY LIKE A BRIEF SUMMARY OF U S VIEWS ON BRITISH ECONOMIC DEVELOPMENTS AND POLICIES.

2. THERE IS A GROWING AMOUNT OF GLOOM HERE ABOUT THE STATE OF THE UK ECONOMY AND ABOUT THE PROSPECTS FOR ANY EARLY RECOVERY. THE ADMINISTRATION REMAINS BASICALLY SYMPATHETIC TO THE GENERAL OBJECTIVES OF OUR DOMESTIC ECONOMIC POLICY. ESPECIALLY OUR DETERMINATION TO GET OUR RATE OF INFLATION DOWN, TO REDUCE THE DISINCENTIVE EFFECTS OF HIGH TAXATION, AND TO REDUCE THE ROLE OF GOVERNMENT AND THE PUBLIC SECTOR. WHERE SOME OF THEM (SUCH AS SPRINKEL AND ROBERTS AT THE TREASURY) HAVE DOUBTS IS MORE ABOUT PERFORMANCE, PARTICULARLY WHETHER ENOUGH HAS BEEN DONE TO CUT SPENDING AND TAXES, AND TO KEEP THE MONEY SUPPLY UNDER CONTROL.

3. PRESIDENT REAGAN HIMSELF IS LIKELY TO TAKE THE VIEW THAT IT IS UP TO EACH INDUSTRIALISED COUNTRY TO GET ITS OWN ECONOMY RIGHT, FIRST AND FOREMOST BY REDUCING INFLATION.

4. GIVEN THE BASIC SIMILARITIES BETWEEN U S AND UK ECONOMIC OBJECTIVES, COMMENTATORS HERE FREQUENTLY SEEK TO READ ACROSS FROM UK EXPERIENCE TO THE PROSPECTS FOR SUCCESS OF REAGAN'S PROGRAMME (DESPITE THE STRUCTURAL DIFFERENCES BETWEEN THE TWO COUNTRIES). FOR THIS REASON, THE UK ECONOMY CONTINUES TO GET A GOOD DEAL OF PRESS COVERAGE. SOME, SUCH AS LEONARD SILK OF THE NEW YORK TIMES, REGARD THE QUOTE BRITISH EXPERIMENT UNQUOTE AS HAVING FAILED THROUGH DEFICIENCIES OF IMPLEMENTATION, AND POINT TO THE ADVERSE EFFECT ON OUTPUT AND EMPLOYMENT. OTHERS, PROBABLY THE MAJORITY, ARE WILLING TO GIVE US CREDIT FOR REDUCING INFLATION AND WAGE SETTLEMENTS FROM THEIR PEAK LEVEL, FOR SEEKING TO GET BETTER CONTROL OVER THE MONEY SUPPLY, AND FOR IMPROVEMENTS IN PRODUCTIVITY. EVEN THIS GROUP, HOWEVER, POINT TO THE COST OF WHAT HAS BEEN ACHIEVED. HOBART ROWEN OF THE WASHINGTON POST HAS DRAWN ATTENTION TO A RECENT STAFF STUDY FOR THE JOINT ECONOMIC COMMITTEE OF CONGRESS, WHICH RAISES THE QUESTION WHETHER THE BENEFITS OF REDUCED INFLATION AND WAGE SETTLEMENT OUTWEIGH THE COST IN TERMS OF LOST OUTPUT AND UNEMPLOYMENT. BUT OVERALL THE RECENT U S PRESS TREATMENT OF THE UK ECONOMY APPEARS NO MORE CRITICAL THAN THE UK PRESS, WHERE MUCH OF THE MATERIAL PUBLISHED HERE ORIGINATES.

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5. THE AMERICAN VIEW OF THE UK ECONOMY HAS RECENTLY BEEN
OVERSHADOWED BY FULL MEDIA COVERAGE (REPORTED IN TELEGRAM
NO 2071 OF 9 JULY) OF THE DISTURBANCES IN MAJOR CITIES AROUND
THE UK. THESE DEVELOPMENTS HAVE BEEN LINKED WITH THE HIGH LEVEL OF
UNEMPLOYMENT IN THE UK AND THE GOVERNMENT'S ECONOMIC POLICIES,
ALTHOUGH OTHER FACTORS SUCH AS RACIAL TENSION AND INNER CITY DECAY
HAVE ALSO BEEN CITED. WHILE PRESIDENT REAGAN IS UNLIKELY TO REGARD
THIS AS A REASON FOR QUESTIONING OUR BASIC ECONOMIC POLICIES,
HE MAY ENQUIRE HOW THEY MIGHT BE AFFECTED BY THESE DEVELOPMENTS.

HENDERSON

FCO | WH
NAD

THIS TELEGRAM
WAS NOT
ADVANCED

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CAW

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

PRIME MINISTER

RELATIONS WITH DEVELOPING COUNTRIES

with note (or for one)

Sir Robert Armstrong sent me a copy of his minute to you of 14 July. As he says, decisions are not needed at this stage on any of the possibilities he lists (paragraph 8); he correctly describes them as "hypothetical and illustrative options". I can understand why they have been assembled. But since he has circulated them now, and they will be in our minds at Ottawa, I should sound a note of caution at this stage.

2. We may not find ourselves in as comfortable a position on this subject as some of our partners at Ottawa and Cancun. But we shall not be isolated. In addition to President Reagan, Chancellor Schmidt will, as Sir Robert Armstrong says, be worried about the budgetary implications of more aid. In any case the Mexico Summit meeting is likely to be too big, too short and too diffuse to cause us serious concern. We can afford to adopt a low profile. Our record on aid is a good one; so is our record in the international financial institutions. Our general economic policy is also in line with that of most partners. And there does not seem to me any need for a major shift in our policy merely because we risk some rather unfocussed criticism from the LDCs.

3. For my part I believe we should adhere to the "stand firm" option in paragraph 7 of Sir Robert's note which, as he says, is not at all a negative position. I believe we can present positively and sympathetically our concern for the things which really matter to LDC development: the maintenance of private flows; the confidence and security of the international banking system; the ability of the international institutions to raise funds from both the developed countries and their financial



markets, and from OPEC; the concentration of official aid on the poorest. Compared with this, the possibilities for expenditure or change of emphasis listed in paragraph 8 seem unlikely to make much impact at Mexico or elsewhere. Many of them do however raise quite serious policy issues for us.

4. I need not go into detail now, but:-

Energy

We support whatever arrangement will attract substantial OPEC funds and enable the World Bank Group to borrow satisfactorily in the markets. Without US backing an Affiliate will not achieve this.

Finance

(a) We cannot unilaterally propose an increase in the IBRD gearing ratio until Clausen himself proposes it (though if he does we can probably back him).

(b) The "partial guarantees" proposal is still under study; we are not sure that it will attract any additional investment, and some versions may well involve a high and unnecessary risk.

(c) We should not advocate a further allocation of SDRs, particularly if "skewed" in favour of LDCs. IMF resources should be used for balance of payments support during adjustment, not as semi-permanent sources of aid.

Global Negotiations

You know my views about these. I fear that they would institutionalise the unreal division between North and South, and add to recrimination. If we express enthusiasm for them, we make it more difficult to obtain the necessary safeguards for the IMF and World Bank.

Aid

We cannot possibly contemplate adding £83 million and £88 million to Public Expenditure in the next 2 years (option 6). Our need is to reduce planned levels of expenditure still further, and we are already faced, as you know, with additional bids of around £6 billion.

Overseas Students' Fees

It seems perverse to reverse our policy on overseas student fees at a time when we are having to cut back expenditure on our own students in our own universities.

5. Given this, I am sure that our existing policies should stand until we make a decision together to change them. We should make our plans for the series of international meetings on this basis. If the Foreign Secretary wishes to pursue any of the possibilities in the paper, I hope he will circulate firm proposals to OD for early discussion.

6. I am copying this to the Foreign and Commonwealth Secretary, the Secretaries of State for Industry, Trade and Energy, the Minister of Agriculture and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.'.

(G.H.)
16 July 1981

George
Hawley

Mr Alexander (or)



WV
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With the compliments of
**ECONOMIC RELATIONS
DEPARTMENT**

**FOREIGN AND COMMONWEALTH OFFICE
LONDON SW1A 2AH**

OUT TELEGRAM

		Classification and Caveats CONFIDENTIAL	Precedence/Deskby PRIORITY
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TEL NO	8	TELEGRAM NUMBER	
	9	TO TO PRIORITY WASHINGTON,	
	10	REPEATED FOR INFO PRIORITY BONN, PARIS, ROME, TOKYO, UKREP	
	11	BRUSSELS.	
	12	OTTAWA SUMMIT: VISIT BY MR TRUDEAU TO LONDON	
	13	1. Mr Trudeau visited London on 26 June. The following is an	
	14	account of Canadian views on the Ottawa Summit expressed during	
	15	Mr Trudeau's visit. Except for Washington (para 5 below), it is	
	16	for your own information and should not be passed to other	
	17	governments.	
	18	2. The Canadians wish to see a general statement from the	
	19	Economic Summit on relations with developing countries. This	
	20	would be designed to give the Seven a positive posture in the	
	21	run-up to the Mexico Summit. They are concerned that, if the	
///	22	Economic Summit fails to take a positive stance, the Mexico	
//	23	meeting might not take place. It would not be enough for the	
/	24	Ottawa Summit to repeat cliches. The Seven had to give a	
	25	positive signal to the developing countries. This should	
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File number		Dept ERD	Distribution Minimal ERD, NAD, Planning Staff, PS, PS/LPS, PS/Mr Hurd, PS/PUS, Sir P Preston, Lord Bridges, Mr Bullard, Mr Evans. <i>News Dept.</i> Copies: PS/No 10,
Drafted by (Block capitals) D E LYSCOM			
Telephone number 233 4916			
Authorised for despatch <i>She</i>			
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1 <<<<
2 consist of support for the Global Negotiations, without attaching
3 too many conditions, and for the establishment of the World Bank
4 energy affiliate. The Canadians thought that both the French
5 and Germans would support such a line. They were not confident
6 of getting the Americans on board but expressed determination
7 to prevent individual participants from being isolated. It was
8 however, agreed that there should not be too much difficulty in
9 finding suitable language on relations with developing countries.
10 3. The Canadians believed that nations like Saudi Arabia
11 should be given more responsibility for handling world economic
12 problems. The creation of an energy affiliate would achieve
13 this aim without upsetting the US, who were concerned about
14 maintaining the present structure of the World Bank.
15 4. The Canadians agreed that the Summit offered a valuable
16 opportunity for the Heads of Government to develop confident
17 relationships. It was therefore particularly important to allow
18 adequate opportunity for informal discussion; extra time for
19 political questions might be needed. They believed that the
20 Germans shared this view. The Canadians agreed that the
21 communique should be as short as possible.
22 5. (For Washington only) I undertook to let Mr Bush know of
23 my discussions with Trudeau on the form of Summit discussions.
24 In the event, discussion of the Ottawa Summit took place between
25 the Prime Minister and Mr Trudeau. In those discussions, Mr
26 Trudeau agreed that the Summit should allow adequate opportunity
27 for the sort of wide-ranging and broad discussions which the
28 Americans desired. You should pass this on to the Americans,
29 drawing at your discretion on paragraph 4 above.
30
31 CARRINGTON
32 NNNN
33
34

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Foreign and Commonwealth Office

London SW1A 2AH

16 July 1981

David J Wright Esq
CABINET OFFICE*Dear David,*

OTTAWA SUMMIT: POLITICAL COMMUNIQUE

1. This is a quick letter before this afternoon's briefing meeting to record that the Minister of the FRG Embassy has just called on Christopher Mallaby, the Head of our Planning Staff, with instructions to make a proposal for a Political Declaration to be issued by the Ottawa Summit.

2. Mr Von Alten said that his Foreign Minister considered it important that the Summit make a good display of unity on political matters. He wanted something more impressive than the existing draft 'Chairman's Summary of the Discussion on Political Issues'. The Germans have drafted the enclosed text, which is an expanded version of the Chairman's Summary. They would like to see this issued as a separate Political Declaration at the close of the Summit in parallel with the largely economic Declaration drawn up by Personal Representatives. Failing this, they would like the text included in that Declaration, at the beginning of it. According to Von Alten, they could probably live with it being described as a Chairman's Summary, but this would be the least desirable option for them.

3. Von Alten said that Herr Genscher has secured the agreement of the French Foreign Minister to his proposal, which is interesting in the light of the reservation that the French in Ottawa placed on the idea of a political text. The Americans, Italians and Canadians will probably support the idea, but the Japanese will be hard to persuade, since in Ottawa on 6 July they described the inclusion of a political section in the Summit Declaration as 'totally unacceptable'. It was, you will recall, to meet their difficulties that the Canadians devised the formula of a 'Chairman's Summary'. We think we can agree with the Germans that a stronger demonstration of political unity is desirable and the text itself is broadly acceptable, but we believe the text would have more impact if issued

/separately



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separately on Monday evening rather than at the end of the Summit. We might suggest, if it would help the Japanese, that it be called a Statement on Political Issues, rather than a Declaration. Its substance hardly justifies the use of the term Political Declaration. Whatever the political text is finally called we would like to see some of the new German language incorporated in it.

4. I attach a note of some detailed points on the German text.

5. I am copying this letter to Michael Alexander and Francis Richards.

Yours ever,
Andrew

R A Burns
Private Secretary to the
Permanent Under Secretary.

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THE TEXT

1. Para 1 is a German addition. To claim full agreement on the key issues might be unwise if in ensuing months there are likely to be public differences over levels of defence spending and nuclear arms control negotiations. Some less ringing phrase may be preferable.

2. Para 2 is para 1 of the existing Chairman's Summary.

3. Para 3 is the version of para 2 of the existing text proposed by the Canadians, amended as follows :

a) in line 6 the word 'therefore' has been dropped and the 'restraint' substituted for 'balance' (an improvement), and

b) in line 7, 'if Soviet actions make these possible' has been substituted for 'under mutually acceptable terms'.

This latter phrase is Soviet jargon and we think the substitution a good one.

4. Para 5. We do not like the use here of the word 'precondition' and would much prefer the sentence to end with something like 'essential for the maintenance of strong defences'.

5. Para 6 is para 3 of the existing text with our proposed language on the European proposal for a conference added and the sentence on independence and non-alignment deleted - it is sensibly reinserted as a separate para later.

6. Para 7, is para 4 of the existing text, with a new sentence added. This new sentence adds little to the previous sentence and I would like to see it deleted.

7. Para 8 starts with the sentence removed from existing para 3. The rest of it is new, and is designed to appeal to the Third World. It is vague enough to be uncontroversial.

8. Para 9 is new. It is based on parts of the Venice statement on refugees.

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1. In the evaluation of the international situation our talks revealed full agreement on the key issues which face our countries and on its implications. We are firmly decided to face the challenges which confront us in a spirit of solidarity, cooperation and responsibility.

2. We all view with concern the continuing threats to world peace. Lasting peace can only be built on respect for freedom and dignity of nations and individuals. We appeal to all governments to exercise restraint and responsibility in international affairs and to refrain from exploiting crises and tensions.

3. In East-West relations, we are seriously concerned with the continuing build up of Soviet armaments. We are concerned as well by Soviet actions that are incompatible with the exercise of restraint and responsibility in international affairs. We will be firm in insisting on military balance and political restraint. Equally, we will be prepared for dialogue and cooperation if Soviet actions make these possible.

4. We agree that meaningful and verifiable arms control agreements are an important element of security policy.

5. We recognise that economic stability and social justice are a precondition for maintaining our defence capabilities.

6. On the question of Afghanistan, in spite of the fact that we publicly stated our firm and unanimous position at last year's Venice Summit, the situation remains unchanged. Therefore, with the overwhelming majority of nations, we continue to condemn the Soviet military occupation of Afghanistan. We support international efforts to achieve the complete withdrawal of Soviet troops and to restore to the Afghan people their right to determine their own future.

We note with approval the constructive proposal of the European Council for an international conference to bring about this result.

7. Together with regional organisations or States, we are resolved to do what is necessary to ensure a peace built on the independence and dignity of sovereign nations. All peoples should be free to chart their own course without fear of outside intervention. To that end, we are determined to promote peaceful resolution of disputes and to address underlying social and economic problems.

We are firmly resolved to continue our policy of finding political solution to crisis and conflict situations.

8. We reaffirm our conviction that respect for independence and genuine non-alignment are important elements of international peace and security.

We reconfirm our commitment to help the developing countries promote their economies and social evolution. All nations irrespective of their political systems are called upon to make their appropriate contributions. We reaffirm our willingness to continue our

/ cooperation

cooperation with developing countries on the basis of equal partnership.

9. Recalling the statement on refugees adopted at the Venice Summit, we are seriously concerned over the growing plight of refugees throughout the world. We reaffirm our support for international relief efforts and our appeal to all governments to refrain from actions which can lead to massive flows of refugees.

PART 5 ends:-

15.7.81

PART 6 begins:-

16.7.81