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# **TECHNOLOGY EMPLOYMENT AND GROWTH**

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*REPORT BY  
Mr. FRANÇOIS MITTERRAND  
PRESIDENT OF THE  
FRENCH REPUBLIC  
AT THE SUMMIT OF THE  
INDUSTRIALIZED COUNTRIES*

*CHÂTEAU DE VERSAILLES  
JUNE 5, 1982*

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*We, the representatives of seven of the richest countries in the world, find ourselves gathered here to examine together, over the next two days, the current economic and political situation. It is not our task to decide alone the future of the world, nor is it to defend our own interests at the expense of those not here among us. However, in our eyes and in the eyes of the world, the means that we possess vest in us a collective responsibility both for the present and for the future. It is incumbent on us to join in reflection in order to lay down the major lines of a concerted action in defence of the values we hold in common.*

*Let us first examine the facts.*

*Our seven countries have not been spared the consequences of the crisis from which the world is suffering. Moreover, the situation is not improving. Unemployment has touched all of our countries: since the Ottawa Summit, five million men and women have lost their jobs. Production, investment and trade are sluggish, protectionism poses a threat, currencies are falling into a state of near-permanent disorder and interest rates have reached levels that preclude any job-generating growth. Self-interest is becoming the rule.*

*In the countries of the South, conditions of survival have worsened: nearly 30 million human beings have died of starvation.*

*Yet, if we consider it closely, the balance sheet for the year is not entirely negative, and encouraging signs have appeared: inflation has slowed down, productivity has improved; in some countries, and France among them, growth has resumed and employment is no longer on the increase.*

*Let us now look ahead. The future hinges on our political determination. We can surmount the crisis by having faith in our own future, by rejecting the inevitability of the crisis which stifles so many individuals of talent and creative capacity, and by uniting our efforts.*

*The scope of the transformation required, however, must exceed the individual efforts made by countries for themselves.*

*The crisis extends far beyond national borders: thus it is only through joint action that we shall be able to control this transformation, and prepare for the future.*

*In a perfect world, the international monetary system would be stable, protectionism would be banished, each nation would maintain balanced trade relations with others, no monopoly would interfere with the dynamic of the competitive marketplace, interest rates would be low, and the North and South would unite in their efforts towards the mutual fulfilment of their cultures and liberties. In this manner, the economic requirements of the development of a strong alliance would be met. Our joint action would be easy to frame.*

*Such is not the case today. Thus, we must reflect on ways to organize balanced growth, reduce unemployment, stop protectionism, build a stable monetary system and provide the South with the means for its own development.*

*In the meantime, should we feel powerless to attain these goals? Certainly not. This would be a hasty and incorrect assessment of the situation. Our duty is not only to examine the global situation in order to resolve the problems created by the crisis, and, to this end, agree on its nature and causes, but to explore the vast fields of endeavour open to our common effort. Among the latter, science and technology, whose rapid development are revolutionizing our societies, threaten to turn against man, their creator, if he does not master them properly.*

*Undoubtedly, many private and public firms, and each of our countries, have already devoted time to this question, and France among them. But, although we are aware of what is at stake in the dawning industrial revolution, are we sure to have all the winning cards in our hand? We lack the master trump, which may only be had through coherent and concerted action. This is a subject worthy of your reflection.*

**MANKIND'S VITAL SPIRIT  
PROPELS IT TOWARDS  
NEW FIELDS  
OF DEVELOPMENT**

*Where does technological progress stand today, and in what ways will it be able, over the next ten years, to resolve the crisis we are experiencing? In the past five years it has accelerated rapidly in the fields of biotechnology and electronics. The new spheres seem limitless, and include time, space and organic matter.*

**1) BIOTECHNOLOGIES SHOULD SUCCEED  
IN REDUCING FAMINE,  
DISEASE AND OVERPOPULATION.**

*Tomorrow, the combined use of biochemistry, microbiology and genetic engineering will open the way to industrial micro-organism production, and will transform entire economic sectors. The latter will include not only the chemistry and pharmaceutical sectors, but food and energy as well.*

*The food sector will derive the greatest benefits from biological discoveries in the medium term. Their application will increase yields considerably, and will save on fertilizers, which are costly to produce in terms of energy. Thanks to these technologies, a new agrofood industry is in the making, which will revolutionize all facets of agricultural production.*

*New microbiological techniques will allow for protein savings in agriculture. This development, which will allow proteins to be used primarily for human consumption, will furnish new hope for an assured food supply in the Third World.*

**2) ELECTRONICS  
IS MULTIPLYING PRODUCTIVE  
AND CREATIVE CAPACITIES.**

*Electronics is multiplying our economies' productive and creative capabilities. Micro-electronics, new composite materials and optical fibres will radically transform such established industries as telecommunications, transport and the mechanical industry, while creating new ones, such as robotics and office automation.*

*This is already a reality: in ten years, the capacity of integrated electronic circuits has increased a hundredfold, while their cost has dropped a thousandfold. This trend will continue to progress rapidly. The development of bulk storage and the use of laser videodisks improve data processing performance, reduce production costs and create new consumer goods. Products which were non-existent in 1975 are now available to an increasing number of users (personal computers, videotape recorders, videodisks) and their market will be ten times larger in 1990.*

*Industrial robotization has begun to be used in our countries. Thousands of highly sophisticated robots are in use throughout the world. They increase productivity in many operational sectors, including the automobile, electrical, electronics and nuclear industries. Before the end of this decade, robot inventory will increase ten to twelvefold, and they will perform increasingly complex tasks, thus changing labour organization, and restating the employment question in radically different terms.*

**3) ENERGY TECHNOLOGIES WILL DEVELOP  
RAPIDLY OVER THE NEXT TWENTY YEARS.**

*Technologies such as bioenergy, geothermal and solar energy, will contribute substantially to resources already in use. Nuclear*

energy, carefully controlled, will modify the operations of several key sectors in our economies, and progress made in the field of chemistry will alter techniques of exploration, extraction, transport, storage and use of hydrocarbons.

#### 4) LASTLY, NEW SPHERES ARE OPENING UP TO OUR INTELLIGENCE.

I shall limit myself to only a few examples here.

- Oceanographic exploration will allow us to discover and extract deposits of heretofore unknown natural resources, energy and minerals.

- Space exploration will multiply our means of communication. In ten years time, several hundred satellites will permit a complete earth observation system to be established and advanced communications systems to be developed.

- These new communication technologies will usher in a new form of civilization. The proliferation and interdependence of electronic information systems will influence our everyday lives, ways of communicating and value systems. In ten years, tens of millions of personal computers will be in use. Videotape recorders, videocameras and cable television will become familiar household objects. With "electronic banking" permitting long-distance transactions to be carried out, the everyday activities and traditional behaviour patterns of the consumer will be modified.

Communication is already becoming worldwide. The same television series, political and sports events, are viewed in hundreds of countries.

The modern orientation of the traditional means of knowledge and information

dissemination is already precipitately changing inter-personal relations, as well as those between different social groups, nations and regions of the world.

How will these changes, among many others, transform the challenges facing us?

The technological revolution, by increasing our control over matter, time and space, shapes the evolution of our economics, life-styles, thought patterns and systems of reference.

It will have a positive, or dangerous effect on unemployment, inflation and growth, according to the way in which it is managed.

Without further delay, and in the interests of democracy and peace, we must draw on the immense resources of knowledge.

### **DRAWING ON THE IMMENSE RESOURCES OF THE HUMAN INTELLIGENCE**

Faced with these upheavals, wait-and-see attitudes and self-interest would only exacerbate the disturbances, hardships, violence, imbalances and dissensions. Each of us must do everything in his power, at home, and through broad economic cooperation, to guarantee that progress will be a factor for peace and prosperity, to avoid that it produces, as the case has been in the past, unemployment and recession. I offer you five propositions for reflection and action.

#### 1) ACHIEVING FULL EMPLOYMENT WHILE CONTROLLING THE CONTENT OF WORK

Technological progress cannot spread in a context of high unemployment, which creates a pessimistic environment, incites isolationist patterns, and destroys confidence. This is why the fight against this scourge, by our concerted economic policies, is a top priority matter.

Many fear that progress only aggravates the unemployment that assails us. After due consideration, I can assure you of my medium-term optimism.

Progress is only a danger for those who cannot dominate the transition which it implies between declining activities and new ones. For those who can, it is an opportunity.

It is certainly true that the quantitative effect of progress on employment is difficult to assess. The technological revolution, which creates jobs through the development of new sectors and the preservation of older ones, also des-

troys jobs, through the automation of certain activities.

By 1990, 20 % of mass production will be carried out by automatic assembly machines, eliminating many industrial tasks, especially the most tiresome. Tertiary activities such as banking and insurance will also be affected. On the whole, several million jobs could be destroyed by 1990 in the industrialized countries alone.

We must therefore devise the means to manage this transformation, to make sure that technology will not destroy jobs at a faster rate than it can create them. We must reduce the period necessary for that unavoidable transition.

If we are prepared, the new technologies will induce the creation of as many jobs, if not more, than they eliminate, not only by the production of new industrial goods, but also by related services (marketing, engineering, consulting, training, leisure activities, etc.), provided we succeed in organizing them, and through the repercussions which they undoubtedly will have in sectors such as metallurgy, iron and steel, mechanical engineering and chemicals.

Therefore the problem we face is the orderly and rapid substitution of new jobs for old. I shall make a number of suggestions about this matter.

This substitution cannot be only quantitative. It will be accompanied by sweeping changes in the substance and organization of work. It will impart a new meaning to the reduction of the workweek. An economic, social and cultural need, this reduction will become one of the instruments of the economic policy, a counterpart to the gains in productivity.

We know that the risks of a loss in professional qualifications, of a uniformization of the tasks, of isolation, are worrying the workers, and these fears are quite well-founded. Should we fail to elucidate the means by which our societies will adapt to the technological transformations, we risk keeping our nations in a state of chilled rejection of progress, as shown by the slowdown in our investments.

This is why we must invest together in anything that affects the work environment and the adaptation of knowledge, in order that social progress can accompany technological progress.

In this perspective, I feel that each of us should observe three guidelines.

- Sustaining demand to stimulate the growth of markets for the new consumer goods and services incorporating these technological advances.

- Stabilizing interest rates and exchange rates. I shall not dwell on this, because this will be the essential subject of the rest of our discussions.

- A greater effort for professional training and mobility. The organization and content of work will, as I have said, be determined by the spread of new technologies. The practice of several occupations during a working life will be one of the salient features of our future societies.

On this level, however, nothing has yet been accomplished. In the most developed countries, the growth of the number of trained engineers and specialists has declined considerably. In 1980, public and private professional training expenditures failed to account for even 1% of our joint Gross National Product. What seemed adequate in a context of sustained expansion and of steady work organization is

now inapt for organizing the mobility of the work force and the spread of knowledge.

This effort is a prerequisite for the undertaking and acceptance of progress by all the working categories.

Without this immense training effort, from which wage-earners of every sector, of every age group, men and women alike, from the top to the bottom of the scale of professional qualifications, must benefit, only a select few will be able to understand and influence the world, at the cost of a prodigal waste of the creative capacities of the rest.

We must therefore launch a vigorous policy of training and adaptation of our know-how.

The content of work will change qualitatively and quantitatively, in the direction of improved working conditions, provided we develop the means to achieve this, especially by furthering and developing cooperative action with the workers and their organizations.

This movement is only feasible if education, culture and the environment accompany scientific and economic progress, by giving it a soul, a plan, a meaning.

## 2) STIMULATING THE DYNAMICS OF INDUSTRY.

The basic foundations exist. It is becoming possible to overcome the recession, to staunch the loss of productivity, and to open new markets.

- In 1990, the central activities in the technological revolution (integrated circuits, office automation, robotics, new telematics applications, new mass consumer goods, space, biological engineering, offshore, energy and new

materials) will treble their relative share of production in our countries.

- Simultaneously, the high technology industries (telecommunications, aerospace, medical and pharmaceutical products, energy, chemicals, transport) will account for nearly a third of the industrial production of the Seven. They will constitute an important growth factor, together with all the activities involved in the operation or utilization of the goods and services produced by these sectors (training, research and development, marketing, planning, etc.).

- The rapid automation of industrial production should help to achieve productivity gains of over 10% per year. These gains are a prerequisite for the success of anti-inflationist policies.

To accomplish this, the conditions for a new industrial dynamism must be satisfied: an investment effort and guaranteed competition.

### a) Revitalizing the industrial investment effort

Whereas the so-called austerity policies hinder technological progress by discouraging long-term investments that generate new demand, we must now respond to the technological revolution by encouraging private and public industrial investments.

- We have to bring about an unprecedented mobilization of capital for industry and research: this investment effort will mean a very large additional annual levy on the available resources of the international capital market. Our monetary and financial markets will have to comply. It is therefore essential for international interest rates to be reasonable in order to allow this investment to take place, and for our exchange rates to be stabilized by cooperation between the chief currencies, so that an orderly international monetary system can be

rebuilt. This matter will certainly occupy our discussions, and we shall deal with it again this afternoon.

- Owing to their scale and the fact that they can rely on a national plan, public investments and contracts (communications, transport, energy) will perform a driving role. We shall exchange our points of view and can set up a cooperative scheme on this subject.

### b) Ensuring competition

Competition is an essential factor for growth and technical progress. However, the problems it will raise are quite different from those with which we are familiar today.

In the field of biotechnologies, for example, since more than one-third of products are manufactured by firms enjoying a world monopoly, the imbalance will become more pronounced.

Similarly, in the field of advanced electronics, eight firms control 70% of the integrated circuits market. This concentration is to be intensified.

Technological innovations are nevertheless essentially produced by small and medium-sized companies, and this is a good thing. But they fit into an increasingly complex production system, and since the traditional conditions of competition are altered, the flow of trade becomes a source of greater stresses, and power relationships between companies, between regions of the world, and between markets, are exacerbated. We must consider this matter closely, and I shall volunteer a number of proposals for action.



### 3) FIGHTING AGAINST NORTH-SOUTH IMBALANCES.

The latest technological discoveries must serve the nations of the South. Like the biotechnologies, which I dealt with earlier, they will help materially to reduce their energy and food dependence.

We certainly cannot hide the fact that they will also raise new dangers in these countries, generating other forms of instability and dependence.

Biotechnologies, for example, will develop substitutes for traditional raw materials and energies, incurring the risk of aggravating the condition of poor commodities-producing countries. The development of new materials, and the future mining of polymetallic nodules (cobalt, nickel, manganese, copper), in the absence of a fair distribution of the seabed, will threaten countries which are heavily dependent on ore exports. We must therefore accelerate the transfer of technologies to the countries of the South, while perfecting the organization of world markets.

We must consider not only the means to transfer our technologies to them by suitably adapting them, but also the creation of conditions to encourage the development of technologies that focus directly on their own realities; it is on this condition that the independent development of their agriculture, their industry and their services is possible.

Lastly, although it is in the interest of the industrialized nations for the immense markets of the countries of the South to open up to the technological revolution, science and technology must provide these countries with the conditions for survival in dignity, by protecting and mobilizing their natural resources and their environment: by boosting national energy out-

put, by halting the spread of untillable zones, by stopping the disappearance of plant and animal species and soil depletion, and by fighting against the dramatic causes and effects of an urban concentration which is accelerating at an unprecedented rate.

To achieve this, the resources of the multilateral agencies for aid to technological research must be oriented towards the needs of the South.

I shall suggest the means to enable to countries of the South to accommodate new technologies.

In brief, it is possible for us to make use of scientific and technological research for the full and global utilization of the common heritage of the nations of the North and South.

### 4) OVERCOMING ISOLATIONIST TEMPTATIONS.

As world trade slows down, products incorporating high technology are occupying a growing share of this trade. We must overcome this contradiction.

Technical progress will offer new opportunities for trade. However, the very nature of high technology products affords protectionism new forms of expression (standards, licensing procedures). Technological development as a whole could, in the short term, trigger withdrawal and isolationism, which oppose the medium-term interests of all countries. It is essential to cooperate to guarantee that protectionism will not eventually triumph.

### 5) BUILDING A NEW CIVILIZATION.

A new civilization begins at the point where the greater availability of resources serves to liberate mankind from the twofold

constraint of time and distance, affecting interchange and communication. The interrelationship of networks will lead the most diverse societies to communicate with each other, to know and to understand each other better.

The impact of new technologies on urban civilization is still unclear. We shall ensure that the expansion of the means of transport, the proliferation and interdependence of information systems, the laying of cable networks and the implementation of new housing techniques, will make the cities more attractive for all and break the isolation of the countryside.

Herein lies the great adventure, because in the absence of a powerful current of interchange and communication, all cultures and languages will be threatened with uniformity.

In actual fact, communications are becoming more concentrated in all countries. A handful of firms have taken possession of the electronic distribution infrastructures. By dominating them, they influence the traditional media, cinema, press and television. The major part of the new activities in which most of the firms are engaged (information production, storage and processing) implies very large investments, and therefore encourages intense concentration. Already, the two leading image banks supply nearly all the television stations worldwide, more than three-quarters of all press news are supplied by five agencies. If this natural tendency spreads further, by the end of the decade it will mean the control of the world communication industry by some twenty firms.

By cooperating, we can prevent the accumulation and processing of information by a small number of firms and nations possessing the most highly and rapidly developed processing and storage systems.

More generally speaking, the dissemination of information processed and largely controlled by a small number of dominant countries could cause the rest to lose their memory and sovereignty, thus jeopardizing their freedom of thought and decision.

This is why I should like us to reflect on a possible Charter of Communication.

**PROPOSALS  
FOR A CONCERTED  
DEVELOPMENT  
OF THE WORLD ECONOMY**

*What remains for us to do? I would like for us to reflect on a comprehensive set of measures capable of rapidly implementing the principles I have just outlined, for each of our countries individually, and as a group.*

*I do not ask that you decide upon such a set of measures today, but that at least this indispensable joint action be launched in the coming year.*

*Barring this, each one of us will withdraw into himself, trade conflicts will worsen, and protectionist practices will establish themselves. No one has anything to gain by this.*

*The past bears witness to the reality of these dangers. The first phase of each of the two previous industrial revolutions in the West was characterized by rising unemployment, protectionism, and inflation.*

*During a second phase, in the better prepared countries, the social forces of change prevailed; growth and stability returned, and investment rose.*

*Today, if we are not careful, we run the risk of witnessing the same sequence of events: the new industrial revolution has already begun to intensify unemployment, inflation, financial problems and inequalities. This trend may last if we do not decide to put an end to it.*

*Not one of us, despite the differences of opinion dividing us, can resign himself to this. We are all responsible for ensuring that the*

*transition is carried out as soon as possible. We are equipped to do so, as we can anticipate and organize change, and coordinate the transformation. It is for this reason that I wished to approach this subject with you.*

*I propose:*

- *that we launch a concerted programme of selective growth through technology;*
- *that we grant equal priority to employment and working conditions;*
- *that together we foster the fulfilment of cultures.*

**First proposal:  
launching a concerted programme  
of growth through  
technology**

*The broad field of action open to us may be organized into six major branches:*

*1) Global targets: fixing them in percentage of GNP for 1985 and 1990 and exchanging our views on national research and development policies, completing this action, if necessary, with sectorial objectives and drawing upon work already completed by international institutions such as the O.E.C.D.*

*2) Setting a few priority measures for technological cooperation between private and public companies and between nations, in the following areas requiring heavy initial investment: new energy sources, telecommunications, robotics, new materials, composite materials, electronics, artificial intelligence, space, biotechnologies and agricultural technologies specifically designed for the Third World.*

An Implementation Committee could be appointed for each project adopted, which would include relevant public agencies from the participating countries. A minimal financial contribution from each country would be established.

3) Innovation should be stepped up in all of its forms by determining useful procedures. We should entail the creation of new firms, cooperation between firms in different countries and the framing of joint policies in opposition to monopolistic practices and to hindrances to competition.

4) Establishing gradually a world technology market (standards, patents).

5) Taking a number of joint initiatives in order to enable the countries of the South to master new technologies. Increasing research and development in areas of particular interest to these countries, essentially education, training, nutrition and health, within the framework of co-development agreements; creating research centres and promoting research personnel exchanges; ensuring the growth of national energy sources through specialized subsidiaries of the World Bank. Finally, the implementation of the guidelines established by the United Nations Conference on Science and Technology for Development will be accelerated.

6) Finally, we should stabilize as quickly as possible the international monetary system, the unpredictability of which is curbing investment. In order to achieve this, we have to search for the ways and means of reinforcing a balanced monetary cooperation between the three monetary poles - Europe, America, and Japan - with a view to returning to stable and economically correct exchange rates.

Preparation for this programme could be based on the methods already used in

different cooperation formulae: the setting up of networks of research centres allowing for wide distribution of information (weather, environmental and oceanographic data), the establishment of common rules and standards, bilateral action within the framework of a multilateral programme (international telecommunications development programme, world weather programme) and "custom-built" project models (UNESCO science programmes).

**Second proposal:  
placing technology  
at the service of employment  
and of working conditions**

1) By establishing a vast training system designed to manage the job transformations which I discussed, in order to speed up the transition of the industrial revolution. To this end, we should:

- begin in 1983, in each our countries, using our own methods, a specific system for training in the new technologies, such as data processing, biology and the new jobs (telecommunications, biological sciences, engineering, leisure activities), in the following three directions:
- priority for the training of engineers and specialists;
- training programmes for the young jobless aged 16 to 18;
- a programme for the conversion of workers in mid-career to the new technologies.

Request the O.E.C.D. to prepare, in the forthcoming six months, a special exchange and cooperation programme concerning training and conversion methods.

- Request the International Labour Organization to set up an observation post to follow the evolution of the occupations concerned by the new technologies.

2) We must also draw on the new technologies to improve living and working conditions. I suggest the following:

- To intensify cooperation and research on the organization and conditions of work associated with the new technologies, and on the incidence of the new technologies on the duration of the workweek and its possible reduction.

- To set up, prior to the next Summit, a programme to evaluate the experiments – both positive and negative – conducted in the cities, and the effects of the technological changes on urban living patterns, pertaining to cabled cities, new modes of transport and housing.

### **Third proposal: fostering together the fulfilment of cultures**

**I suggest directing our efforts at three matters:**

#### 1) THE SCHOOL.

The computer revolution is gradually working its way back to the wellsprings of education, to the earliest years of schooling. While they maintain their standard traditions, our teaching systems are in for some rude shocks, and this implies hopes and fears. To cope with these transformations, we should:

- mount a joint effort in order to develop new teaching systems adapted to each country, and elucidate together the means to enable our school systems to keep pace with their environment;

- develop a family of simple data-processing languages for worldwide use;
- act jointly to expand the use of computer in the classroom, in order to familiarize young people very rapidly with the tools of their future everyday-life and with the requirements of their future jobs.

#### 2) COMMUNICATION AND LANGUAGE.

The development of teaching and research in the field of linguistics and communication is indispensable to withstand the powerful trend towards uniformity which I discussed earlier. We could do the following:

- set up, within the United Nations University, a world network linking all the teaching, training and research centres devoted to languages and communication. This network should facilitate the development of the following activities in the different countries concerned: the study of languages, the elevation of the role of national languages in the spread of technologies, the proliferation of multilingual computer glossaries, the setting up of programmes of mechanical translation for languages other than the major ones, and the training of specialists in communication.

- to compile a great encyclopedia of all the cultures of the world: it is conceivable today to create the tools for the mass dissemination of cultures, even isolated ones. For each nation, this means gathering together all the essential components of its cultural identity or identities. Apart from books, the means of dissemination could be:

- one or more satellites, placed under the control of UNESCO, designed for regional television broadcasts;

- a major computer centre, such as that of the European Space Agency, which could be the Server of a bibliographic data base that could be consulted via the world's leading telematics networks.

### 3) CHARTER OF COMMUNICATION.

*I feel that negotiations should be carried out in stages, in the international bodies concerned, for the preparation of a World Charter of Communication, which is so difficult nowadays. The Charter could be based on five principles:*

- *affirming the respect for the diversity of languages;*
- *promoting the harmonization of legislations governing information, intellectual property, contract law, and the protection of individual liberties;*
- *inciting to the determination of common rules for international data exchanges;*
- *protecting the sovereignty of States and their cultural integrity, which is threatened by the new technologies;*
- *enabling the countries of the South the means to control their communications and the messages of which they are the vehicles.*

### 4) A WORLD EXHIBITION "FOR A PRESENT IMAGE OF THE FUTURE".

*This would illustrate the role of technological development in bringing nations closer together.*

*France would be ready to organize this exhibition en 1989.*

*Before concluding, I should like to clarify the conditions for the joint implementation of the proposals that I have presented to you:*

- *we will set up a working group of eight personalities immediately after this Summit, with the mission of identifying a number of priorities based on the proposals contained in this report and on your discussions;*
- *the group would work in consultation with the competent international institu-*

*tions, including the O.E.C.D., and would be required to prepare a report, by the end of this year;*

- *the report's conclusions and the resulting projects would be examined at the next Summit of the industrialized countries, to be held in 1983 in the United States of America.*

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*If, through our concerted action, we succeed in launching these projects, will we have resolved the problems facing our societies? Certainly not. Technological progress does not in itself ensure economic and social progress. It can only contribute to the resolution of these problems in those societies able to incorporate it into coherent policy.*

*Much remains to be done in order to re-establish balanced and equitable growth, and in order to abolish misery and servitude in all of their guises. We must rebuild a stable monetary system, provide low-cost financing for companies, devise equitable economic and political relations between continents, and do away with all trade barriers. Finally, and most importantly, we must make it possible for each individual to freely use the time made available to him by progress.*

*We will in this way have accomplished our role as leaders.*

*Each individual will thus have more material means at his disposal to live the human experience as he sees fit. The human experience: both limited and exalting, incomplete and grandiose, fleeting and eternal.*

*For our part, by tackling the problems that beset us, and finding rapid solutions to them, we will have secured for our nations the most important element of all: self-confidence.*

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10 DOWNING STREET

cc HO  
MOD  
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CO

*From the Private Secretary*

5 June 1982

FALKLANDS

After dining with the other participants in the Versailles Summit on Friday, 4 June, the Prime Minister briefly described that part of the discussion which had concerned the Falklands. Mrs. Thatcher said that she had found strong support for our general position and President Reagan had been particularly robust in his comments. The main new idea which had emerged (originated by President Reagan and then taken up by President Mitterrand) was that those countries which were operating sanctions against Argentina should, when Port Stanley had fallen, tell the Argentines that if they agreed to a total cessation of hostilities, sanctions would be lifted.

I am copying this letter to the Private Secretaries to the members of OD(SA) and to David Wright (Cabinet Office).

John Coles

Brian Fall, Esq.,  
Foreign and Commonwealth Office.

Lord BridgesUS Draft Communique Language on East West  
Economic Relations

1. The following are the main points that arose at the quadripartite political directors' meeting this afternoon, which continued after you and Mr Bullard had to leave:
  - i. In the interests of brevity it was agreed that the second and third sentences of the US Draft Communique language (dealing with COCOM) should be dropped;
  - ii. there was lengthy discussion over the sentences referring to credits. Since the language in the US draft communique was obviously unacceptable to the French, it was at first agreed to base new language on the relevant section of the Luxembourg Communique. The US subsequently said that this did not go far enough and proposed new wording of their own including the words "regulate and review east west economic relations ...". The French objected to "regulate", and it was left that "regulate and" and a reference to "limits on" export credits should be left in square brackets;
  - iii. the last sentence of the US draft communique was amended at French insistence to avoid references to "western sources of energy" (did these include Indonesia and Venezuela?) and to "less reliable sources";
  - iv. a reference to Eastern Europe was added to the USSR in the first sentence;
  - v. the reference to the OECD was deleted and replaced at our suggestion by "among ourselves/with others".

/and

2. Mr Burt made quite clear during the meeting the very great importance that President Reagan attached to adequate wording on credit restraint; M. Andreani was equally clear that such language would be unacceptable to his Ministers. It was left that the French would circulate a revised draft, including the two sets of square brackets (informal text attached) and that Mr Burt would convene a further meeting later this evening when Mr Haig had had a chance to look at the new draft. As we left the meeting Mr Burt asked if we could do what we could to strengthen the French.

5 June 1982

cc: Mr Coles  
Mr Fall  
Mr Bullard  
Mr Fenn

*M H Jay*  
(M H Jay)



Mr W...  
Mr M...

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From the Private Secretary

WRG 020/4	
RECEIVED	11:55 June 1982
9 JUN 1982	
DESK	
INDEX	

7/11

14/6

Dear Francis,

ANGLO/GERMAN SUMMIT

You wrote to me on 2 June about the dates for the next Anglo/German and Anglo/French Summits.

In Versailles today I provisionally agreed with Klaus Zeller from the Chancellor's Office that the next Anglo/German Summit would be on Friday, 29 October. The Summit could not start before 11 o'clock a.m. but since we have to get to Bonn that does not cause difficulty. He has still to obtain formal agreement in Bonn to this date but is confident that he will do so and will give me confirmation at the NATO Summit in Bonn next Thursday. Meanwhile, he has asked me to keep in reserve Monday, 8 November which would also be possible but less good for the Germans.

I hope to find time to talk to the French about the next Anglo/French Summit during the rest of the Versailles Conference.

Yours ever  
John Gles.

Note to Miss Fenwick on 16/6  
she will convey No 10. BU on

18/6

WRG 16/6

Francis Richards, Esq.,;  
Foreign and Commonwealth Office

SUBJECT  
CE Mark

SATURDAY EVENING 5 JUNE 1982

President Mitterrand reminded his guests that this was a working meal and invited suggestions for discussion. The Prime Minister said that it would be thought strange if the Summit said nothing about the dramatic developments in the Middle East and there was a general but not very illuminating conversation concluding with the proposal to invite Foreign Ministers to spend half an hour working out suitable language to be submitted to Heads of Delegation in time for the closing session at 2 p.m. next day. Much of the time was taken up by a very long piece by President Reagan about how all the biblical prophecies of the approach of Armageddon seemed to be coming about.

Little was said about the Iran/Iraq war which the Prime Minister had also proposed as a subject for discussion. President Reagan said that not only President Mubarak but other "moderate" Arab Prime Ministers had expressed fear that an Iranian victory could result in a Shia/Sunni. Chancellor Schmidt said he had also heard that the Israelis had been helping Iran and enquired whether this kind of thing was covered by the American "strategic understanding" with Israel. Mr. Regan said not: the "understanding" was only about the use to be made of American weapons. Chancellor Schmidt expressed grave misgivings about the future of Israel but at this point President Reagan returned to Armageddon and the discussion ran out.

President Mitterrand then launched a theoretical debate about how to deal with the Russians which developed into an exchange between President Reagan and Chancellor Schmidt who reminded his colleagues that he was speaking from experience both of negotiation over many years and from having fought the Russians nearly all the way to Moscow and back.

Mr. Suzuki then took the floor and said that before coming to Versailles he had had a discussion with the Japanese Prime Minister who had told him that he had received many proposals for reconciliation from the Soviet Union but in view of the long years of confrontation had replied that he would not respond to such advances, nor trust the Soviet Union, only on the basis of words: if they were sincere they must take concrete action -  
/for example,

for example, removing a million Soviet troops from the frontier, stop moving military facilities for Northern Ireland on Japan; retire from Afghanistan and so forth. Unless the Soviet Union behaved more reasonably, the Chinese Prime Minister had said, he would continue strongly to resist the Soviet hegemonism. Mr. Suzuki said that the Chinese were open to friendly approaches from the West and wished to avoid any disagreements; in order to bring off their plans for a new modernised China they needed not only time but Western technology and financial support. Japan was linked to China in many ways and thought it important to remain open and friendly; it was of the highest importance to help Chinese efforts on modernisation and not to drive China into the arms of the Soviet Union.

Mr. Trudeau produced lone reflections about the principle of negotiation with the Soviet Union which developed into another round of the debate between President Reagan and Chancellor Schmidt.

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After dinner President Reagan returned to the idea of using credit policy as a means of obtaining compliance with the Helsinki agreements. The Prime Minister said that she would be prepared to take a tougher policy on credits to obtain progress on human rights but she was gravely concerned about Soviet policy. The Russians had invaded Afghanistan and we were now dealing with them as if Afghanistan were not occupied. They had set up a military government in Poland; if she were in the Kremlin she would think that she could do whatever she pleased and that the West would merely make outraged noises, pass resolutions and then after a year or two forget about it. Moreover, the Russians still had surrogate troops in Africa and maintained the political challenge of subversion. Mr. Trudeau said that they were only applying subversion where there was poverty. The Prime Minister referred to communist influence in trade unions and this set off President Reagan on another long intervention about his early experiences in Hollywood.

/ Mr. Suzuki

Mr. Suzuki then delivered another set piece. He said that the Soviet Union had used military power for expansionist ends (giving examples) but the countries taken over were a heavy burden both militarily and economically. The Soviet Union should be left to carry these burdens; their economy and the economies of Eastern Europe were not a very bad condition and he believed that the Soviet Union would have no choice but to respond to American calls for disarmament. He thought that we should try to establish the principle of limiting official credits to the Soviet Union if we could agree on a standard which all would observe. If we could not establish such a standard we should forget the idea, otherwise we should only be showing up our own divisions. As to what limits should be set, he proposed that question should be studied by the Ministers concerned. He thought that the Soviet economy was their "Achilles feet" (as interpreted).

At this point discussion was interrupted by President Mitterrand's reading of a message he had received by telephone from the Secretary General of the United Nations about an emergency meeting of the Security Council about developments in the Middle East. There was a short unstructured discussion until the Prime Minister suggested that we did not yet know enough about what had happened to take any decision, and the matter was left for President Mitterrand to obtain more details of the Secretary General's message from his officials, and for study by the Foreign Ministers.

Signor Colombo said he thought it impossible to have a unified policy on credits and trade with the Soviet Union, because the economic position in all our countries (rate of inflation, etc) was different. (Chancellor Schmidt pointed out that no policy vis-a-vis the Soviet Union would be effective unless it also applied to the whole Eastern bloc, which opened up all kinds of problems. East-West trade was only of slight importance to the USSR itself.)

P L CARTER

6 June 1982

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p.a.

RIGHT HONOURABLE M THATCHER  
PALAIS DE VERSAILLES  
VERSAILLES

SERVICE TELEX

YOU HAVE BEEN GLORIOUS. NOW OUR SPLENDID FORCES DESERVE A SMASHING  
VICTORY, NOT MILITARY COITUS INTERRUPTUS. BEG YOU REJECT  
BLANDISHMENTS OF +FRIENDS+. WE LOVE YOU.

DR PETER PEEL, +FORMER RAF PERSON+, 7965 CHASTAIN AVE, RESEDA,  
CALIF.

COL 7965

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BRVICI TELEX



SUBJECT

re Minutes

10 DOWNING STREET

From the Principal Private Secretary

5 June 1982

Dear Brian,

BILATERAL MEETING WITH CHANCELLOR SCHMIDT  
ON 5 JUNE 1982

I attach a copy of the record of the meeting which the Prime Minister had with Chancellor Schmidt at Versailles today.

I am sending copies of this letter and of the record to John Kerr (HM Treasury), David Omand (Ministry of Defence), Robert Lawson (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

Yours sincerely,

Brian Fall, Esq.,  
Foreign and Commonwealth Office  
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RECORD OF A MEETING HELD BETWEEN THE PRIME MINISTER AND CHANCELLOR SCHMIDT AT THE GRAND TRIANON, VERSAILLES, ON SATURDAY, 5 JUNE 1982 AT 1840 HOURS

Present:

Prime Minister

Chancellor Schmidt

Mr. Clive Whitmore

Herr Otto von der Gablentz

FALKLAND ISLANDS

The Prime Minister said that she was worried that when the Heads of State and Government had discussed the Falkland Islands the previous evening, she and Chancellor Schmidt had not been entirely at one. She thought that it would be helpful if they could talk the issue through now.

Chancellor Schmidt said he understood why public opinion in the United Kingdom was as belligerent about the Falkland Islands as it was. Nonetheless, he was worried about what was going to happen once Britain had regained the Islands. He thought that the fall of Port Stanley would be the turning point. He believed that Britain must distinguish between Port Stanley and "the last little bit of rock". He feared that once Port Stanley had been taken, a situation could rapidly develop where the United Kingdom appeared as the demandeur for an armistice. The Argentines might well respond by asking why they should agree to an armistice. They would say that they were being deprived of their right to the Islands, and they would go on to refuse an armistice. What would happen then? If, following the re-conquest of the Falkland Islands, nothing new happened and the UK asked for the continuation of economic sanctions against the Argentine, he believed that European Community solidarity would rapidly break up. His view was the same as President Mitterrand's and the other Heads of Government in the Community. He and they did not at present understand what the UK was going to do after the fall of Port Stanley and what she would ask of her partners.

The Prime Minister said that after the Islands had been repossessed, a period, which would probably be quite lengthy, would be needed so that the

/ Islanders

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Islanders could settle down again after their traumatic experiences and the work of rehabilitation could be undertaken. We should certainly want a cessation of hostilities which applied to the Argentinian mainland. To secure this we might find that we needed the Argentinian prisoners who would be taken at the fall of Port Stanley for use as a bargaining counter. We would be entitled, under the Geneva Convention, to keep such prisoners until there was a cessation of hostilities. The Heads of State and Government had agreed at dinner the previous evening that when Port Stanley fell, the Foreign Ministers of all the countries applying economic sanctions against the Argentine should contact each other to decide what to do about the lifting of the sanctions. This too was something that might be used in securing an armistice which applied to mainland operations. She wanted to emphasise that the United Kingdom had no quarrel with the Argentinian people and no wish to carry military operations to the Argentinian mainland. But if the Argentine continued hostilities after all their troops had left the Falkland Islands, a different kind of operation would then begin.

The Prime Minister said in answer to a number of questions from Chancellor Schmidt that she did not know how long the battle for Port Stanley would last. She hoped that it might take only 2 - 3 days, as Chancellor Schmidt had suggested, but it could be rather longer. We did not know a great deal about the composition of the Argentinian garrison. We suspected that they might have some of their special forces there but we did not know in what strength. Nor did we know how many conscripts were in the garrison but it was likely to be quite a large number. The Argentinians were continuing to get a few supplies through at night both by air and sea to their garrison in Port Stanley but they were not able to supply the quantities which a garrison of that size needed.

She doubted whether defeat in the Falkland Islands would bring about the fall of the Junta, though its membership might change. On the whole she believed that the Peronistas were worse than the Argentinian military. Terrorism under them had been appalling, and the military had had to use brutal methods to defeat it when they had taken over the Government. She also thought that if the Peronistas returned to power, they would be more likely to ally themselves with Cuba.

Chancellor Schmidt said that he believed that the greatest damage that had been caused by the Falkland Islands crisis was that done to the US position in Latin America. Yet President Reagan did not seem to understand this.

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/ US ECONOMY



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US ECONOMY

The Prime Minister said that she had tackled President Reagan about the US deficit. He clearly thought that he would get most of his present budget through Congress. He did not understand why it was that American interest rates were not coming down when inflation had dropped so much. Her view was that interest rates were remaining high because of the expectations of the markets.

Chancellor Schmidt said that he remained despondent about the prospects. He thought that US interest rates would remain high, and this would mean that European interest rates would also have to stay up in order to compete. Some work which he had had done recently showed that private savings in the United States were only 5% of private income, whereas the figure in the Federal Republic was 12 - 13%. So he did not believe that President Reagan could finance so big a deficit.

The Prime Minister said that President Reagan appeared to believe that when his tax cuts were implemented, they would go into savings and this would enable him to finance his deficit.

Chancellor Schmidt said that President Reagan was also saying that his tax cuts would go into increased expenditure on cars and houses. The fact was the money could not go to two places at once. If President Reagan did not join with the other countries at the Economic Summit to say publicly that deficits had to be cut, how could European Governments get their own expenditure cuts through their Parliaments? The Federal German opposition was asking why the Federal Republic did not adopt President Reagan's policy of cutting taxes. His answer to this challenge was to ask his opposition whether they wanted 10% unemployment. But this was an indication of the kind of domestic political consequences of US economic policy which European Governments had to face. It was a pity that the Prime Minister had not been able to have the talk with President Reagan which they had contemplated when they had met at Chequers, but he understood that the Falkland Islands crisis must have prevented this.

The Prime Minister said that although she had not been able to speak to President Reagan, she had taken the matter up with Mr. George Shultz. She had told him that while US interest rates remained so high, President Reagan would

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never achieve the expectation he was hoping for. Mr. Shultz had replied that President Reagan wanted to reduce his deficit as much as the Prime Minister did, but to do this he had to get his measures through Congress. She believed that President Reagan would also say that his deficit was high partly because he was increasing US defence expenditure and that that was something which his allies should welcome.

Chancellor Schmidt said that he doubted very much whether the Americans would be able to finance the expansion in their weapons programmes which they were now instituting. We all knew that defence costs rose much more than we initially expected. The Federal Republic was now taking delivery of weapons which had been ordered by Herr Leber when he had been Defence Minister, and they were having great difficulty in paying for these.

NATO SUMMIT

Chancellor Schmidt, in response to a question by the Prime Minister, said that he was not expecting to get anything very specific or very positive out of the forthcoming NATO Summit. His objectives were first, to prevent anything going wrong and second, to give the Ministers attending a chance to talk to each other. That was all. He had not convened the meeting. It was mainly for American consumption. Since President Reagan was visiting Paris, Rome and London, it was imperative that he should also visit the Federal Republic, and it made sense for him to combine a visit to Bonn with a NATO Summit.

The Prime Minister said that the meeting should demonstrate the unity of the Alliance.

Chancellor Schmidt agreed. He hoped they would show their solidarity, including solidarity on the Falkland Islands, though this might be more difficult now that Spain would be there.

The Prime Minister said that we were hoping to open talks with Spain about Gibraltar on 25 June. We also hoped that Spain would open her side of the frontier with Gibraltar on the same day. Gibraltar had many of the same features as the Falkland Islands. The Spaniards claimed Gibraltar in the same way as the Argentine claimed the Falklands, but the Gibraltarians all wanted to preserve their association with the United Kingdom, in exactly the same way as the Falkland Islanders had always done. The British Government could not ignore their wishes.

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They already had a form of self-government.

Chancellor Schmidt asked whether a way forward might be for Britain and Spain to exercise a condominium over a self-governing Gibraltar. Another possibility might be to determine the wishes of the people of Gibraltar by means of a referendum.

The Prime Minister said that our experience of condominiums was not encouraging. They never worked in practice. She would be ready to consider having a referendum, but we were in no doubt about what the Gibraltarians wanted. We had often told the Spanish in the past that what they should do was to make efforts to win over the Gibraltarians to the idea of joining Spain, but nothing had come of this.

Chancellor Schmidt said that it would be a good thing if Britain could show that it was ready to compromise in some way on Gibraltar. This would make clear that she was treating Spain and Gibraltar in a different way from the Argentine and the Falkland Islands. We should try to invest in the democrats in Spain. The King, Senor Suarez and Senor Gonzales were good and courageous men. They were something to envy. Senor Calvo Sotelo, on the other hand, was very conservative and belonged to the old political establishment. "He would not let himself be shot in the streets, if necessary, but the King would". The King, Senor Suarez and Senor Gonzales would fight if they had to. The King and the democrats in Spain needed some success to sustain them. That was why the Federal Republic had asked the European Community not to distinguish between Greece, Spain and Portugal over accession.

He had seen the Portugese Prime Minister recently. Portugal had been in NATO for 30 years, whereas Spain had only just joined. The Portugese had two strong wishes. First, they did not want any part of their mainland or their islands to come under a NATO command that was headed by the Spanish or was even partly under Spanish control. Second, they did not want their share of posts on SACLANT's staff to be reduced in order to make way for Spanish officers. Against this background he had suggested that Spain should fall under SACEUR's command. But it might be impossible to avoid the Canary Islands coming under SACLANT, and he thought that Spain might not like this.

The Prime Minister said that she agreed with what the Chancellor had said about the King of Spain and Senor Suarez. They had a very good political sense.

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/ COMMUNITY MATTERS

CONFIDENTIAL

COMMUNITY MATTERS

Chancellor Schmidt said that he was very happy that the dispute over farm prices and the UK budgetary contribution had been settled. If it had lasted any longer, a devastating situation would have arisen. But there were certain conclusions on both substance and procedure which had to be drawn for the future, and he thought it important that he should mention these to the Prime Minister. First, he wanted to make it absolutely clear that the Federal Republic wanted to maintain the Luxembourg compromise. The Federal Republic had taken a different view from the United Kingdom about whether the link between farm prices and the UK budget contribution was a matter to which the Luxembourg compromise could be applied. The German view was that the Luxembourg compromise should be maintained for use on matters of substance but not on matters of procedure. The German/Italian proposals for a European Act provided for the continuation of the Luxembourg compromise. But he believed that we should make it a little more difficult to invoke it, perhaps by requiring that reasons for its proposed use should be given in writing.

His second conclusion concerned farm prices. He had no time for American complaints about the Community's food surpluses. It was the Americans who had started the production of food surpluses 15 years ago, and they still produced large surpluses. Nonetheless, it was ridiculous that Europe produced more food than it needed and then subsidised the surpluses so that they could be sold to the Soviet Union. As an individual - and he did not know whether he could speak for his Government - he believed that the surpluses had to be reduced, and with them the share of the Community budget taken up by the CAP. "Something had to be done, though he was not sure what."

Third, he believed that it was impossible for the Federal Republic and the United Kingdom to continue to be net contributors to the budget, while all the other members of the Community were net beneficiaries. The two of us would soon be forced into a corner where we had to say "No" to further expenditure.

The Prime Minister said that she agreed very much with the Chancellor's third point. If the situation Britain and Germany were now in continued for much longer, the Community would be ruined. Britain had tried for two years now to change the structure of the budget but had got nowhere.

Chancellor Schmidt said that the difficulty about the British position on the budget had always been that it was not enough to say that the burden represented

/ by the CAP

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by the CAP was ridiculous and that it should be got rid of. The fact was that the CAP was the price that had had to be paid, however monstrous it was, from the beginning of the existence of the Community in order to obtain the adherence of some of its members. The French and the Italians, for example, would always say that they had joined the Community knowing that the CAP was there to help them.

The Prime Minister said that the structure of the budget and of the CAP had been wrong from the start. She accepted that it was now very difficult to make fundamental changes. But the accession of Greece, Spain and Portugal would all make further demands on the CAP. Yet she had always supported the accession of these three countries in order to strengthen the cause of democracy.

The next big test would be fish, where the present arrangements expired at the end of this year.

Chancellor Schmidt said that no major issues would be settled during the Danish presidency. The same would be true of the Greek presidency which would begin in July 1983. This meant that we had six months when the Federal Republic held the presidency in which to settle major questions.

The Prime Minister said that that meant that fish and the restructuring of the budget would both have to be dealt with finally during the German presidency.

Chancellor Schmidt asked whether it was possible for the Federal Republic and the United Kingdom each to give up one of their two commissioners.

The Prime Minister said that she was very ready to consider this suggestion. She believed that the Community bureaucracy as a whole was much too big. She would also like to reduce meetings of the European Council from three to two a year.

Chancellor Schmidt said that he agreed about the number of European Council meetings. He would also like to get rid of the meetings of Community Ministers on matters like justice and the environment.

The Prime Minister said that she agreed with the Chancellor on that too. In conclusion she would like to thank him again for being so staunch over the Falkland Islands.

The meeting ended at 1935 hours.

*shaw.*

Prime Minister

The text must make clear the integrity of the IMF, World Bank, & ECOT. They must be governed by their own directors.

Global Negotiations They cannot receive instructions from elsewhere only requests which they may accept or

Lord Bridge has to attend a meeting at 4.00 p.m. and would appreciate guidance before then. reject or

2. His minute (attached) sets out the problem.

3. Paragraph 4 of the resolution protects our position on the specialised agencies (IMF etc). Paragraph 5 muddies the water to some extent but since the Conference itself has to proceed by consensus UK/US agreement will be necessary for any "objectives" or "guidance" established by the Conference.

4. Agree that if President Reagan accepts this text, we should do so also?

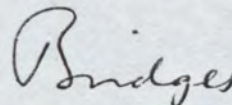
A. J. C.  $\frac{5}{6}$

As I understand it, these amendments would be tabled by one delegation in New York; the others would support them. There could be no further departures from the text except by unanimous agreement of the Seven.

RIA 5 ii

Mr FallGlobal Negotiations

1. France called a meeting of Economic Directors of the Seven this morning to consider changes to the Bedjaoui text discussed in Paris earlier this week by the Americans with the EC Presidency and Commission. The background is in Mr Bayne's minute of 3 June.
2. I made it clear at the outset that I could make no commitment. The British Government attached much importance to the independent position of the specialised agencies and the text must reflect this. I would report the outcome of the meeting to the Foreign Secretary and Prime Minister who would wish to scrutinize any new proposals closely and with great care.
3. Nau (US) said that President Reagan would also need to look carefully at the next text. He would further expect his colleagues to give a commitment to respect the text, if agreed here, and not to move from it in New York without the agreement of the other participants. The US would not be prepared to circulate the changes themselves in New York; and would look to someone else to do so.
4. I attach a copy of the Bedjaoui text with the amendments proposed as they emerged after three hours of discussion. Economic Directors will meet again at 4 pm today to report any reaction obtained from their Ministers. I was told that Foreign Ministers and Finance Ministers are expected to discuss over dinner this evening.
5. The amendments are all improvements from our point of view. In paragraph 4 and 5 they are less than we would like, but we will receive no support from our Community partners if we seek to go further. I assume that, if President Reagan can live with this outcome, we should also assent.
6. In that event some further work will be necessary on the passage in the Draft Declaration, but that could be left for *later* discussion for the time being.



(Bridges)

5 June 1982

cc: Sir A Armstrong  
 Sir K Couzens  
 ✓ Mr Coles  
 Mr Kerr  
 Mr Bullard

The General Assembly,  
having considered the item entitled 'Launching of the  
Global Negotiations on International Economic Cooperation  
for Development'

and *Recalling*  
~~in accordance with~~ Resolution 34/138:

1. Decides to convene a United Nations Conference for Global Negotiations on international economic cooperation for development from 3 May 1982. Such negotiations should be action-oriented and proceed in a simultaneous manner in order to ensure a coherent and integrated approach to the issues under negotiation.
2. Decides that the Conference will function throughout and reach agreement on the basis of consensus.
3. Decides that the Conference will in a preliminary phase establish the procedures, agenda and timeframe for the Global Negotiations. *As soon as a consensus is reached, the Conference will enter the substantive phase.*
4. Decides that the Conference will exercise the central role in the Global Negotiations. The jurisdiction, competence, functions and powers of the specialised fora within the UN system will be respected *by the conference.*
5. Decides that due attention shall be given in the preliminary phase to the inter-relationship between the central role of the Conference and the specialised fora which, together *without duplication of existing appropriate fora* with the ad hoc groups it may create, will be entrusted with specific agenda items or parts thereof. Both the specialised fora and the ad hoc groups will proceed with their work on the basis of the relevant and appropriate objectives and guidance established by the Conference.
6. Decides to accord high priority to the Conference in relation to other United Nations activities except those of the principal organs established by the Charter of the United Nations in respect of facilities and services and requests the Secretary-General to provide the necessary documentation to the Conference.
7. Decides that the Conference will report to the General Assembly at its Thirty Seventh Session.



DRAFT COMMUNIQUE LANGUAGE ON EAST WEST ECONOMIC RELATIONS

We agreed to pursue a prudent economic approach to the USSR and Eastern Europe taking into account our political and security objectives. First, we will exchange information among ourselves and with others on our economic, commercial, and financial relations with the Soviet Union and Eastern Europe. Second, we have agreed to regulate and review east-west economic relations, bearing in mind the need for such relations to proceed on a sound economic basis and to take full account of security considerations, particularly in the technological, economic and financial areas, including limits on export credits. Third, we will actively pursue the development and the diversification of reliable sources of energy in order to avoid dependence.

I believe we are now at a turning point in the world economy. I see this as a moment when many of us have made considerable progress in reducing inflation and when we could move into a period of lasting recovery, with low inflation and sustainable growth. Success could be within our grasp. But this is also a moment of danger when our economic future could still go wrong rather than right.

Some of our countries, especially in Europe, have now surmounted the worst of the recession, though recovery is painfully slow. *and in some cases*  
(In North America, and perhaps also in Japan) the recovery is not yet clearly established. But the international organisations and other forecasters promise us a general recovery during the next year. If they are right there is still the question how soon the recovery will come, especially in the United States, and how strong and well-founded it will be. The turning point on unemployment will depend on that.

What can we do to help the recovery and make it soundly based?

First we must keep up the fight to reduce inflation. We have made progress. In some of our countries we are in sight of changing peoples' expectations radically. They begin to believe that we are entering a period of permanently lower inflation. We must convince people and financial markets that we are keeping up

/the fight

How to go from recession to steady but some growth

① Inflation  
let to make - dan of Budget used  
Early 2000s

② P.S.B.R. → Int Rates - Inflation

Control Gov. Time? COSTS

Path for budgets of future with decreasing deficits

Supply of new labor

③ Exchange Rate - low

System of Recovery needs led to deficit 7.10%

④ Transferred Resources - Young New Business Technology

⑤ G.N. IMR  
a) Demographic Structure

Productive Investment

Costs  
Korea rule  
27%  
Industry  
Social Contract

- ① Publicly held
- ② Structured labor market
- ③ Pulling of Trade
- ④ High Productivity
- ⑤ heaviest Productive Investment

A Control Inflation without need of wages of employees

B Need to reduce investment

Productive Investment

the fight with determination and will succeed. The price of failing to convince the markets is high.

*1st Point*  
If we convince people that we are determined to go on fighting inflation, we shall be well on the way to reducing interest rates. That is my second major requirement for recovery. It is a route by which lower inflation leads to more investment, better activity and higher employment. We have to get interest rates down to levels which encourage sound investment without expropriating

*avoid cost increases*  
My third requirement is that in Government and in the private sector we should avoid cost increases like the plague. And we should go on reducing the overheads which Government imposes on the wealth producing sectors; and the "crowding out" of productive investment caused by too much Government borrowing. It is worth recalling what the Managing Director of the IMF has said about the doubling of public borrowing in real terms in the industrial countries in the 1970s.

My fourth point is only partly within the control of any of us. It is that we need to avoid shocks and instability. It is partly in our hands to reduce the risk of future oil shocks by policies encouraging conservation and diversification. There is still progress to be made on market pricing of energy. We can also avoid instability of policy. In the UK in the past one of those has been an alteration of priorities between inflation and unemployment.

/We cannot

We cannot so easily avoid shocks caused by the military adventurism of others. We can only try to deter it and to prevent it from being rewarded. But there is no doubt that shocks of that kind are among those which the world cannot afford.

So I come back to stability as a key to recovery: political stability, stability of policy, stability of money, stability of expectations about low inflation, stability of costs. I believe this is how we have to turn the tide of unemployment.

- Incentive
- Investment
- Reducing barriers to world trade



Château de Versailles  
4, 5 et 6 juin 1982

**PRESS CONFERENCE OF PRESIDENT FRANCOIS MITTERRAND**

*Versailles, Saturday 5 June 1982*

*Ladies and Gentlemen, I am happy to meet you on the occasion of the Summit of the Industrialized Countries.*

*We shall have another opportunity tomorrow of seeing one another at a Press Conference bringing together all the participants, Heads of State and Heads of Government.*

*I think that you have been kept in regular contact with us during the proceedings of last evening and today with a view to keeping you informed of the talks we have been having.*

*I imagine, therefore, that you are already well acquainted with what has taken place. Let me, however, recapitulate :*

*- Last evening following the welcoming of our guests, a working dinner took place after which there was a long discussion until 11.30 pm between the Heads of State and Government, nine persons in all including the representatives of the Community.*

*It was agreed that we would talk above all about the state of the world, the international situation.*

*We had talks about several major topics of the day, in particular, the events relating to the Malouines Islands.*

*The first plenary session began this morning. Various bilateral meetings took place here and there ; for my part ...*

I had breakfast with Chancellor Helmut Schmidt and the morning meeting was devoted to an introductory report I presented in my capacity as President of the Group of Industrialized Countries this year.

This report dealt mainly with what are known as the links between technology, employment and growth. This document has been distributed in several languages - it is available to any of you who may not have received it.

The Report envisages concrete international cooperation in research, industry, training, employment and, widening these horizons, proposes reflexion on cultural problems, cultural relations and social life, around, with or thanks to new technologies.

I have asked for the inclusion in our common activities, not only of an overall view of the links between the Third Industrial Revolution and the solutions of our societies, but also the creation of a Working Group, so that our work is not confined to expressing ideas, which are always interesting in such a field. My objective was not only, and in fact not at all, to spend the Conference's time on an exhaustive study of a fascinating problem, it was to put across the message, and this was perfectly understood, that this was one aspect of our work if we wish to prepare for the years to come and overcome the crisis and, beyond the coming years, really face up to what awaits us in the next century. So this report, I am glad to say, has met with very broad agreement ; each delegation spoke on it, added suggestions, and a working group is being set up immediately with the task of reporting, of putting its proposals in black and white, before the end of the year. And the subject will be placed on the agenda in the interval, but also during the next meeting of the summit, which will be held in the United States of America.

This working group will be presided over, since France assumes the presidency for the current year, by a Frenchman.

*The lunch which followed was a working lunch as well ; at it we mainly discussed the problem of East-West relations, under both its political and its economic aspects ;*

*We then resumed the plenary meeting, which in the main was devoted to a study of economic questions revolving around two main points : monetary problems and commercial problems.*

*In a few words, I think I can say that the finishing touches to an agreement should normally be put tomorrow, in accordance with the following procedure : a document had been prepared by those we call the sherpas, those who prepare the climb to the summits and who are the personal representatives of each of the participants.*

*This report has been studied by the Ministers of Economy and Finance and these Ministers have adopted, with a few variations, the proposals of the personal representatives. This text was discussed at the plenary meeting. Whatever differences persisted were ironed out. The only thing that remained was to put the text in shape. It will be given a final reading as of now and before and during dinner and, if necessary, will be examined by the Ministers of the Economy and Finance who, incidentally, will be meeting this evening with the Ministers of Foreign Affairs, and the whole thing will then be transmitted to the personal representatives who are responsible for putting together all the texts, harmonizing their tones and submitting them to the plenary conference which, in the early afternoon, will put the final resolution in order.*

*I hope that I have been clear, the monetary discussion is over. What I choose still to call it an outline agreement until it is formally proclaimed ; I must take account of the interval between now and tomorrow in the early afternoon, but I can already say that the agreement will surely concern the implementation of a medium-term reform of the international monetary system and the acceptance of the idea of intervening in exchange markets to counter erratic fluctuations if such is necessary.*



*The Ministers of the Economy and Finance, whom I have just mentioned, have begun clarifying - and will continue to do so - a definition of a suitable working programme and will prepare the declaration in the terms that I have described.*

*The discussion on trade negotiations has begun. It was focused mainly on the GATT Conference and specifically on the trade relations of Europe, especially of the Community, in the field of agriculture, and of its American partners, without forgetting Japan. Particular attention was paid, and will continue to be paid tomorrow, to the relations between Japan, the United States of America or the American bloc on the one hand and the Community on the other hand, it being understood that the measures proposed by Japan before the opening of the Summit are significant and may be completed but are more likely to solve problems in North America than in the Community.*

*This will be considered.*

*After that, since it will be the end of the discussion and there will be plenty of time for it tomorrow morning, we shall take up the question of North-South relations, and if any problem of international policy is raised, in my capacity as Chairman of the meeting, I shall deal with it.*

*The last working lunch will be at 1 pm followed by a plenary meeting to consider the final statement and a press conference at 5 pm at which all the Heads of State and Government will be present. In the evening the President and the Government of the French Republic will be inviting their guests to a dinner which will be followed by various festivities in honour of our guests.*

*That is the outline. It is for you to tell me which points arouse your curiosity, bearing in mind that we are in the middle of our work and that I cannot prejudice the results of our work. I shall be speaking with the usual reservations that you all understand.*

Who wishes to ask the first question ?

**Question** : Philippe Sassier, Antenne II...

**The President** : I cannot hear you Mr. Sassier. This is a hemicycle in which there are difficulties. Every time I have come here was in noisy circumstances, particularly at the election of the President of the Republic in 1954.

**The journalist** : Can you hear me ?

**The President** - I will try to hear you. A room like this is made to have good accustics, so there should be no problem.

**The journalist** - Concerning monetary problems, Mr President, I wanted to ask you if France was prepared to accept a certain control over international monetary life by the Monetary Fund, the IMF ?

**The President** - France is not decided on anything, but France is one of the countries which are proposing. So it is not a question of saying that it accepts, it is a country which proposes that some order should be brought to the monetary field. We are one of the countries asking for it, since we consider that the economic war now being waged among friendly countries is intolerable and at the same time makes it extremely difficult to harmonize our position in the other fields. Moreover, it complicates all our lives.

France therefore is one of the asking countries, and for the moment I am not talking in the main of the International Monetary Fund, I am speaking of the beginning of a regularization, a cleaning up, a stabilization of exchange rates. Naturally, this will be done in relation with the IMF, but that is another subject

**Question** : (Populo Nuovo, an Italian newspaper) - Mr. President, I already had the privilege of asking you a question in Rome.

This time I should like to ask you how you believe it possible to reconcile the declarations of assistance and good will made by the industrialized countries vis-à-vis the developing

*countries when we are confronted by a war between two countries belonging to the two different groups? Do you not believe that the Malouines Islands conflict has widened the tremendous gap that already exists between the industrialized and developing countries ?*

*The President - What I can tell you is that for the moment I am not expressing myself in my capacity as President of the French Republic - though I shall do so shortly - but in my capacity as President of the Summit Conference of the Industrialized Countries. I shall not, accordingly, prolong this evening's meeting which is, moreover, only a warm-up for tomorrow's, with a whole series of considerations which might be of a personal nature or might simply be directed at my country's policy regarding all of the problems confronting the world.*

*Therefore, I should not like there to be any misunderstandings between us : that is not the object of this meeting. I am here to inform you about the state of our work.*

*I have already mentioned that last night we had a long discussion, a lengthy exchange of views on the war in the Malouines with the nine main participants.*

*If you ask me questions on it - and in any case I am not authorized to reveal those conversations to you, which so far have not been the subject of a public document - it is not difficult to imagine the solidarity there is towards our ally, Great Britain, in face of something which cannot be called anything but aggression. Without raising, in the first place, the problem of right or sovereignty, or the legal entitlements of some other countries ; we cannot accept that a problem of this type should be settled by violence. Otherwise where would we end ? We protested in other circumstances, we had to in this one. From the moment Great Britain availed itself of its right to defend what it considered a possession, and above all to refuse the fact of violence, all the countries allied with Great Britain, when situated in Western Europe, naturally affirmed their solidarity.*

*But nor could they forget the very deep affinities between Latin America and our civilizations of Western Europe, to*

which must be added the daily reality of relations which are generally profound and good between our peoples.

That is political life. In the face of events we move among dangers, perils and, in a minor scale, inconveniences. One must choose. But not beyond what is necessary.

Which means that we discussed what might now happen following a decision by arms. The general desire was that it should be possible to arrive, as Resolution 502 of the United Nations indicated, at a cease-fire which would make it possible this time to explore in peace the possibility of finding a solution satisfactory to both parties involved.

Question (T.F.1) - In your presentation this morning, you prefaced your remarks, it seemed to me, by inviting your counterparts to come to an agreement on the nature and origin of the economic crisis we have been going through for several years now.

Have you the feeling, after your discussion, that agreement exists on the origins and causes of that crisis ?

The President - The main consideration was not the causes, although naturally - and I understand the meaning of your question - we could not arbitrarily separate the examination of remedies without having analysed the origin of the world crisis.

One of the main causes of the crisis, as everyone acknowledges, is linked to the fact that a new industrial revolution resulted from the advances in science and technology and that, as always - and that is the central problem - that technological change was not prepared for or heeded by political leaders. As a result, especially in the last ten years a gap developed - just as happened at the time of the first two industrial revolutions - between the time when the progress of technology exploded and the point at which society adapts to it, the point at which the former society founders, with a terrible loss of jobs, while the new society is slow to merge, with the development of new jobs.

The problem is to ensure that the technological revolution which - as its name implies - really is a revolution and therefore carries tremendous changes with it, is accompanied, for example, by vocational training so that skilled workers are immediately capable of mastering the new technologies, so that the latter may rapidly where possible, lead to the creation of new jobs. If you have robotization, you must also manufacture robots, and robots do not come out of their air. They come from the knowledge of a science and a technology, usually electronic, which should provide employment for hundreds of thousands of people, to take just this example.

But I shall go further. If some fields - let us say health - technologies and biotechnologies can make it possible, in nutrition, medicaments, if well managed, to modify considerably the way in which health costs are borne for this, as you know, is one of the major factors affecting the imbalance of compulsory contributions in most of our countries, not to mention the healing effects, which would have a greater if not a lesser effect on general welfare. However, technology allows us to imagine that this will be done in infinitely more economic conditions. But not immediately, just the contrary. We must therefore speed up the transition.

For that we must master it and, in the first place, think about it. How many people have never thought about it !

Take the case of agriculture. It has already been found - and this is not to go into utopian realms - that self-sufficiency in food is possible merely by increasing the Third World countries' means of agriculture production - which is something that a country like India is demonstrating in practice every day - once some form or other of bio-energy, bio-technology, is capable of increasing that production. That is what is happening in several other Third World countries. Countries which have a certain wealth, and hence the means to invest, can change the nature of the agro-food industries and world nourishment substantially, i.e. they can achieve a better economy in the sense of economizing the forces of humanity - while producing more.

All that has already been studied and I would like to point out Mr Gouze, that the seven delegations other than France, became involved after I had made my introductory report, and they have each put forward their suggestions, I made observations - all in the same spirit - bearing in mind that this was an essential step, a new dimension, for the understanding of the modern world by the countries in question.

**Question** : To get back to monetary problems. Has President REAGAN accepted the principle of an american intervention on the money markets ?

**The President** : As I said earlier, the principle of interventions - in the plural - on monetary markets has been retained, that we discussed methods, that this would all be included in the report now being prepared by the Ministers of Economy and Finance, and which will be re-examined by the personal Representatives before to-morrow morning.

**Question** : It is a question of limiting export credits to the Soviet Union. To what extent is France prepared to go this direction - in return for a first step made by Mr REAGAN, towards the stabilizing of exchange rates ?

**The President** : This was talked about during lunch to-day in the context of East-West relations where I said, to start with, that they were of a specifically political and military nature and that they also had this economic aspect to which you referred. I do not want to anticipate the moment when the Conference's position will be announced, in its final form. However, it is possible to differentiate as of now between the economic aspect, concerning high technology which could have military applications, and on the other hand two aspects of credit, that is to say credit volume and rates of credit.

Different points of view were put forward - were expressed in turn - and the problem for the moment is to know how to blend them together :

There are those who think that some form of commercial embargo would be useful in limiting military force indirectly, or quite simply the power of the USSR, in the existing or potential conflict which for the moment opposes them with the West ; and there are those who think that this additional tension would add to the seriousness of the situation without in any way reducing the risks involved or perhaps even increasing them ; there are those who think that there should be a normal exchange flow between the USSR and Western Europe. As it stands, I believe exchange between the Soviet Union and the Western World, in any case with Europe, does not even reach 1% of it's GNP, in other words extremely low ; but how then can this weigh on the political options of the Soviet Union ?

And, naturally, the countries on the continent that are neighbours, historically and geographically of the Soviet Union, believe that, while the West, to which Japan should be added, needs to be strengthened to make it more competitive in every way with the Soviet Union, such reinforcement of means must be elaborated in such a way as to make negotiation successful, and not the opposite. It is not an instrument of tension, it is a means of arranging things, of returning to a dialogue, to influence this dialogue and not to hinder it or prevent it from being carried on. This is the french position in any event. I shall go no further in speaking for others, who are quite capable of speaking for themselves, but these ideas have not given rise to controversy. That is the purpose of our conversation. I imagine in any case that this conversation will be continued in other forums.

Question : I should like to ask a question about american interest rates and the difficult budgetary problems of the United States in 1982. What concrete conclusions have emerged after the debate on this question, and what problems remain outstanding on these two points ?

The President : This question should normally be put to the President of the United States of America.

Interest rates constitute an international problem, I quite agree. Naturally we have talked about this. This is not a mystery, and it is one of the important subjects of our conversations.

As for the budgetary problems, they can be seen from all sorts of angles. One may be concerned about the American budgetary deficit. One may consider that in spite of the very real progress made in fighting inflation by the President of the United States of America and his Government, the budgetary deficit remains a threat or a factor which in any case arouses the anxiety of the markets. It would really be illogical if this reduction of inflation were not followed by the reduction of interest rates.

This problem is specific to America ; we have been studying it, but it is not for us to put ourselves in Mr REAGAN's place or to tell how he should run his country. He has his people's confidence and he is responsible for his own policy - it is none of our business. We only do something about it when the consequences of this policy of high interest rates compromise our own economic expansion. In any case, I see from what has happened since yesterday that the prognosis I gave to about 15 of you the day before yesterday - and this was before the opening of the Conference - when I said : "I am more optimistic today than I was three months ago" is justified.

**Question** : You attribute today's economic difficulties to technological mutation. How do you place the oil crisis in this context ? Do you think it is on the way to being resolved ?

**The President** : You have not followed what I said carefully enough. I did not say that the technological mutation was the cause of the crisis ; I said that one of the main causes of the crisis was the technological mutation which has triggered off - almost concomitantly - a large scale transfer of production sites away from the old capitalist countries where the first industrial revolution was born. These countries have been abandoned by large enterprises that have gone to seek their profits elsewhere. That is one of the causes, but there are others. If one looks back on the last 10 years, there were the oil shocks. There were several of them, but they were secondary causes, not primary causes.



There are other explanations. I have one myself, though I do not ask the others to agree with me. I am one of those persons who are convinced that the strategy, as it is called, of multinational firms was not alien to the growth of the crisis. But really, we are not going to get involved in discussions of that nature ; this is neither the time nor the place, the more so because if you ask for my personal explanation of the origin of the crisis, do not put the words in my mouth that I ascribed it solely to technological change. That was one of the main explanations.

**Question** : After the new explosion of violence in Lebanon and one month and a half before the presidential elections in Lebanon, did you by any chance propose to your partners a common plan of action to save Lebanon and ensure that the elections would take place in a climate of freedom - such as sending a multinational force on the spot to replace the syrian army - ?

**The President** : The French position on Lebanon is simple : it is aimed at contributing to maintaining the independence and unity of Lebanon, in so far as the legitimate Government of Lebanon is interested in our doing so.

Moreover, France is not involved in any specifically French action ; it is contributing to international action and, as such, to the international force which has been reinforced in recent weeks.

As for the political objective, this depends on the authority of the Lebanese Government and not on the authority of France ; I am speaking of policy towards Syria, towards the Palestinian forces, towards the internal divisions in the country and towards Israël.

That is the problem of the Lebanese Government.

France is the friend of Lebanon, it is not supplanting it.

Question : Mr President, would you please inform us if the optimism you mentioned earlier extends to interest rates. In other words, do you have any greater expectations of a drop in rates now than several weeks ago ?

The President : My optimism does not go that far. I note that in terms of technology and in the discussion of the introductory report, we have come a long way and in a remarkable promising and constructive manner.

On the monetary front, real progress has been made. This is also true in terms of trade. But the discussion is not over yet. Within this context, interest rates are relevant. At this point I cannot give you a positive answer. You will have to wait for the end of the debate.

Will the Summit discussions lead to an improvement in this situation ? Can we hope it for the medium term or not at all ? I am not expressing any particular optimism there which proves that your question raises a serious concern.

I am not given a general, vague and all-encompassing optimism.

All the same, whereas three or four months ago, the general disorder could have led us to fear that nothing would have been settled, we must admit that some progress has been achieved.

Question : Mr President, do you feel that since Ottawa the gap has narrowed between your position and that of Mr Reagan ? Has the failure of american liberal policy to control unemployment and the failure of french socialist policy to stimulate economic recovery and control inflation led each of you to harbour doubts about your own religion and to conclude that seeking a compromise, a middle of the road solution, was perhaps the best path to follow ?

The President : Yours is a somewhat polemical view... It does not surprise me... but you are expressing your view, not mine.

Madam, our concerns are the same : both inflation and unemployment must be reduced. We all have the same dual objectives.

There is no room for a debate where one says he would like to reduce inflation but not unemployment and the other says he would like to reduce unemployment but not inflation. Both of us want to reduce both inflation and unemployment.

It is a brain-racking task, for I think it has already racked some brains, in France, before ours.

The problem confronts us. Discussion of it begins by selecting priorities among the means of resolving it, and not by choosing the objective. There was not a policy in which inflation was accepted and a policy in which unemployment was accepted.

As for myself, I side with those who think that necessary efforts to control inflation should be carried out at a rhythm that does not exceed an acceptable threshold of unemployment. To give you a more concrete example, gaining four points on inflation would be a great success and a remarkable instrument for us. However, if such a reduction abruptly increased unemployment by 400,000 or 500,000 in addition to those who are already isolated from the labor market, then we say no. We say : we must keep the consequences under control.

Other countries have taken greater risks in terms of employment, and things went as planned. We have not reduced inflation by as much as others, and they have had their unemployment increase considerably more than ours.

This is why it is necessary to look more for a global solution in this matter. There are no particular difficulties for us in agreeing to try to reduce both inflation and unemployment by common agreement.

This does not go so far as to overcome all national interests, all self interest, but, as I said before, I see progress being made in this meeting.

Might it be said that Mr Reagan and I have drawn closer together, even though after all this may be only in explanations ? I am not so naive as to believe that Mr Reagan did not care about unemployment, and I do not suppose he thinks me so naive as to believe that I did not care about inflation. But I adopt a more careful conduct because I do not wish an anti-inflationary jolt brutally to cause unemployment. This human problem that concerns the very equilibrium of our societies worries me a great deal, and it is natural for me to worry as much about that as about inflation. That's all.

As for our political and personal relation, Mr Reagan is the leader of a political trend in the United States. And I am the leader of one in France. The United States and France have a great deal to do together. It is this, I assure you, that we are making every effort to achieve with considerable mutual understanding.

**Question** : Mr President, some of the decisions and recommendations made at the Summit Conferences of the Western countries concern problems which might almost be called typical of the industrialized countries, such as the problems of unemployment and interest rates. But decisions are also made on problems of international scope, such as monetary problems, and the problems of international trade.

How are you going to keep the developing countries informed of the decisions that are being made and that concern them to some extent ? Will you do so through the channels of the international organizations in which it is customary to discuss these questions, or is a special body perhaps to be set up to keep the developing countries informed of your decisions.

**The President** : we do not anticipate the creation of new institutions ; or, at the very most, temporary work, study and advisory agencies for the purpose of revitalizing existing institutions.

Thus, it can be said that the creation of new institutions has not been planned.

If the report on technology, which is a new field opening to us, were to result in proposals for new institutions, it would become apparent by the end of the year, but I repeat : "it is a new field of action".

As for the problem you brought up and which has been a concern to leaders for so many years now : that of existing institutions, political institutions, such as United Nations, should retain full authority. France's hope is, as you know, for the launching of global negotiations.

On the other hand, there exists other major institutions which are not originated from the United Nations, which are off-shoots of the Bretton-woods agreements, such as the International Monetary Fund and the World Bank.

We strongly urge that these institutions prevail, and that their procedure be strengthened. This is what I spoke of earlier, with regard to the GATT. We simply would like to see new powers vested in these same institutions.

This explains our emphasis on the creation of a specialized agency within the World Bank that would be devoted to the development of renewable energy sources in non-oil producing countries. This is only an example.

Thus, we are not creating new institutions.

Question : Events in the near East made at least a part of the Foreign Ministers' dinner yesterday rather sinister.

What effect did these events have on the dinner of the Heads of State ?

The President : I see what you are alluding to. Although I had enough time to glance at the afternoon papers, I saw that Mr Cheysson stated that a part of the dinner had been sinister. Unless my attention was wandering, I have the impression that he was speaking mainly of the Falkland problems, and of the dramatic situation of countries loyal and faithful friends of Great Britain who are solidly with her and who see the objective consequences of the event, namely the need to preserve the chances of good relations with the South American peoples.

I do not know if it was a question of events in the Middle-East, but if he said it in the context of the problems of the Middle-East, Iraq and Iran, I would understand it, because the developments in that war are substantial. That in itself is not a reason to be sinister, although sinister is not as detestable a word as that, for after all it comes from the latin word meaning left. But what I mean is that perhaps through a strict regard of etymology that might in the circumstances seem a little out of date, the Minister of External Relations, may have wanted to say that he had the preoccupations of a Minister in a Government of the Left.

If it is a matter of "sinistrose", it must be said that on the one hand, with Great Britain and Argentina, and on the other, Iraq and Iran, we have something to be concerned about. But a political leader does not live in "sinistrose". His aim is to try to heal wounds and find solutions.

Yesterday evening we spoke of the problems of the Falkland Islands. We also spoke a little about the problem of the repercussions of the Iraq-Iran war. In several meetings and bilaterial discussions, notably the day before with President Reagan in our Paris talks, I spoke of these problems. It is natural that we should discuss these subjects, although they are not really on an agenda. That is all I can tell you in answer to your question.

Question (Parisien Libéré) : Mr President, was the choice of Chateau de Versailles as the setting for the Summit Conference a symbolic act ?

In other words, did you want to express a certain renewal of France's power and influence ?

The President : It is a symbolic act, as you rightly say, and at the same time a very real one since you are here and so am I. It is therefore a concrete act which has a symbolic value.

We are not living in a symbol, we are not walking on clouds : we are at the Chateau de Versailles.

Why, Madam ? For the reasons you mentioned, but which I would place in a different order : first, because our mission is to welcome six friendly countries and the European Communities, and we want to welcome them well on behalf on the French people. We know that the French people likes to welcome their guests well, and that today they are happy to welcome to France the illustrious guests who have come to visit them, who have come to work here and, I hope, work here for progress and peace.

So we want to receive them well. We have in no way done too much, we have done what was necessary. Also, I must confess - and you guessed as much - if it can help to spread France's prestige I am naturally glad and consciously so. We are seeing to it that everything goes off as well as possible so that French prestige in these very lovely surroundings will perhaps inspire those who are going to leave us to say that France, this France of other times and this France of today, is not as bad as all that.

I read in a newspaper that one of our Dutch friends said : "it is not very republican all that". But the people of Paris also came to Versailles, not just the Monarchs... and they have even met together here during difficult times.

I would add that the Republic is very much at home, and has been for quite some time. I see no reason why the Republic should, by nature, settle in places which bring together neither art, nor history, nor comfort.

Those are the reasons I can give you. It certainly seems that everyone is glad to meet in this setting ; but the setting is not enough, something else must be put into it, that is to say that the conference must be made a success.

Question : Donald REAGAN, the American Secretary of the Treasury, said early this afternoon that the USA were still opposed to a concerted policy of intervention in the foreign exchange markets.

Jacques Delors and you yourself have a different interpretation of the American position. How do you explain this difference ?

The President : You will see tomorrow.

I am telling you what I have heard, since I am only the interpreter of statements made by the others and of the documents given to me. That there has been a start on, above all, a will for interventions (in the plural), on the exchange markets is quite obvious ; that is certainly what I heard and what I am reporting.

Should there be any divergences before the text is adopted, I will make them known to you tomorrow.

For the moment we are at work. But it is this expressed will on which the ministers of economy and finance are working at this moment - apart from our own, who is still there, but I think he will be joining the others soon. He does not seem to be very worried about the result of this discussion.

Are there any other questions ?



Question : Mr President, the problem of the North-South dialogue were still not taken up in depth today, but does the approach to the other matters which still have a certain incidence on this one seem to you to give grounds for a certain optimism for that North-South dialogue ?

The President : I shall say nothing about that. It is one of the points on which I consider that we have lost ground since Ottawa. Will that lost ground be recovered at Versailles ? I cannot say so.

Question : Mr President, your inaugural address was directed towards the future and for that reason you emphasized the technological aspect, or the technological cause of the crisis. But that was done at the expense of other causes which perhaps represent the present, today. Just now you mentioned, for example, the multinational corporations.

Reducing the causes in Summit speeches and discussions may be practical and pragmatic, but is there not a risk that such pragmatism may detract from the results and consequences of this Summit ?

The President : I must confess that I do not quite grasp the meaning of your question. What I can tell you is that my report dealt essentially with the present, and I explained this at some length just now when I said that the entire problem of the crisis was that of reducing the time of transition between the moment when the development of science and technology provokes a grave depression, particularly in employment - which is what has been happening for the last ten years, I said - and the moment when society adapts to it ; and of shortening the time-lag so that we can very rapidly return to a cruising speed which makes it possible to redeploy work as a result of the new techniques.

All that is the present. It is a problem which faces us today and which in fact has been facing us for months and years. It is a pity we did not think of discussing it earlier.

*It is in no way futurology ; I even gave examples. We spoke of other things, but this debate was understood by all the participants as representing a now indispensable dimension. From now on, this will form part of the work of the Summit Conference.*

*As for the causes of the crisis, I shall not repeat what I said a while ago. I did not claim to resolve the question. That is one of the causes, we examined it and tried to pin it down, without attempting thereby to answer all the other causes.*

*I see hands still being raised. All the subjects will be exhausted, there will be nothing more to say tomorrow ...*

**Question** : *Mr President, has the Japanese trade questions been brought up ?*

**The President** : *I said a moment ago.*

**The Journalist** : *We could hardly hear you.*

**The President** : *We began the discussion on currency and trade this afternoon. We completed the debate on currency and we began, but did not conclude, our debate on trade. But in the discussion on trade we have already heard statements from several participants, including Mr REAGAN, Mr SUZUKI and others, and I have already said that the debate was focused, on the one hand, on problems related to GATT and, on the other hand, on the problems of trade relations between Japan and North America and Western Europe.*

*Is there a final question ?*

**Question** (brazilian newspaper) : *Up to the present we have had the impression, especially in the Third World countries, that technological mutations have had the effect of widening the gap between the industrialized countries and the poor countries still further and, in addition, that these technological mutations have helped to increase the industrialized countries' domination over the poor countries. Moreover the introduction of*

of some technologies into the poor countries, where the workers are not sufficiently organized, carries the risk, it seems to me, of having serious consequences on the world of labour - especially as regards employment and salaries - in these countries.

We know your position on this more or less, but I should like to know if you have discussed these problems with the other six countries ?

The President : That's a good question ! All you have to do is to open my report and you will find the answer, for that is precisely one of the subjects on which I have spent a great deal of time, with the authors of the text. To reply to this question, which is one of the most serious question raised, technological development must not indeed rebound against the peoples of the Third World who would not be in a position to stand up to competition and who might have ways of life and thought which are not of their choice imposed on them.

So all you have to do is to open the report and you will find the reply to your question.

Thank you very much.

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AUSTRALIAN HIGH COMMISSION · LONDON

High Commissioner

4 June 1982

Dear Mr Coles,

Please find enclosed the original of the letter from the Australian Prime Minister to Mrs Thatcher, the cabled text of which was passed to you on 21 May 1982.

Yours sincerely,

(Neroli Doust)  
Personal Secretary

Mr A. Coles,  
Private Secretary to  
the Prime Minister,  
No. 10 Downing Street,  
LONDON SW1.

*Reply to the Aus High Comm letter 21/5/82*

verailles SUBJECT  
cc Macos

CONFIDENTIAL

CONVERSATION BETWEEN HEADS OF DELEGATION ON THE EVENING OF FRIDAY, 4 JUNE 1982

Nothing of much importance was said over dinner. After the meal Heads of Delegation with the interpreters (Japan, France, Germany, and myself) sat round a table for coffee in the ante room and President Mitterrand invited the Prime Minister to give an account of the Falklands situation. This she did starting from President Peron's campaign to take over the Falklands and finishing by saying that when peace returned we should try to re-establish friendly relations with Argentina and the other Latin American countries and would try to bring the Falklands to self-government; there were deposits of petroleum and oil, and great possibilities for development if this could be carried out without interference.

There were then a number of questions, and various Heads of Delegation, notably President Reagan, commented on the course of events since the invasion. President Reagan said that we could not possibly condone armed aggression as a means of solving problems. If so, there were as many as 50 outstanding boundary disputes on the American Continent. So the issue was not so much that of the Falklands as that armed aggression must not be seen to succeed. The Prime Minister agreed, thanking all her colleagues for their support adding that in the cases of Afghanistan and Cambodia there was nothing we could do, but this time we could and had to act. In reply to questions, she added that she had very little hope that even at this stage the Argentine Government would agree to withdraw their troops until they were forced to.

Discussion then turned to what the Government's present would do supposing that Port Stanley was re-taken and the Junta refused an armistice. The United Kingdom obviously would maintain its position but what action if any could be expected from the Soviet Union and other Latin American states; would this lead to increased Soviet or Cuban influence in South America? Mr. Trudeau asked whether, if there were no armistice the United Kingdom would expect sanctions to continue for 5, 10, 15 years. The Prime Minister said no. She thought we could get armistice but she hoped that sanctions would be maintained in order to help us to do so. She did not believe that there was any great threat of increased Soviet influence nor of serious alienation of third world countries, even in Latin America.

/There was

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There was then a rather rambling discussion on these lines during which President Reagan said that most Latin American Governments were afraid of the introduction of communism through the Soviet Union and Cuba. He thought with Mrs. Thatcher that the situation could be restored but wondered whether a promise of western help in economic matters might help to persuade the Argentinians to agree to an armistice. Chancellor Schmidt asked specifically whether when Port Stanley was re-taken would the United Kingdom attack the mainland if armistice were refused? The Prime Minister said not: the air bases on the mainland had been a threat but her objective was to re-possess the Falklands which could then be defended from a firm land base and the threat from the sea would become less serious and could be contained by the use of a nuclear submarine. Meanwhile, intelligence was being supplied to the Argentinians from Soviet satellites, ships and air reconnaissance. But the main reconnaissance danger was that mounted by the Argentinians themselves from the mainland in Boeing 707s.

Chancellor Schmidt returned to the idea of an approach, after the re-possession of the Islands on the lines put forward by President Reagan but added that such an approach must be by consensus; if it were made and the solidarity of the powers concerned then collapsed, the situation would be worse than if the attempt had not been made. He was particularly concerned about the attitude of Spain which was now a member of NATO. He enquired whether the British idea of an armistice would include anything about sovereignty and the Prime Minister replied that it would not; if after the fall of Port Stanley the Argentinians were prepared to negotiate with the United Kingdom well and good; if not then the idea of an approach by the United States, Canada, the European Community and NATO on the lines suggested might very well be valuable. Mr. Suzuki then said he wished to make a statement. He said he thought it would be wise for the United Kingdom if possible to reach an armistice with the Argentinians after the re-capture of Port Stanley. Japan would support United States efforts and United Nations efforts to reach a settlement on the lines of Security Council Resolution 502. The Japanese Government had already urged Argentina to comply with this Resolution and would continue to work towards an armistice.

/President Mitterand

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President Mitterrand then brought the discussion to a conclusion. It was decided that a message to the Argentine Government on the lines suggested must be sent collectively but that it was too soon to do anything now and that it would be damaging to allow the idea to become known before the re-possession of the Islands. On the other hand it was important that the approach should be made immediately after the fall of Port Stanley, within 24 or 36 hours, before attitudes had time to harden and that the Foreign Minister should be invited to discuss the content of the message and the way in which it should be delivered.

(The above is a much abbreviated and rather impressionistic note; it is of course impossible to do a simultaneous whispered interpretation and take detailed notes at the same time).

P. L. CARTER

5 June 1982



## VILLE DE VERSAILLES

Le Maire  
PV/JH

Versailles, 3 juin 1982

Madame le Premier Ministre,

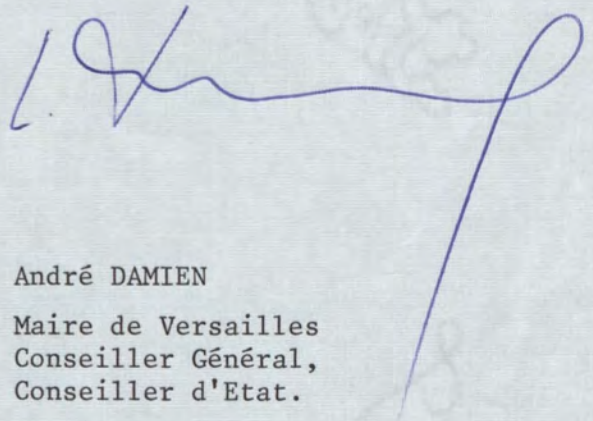
Je suis heureux de vous offrir, à l'occasion de votre venue à Versailles, la médaille de la Ville.

Votre présence dans notre cité est un honneur et les Versaillais se réjouissent du choix de leur Ville pour la réunion du sommet des Pays industrialisés.

Je forme des vœux ardents pour que votre séjour à Versailles soit particulièrement heureux.

Je suis convaincu que ce sommet permettra de rapprocher davantage nos peuples déjà si unis.

Je vous prie d'agréer, Madame le Premier Ministre, l'expression de mes respectueux hommages.



André DAMIEN  
Maire de Versailles  
Conseiller Général,  
Conseiller d'Etat.

Madame Margaret THATCHER  
Premier Ministre  
de GRANDE BRETAGNE.



Original on

UK/US Relations p12



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

PRIME MINISTER

#### PRESIDENT REAGAN AND THE US BUDGET DEBATE

I am sorry to go on about this. I do so because I am convinced of its importance to our own national interest and political fortunes.

2. We both know how much the prospects for renewed growth, and our chance of turning the tide of unemployment, depend on the outlook for lower interest rates - achieved in a responsible fashion. They depend too on the prospects of renewed growth in the US.

3. But because of the World role of the dollar there is a limit to what we (or other like-minded countries like Germany) can do to get our own interest rates down. And only the US itself can affect its own rates. They have made striking progress in reducing their inflation rate. But markets are not yet convinced that this is permanent. There is no doubt that in this they are powerfully influenced by what they see as the prospect for the US budget deficit.

4. So far the markets remain unconvinced that the deficit is likely to follow the right downward path. And no wonder: in March 1981 the 1983 deficit was expected to be \$23 billion; in February of this year the uncorrected "baseline" prospect was \$146 billion; by April that had risen to \$162 billion - with the prospect of higher figures in later years. The "deal" agreed between the President and Republican Senators aimed to reduce the \$162 billion to \$116 billion, but has so far been rejected by the House of Representatives.

5. The very real risk is that no agreement will be reached before the Summer Recede, which would mean that interest rates would be likely to remain high until at least November. And no-one can be sure that the outcome of the mid-term elections will make it any easier to secure the necessary reductions after November.

6. I know from my talks with Don Regan and Paul Volcker that they are desperately aware of the need to make progress before then. They have both been most appreciative of the restrained but persistent way in which I have pressed the case. You may remember how Schmidt told us at Chequers that Regan was as good as urging him to press the case upon the President. But Schmidt feels, as I do, that you are better placed than anyone else to give the necessary encouragement to President Reagan: for he can be in no doubt about the identity of your views and his on the main economic issues. And you are able, of course, to draw upon our own experience. It was only because of our own willingness to "bite the bullet" in our 1981 Budget that we were able to turn the tide of expectations in this country.

7. I entirely agree with you, of course, that it is not for us to tell the President how to put his own act together. But I am sure that we should leave him in no doubt about the importance, for the political and economic prospects of all the industrial countries, of his displaying firm determination to secure a convincing prospect of declining US deficits.

8. It is above all because of the strong reasons of UK national interest which I have mentioned that I hope you will feel able to speak to the President about this. I



Attach a possible speaking note, which has been agreed with Alan Walters. You will see that it in no way involves you in urging tax increases or going into detail on how the President achieves the right result on the deficit problem. But it does stress the urgency of his doing so.

A handwritten signature in dark ink, appearing to be 'G.H.', located below the main text.

(G.H.)  
3 June 1982

1. We continue to stand four square behind the efforts of the U.S. Administration to reduce inflation and believe the success of those efforts will be of the first importance for the United States, for the Alliance and for the whole of the free world. We applaud the notable progress which is being achieved in reducing the U.S. inflation rate. We shall continue to express our support publicly for U.S. policy on this.

2. We support your methods as well as your objectives. We approve whole-heartedly your determination to maintain tight control of the growth of the money supply; to cut public expenditure; and to reduce progressively the federal budget deficit.

3. We wish you success in your efforts in Congress to secure agreement on federal budgets showing a declining rate of deficits over the next 3 fiscal years. We very much sympathise with your wish to achieve this to the largest extent possible through public expenditure reductions, and with the smallest possible public sector. But we cannot try to tell you what is or is not possible in these matters.

4. What we do feel is that it is urgent to settle the question of the deficits as soon as possible. We believe that a settlement on the kind of declining path you have been seeking would reassure markets and opinion generally, and would help reduce interest rates. We know that you, like we, want lower interest rates. At this stage in our counter-inflation policies we can be

powerfully helped by a belief that inflation is coming down for good, and greatly hindered by continued doubts about whether our achievements will endure. And we want people to believe that declining deficits will free resources within the monetary targets for an expansion of the private sector, which has always shown so much vigour in the United States.

5. We don't suggest that reducing the deficits will end all the problems. Nor do we suggest that it would remove all the interest rate problems of other countries, which may be attributable to their own national policies. We all have our own responsibilities. But we do believe it would help substantially to improve the chance of a lasting victory over inflation both in the United States and elsewhere.

RESTRICTED



Foreign and Commonwealth Office

London SW1A 2AH

3 June 1982

*10 June 1982*

*John / I have combined  
with Frs that his  
message can go.*

*am 2/6*

*Dear John*

*WOL 14/6*

*p.a.*

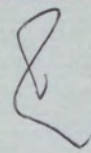
Versailles Economic Summit and Mr Fraser's Initiative

Thank you for your letter of 21 May.

It would seem appropriate for the Prime Minister to let Mr Fraser have a written reply to his message of 21 May before the Versailles Summit. I accordingly enclose a draft telegram to Canberra containing a message for the Acting High Commissioner to deliver to Mr Fraser. It has been cleared with Departments concerned.

Mr Fraser will already know the substance of our views from the conversations the Australian Foreign Minister had with the Prime Minister, my Secretary of State, and the Chancellor on 23 and 25 May. The Prime Minister's reply need only be short.

I am copying this letter with enclosures to John Kerr in the Treasury, John Rhodes in the Department of Trade and David Wright in the Cabinet Office.

*John Kerr*  


(B J P Fall)  
Private Secretary

A J Coles Esq  
10 Downing Street

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OUT TELEGRAM

		Classification and Caveats <b>RESTRICTED</b>	Precedence/Deskby <b>IMMEDIATE</b>
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CAVEATS	4	
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PRE/ADD	7	TO IMMEDIATE CANBERRA
TEL NO	8	TELEGRAM NUMBER
	9	VERSAILLES SUMMIT AND MR FRASER'S INITIATIVE ON PROTECTIONISM
	10	1. Please pass the following message from the Prime Minister
	11	to Mr Fraser as soon as possible.
	12	Begins. <i>Dear Raskolnik</i>
	13	Thank you for your message, which Sir Victor Garland conveyed
	14	to me on 21 May, about your proposals for measures to reduce
	15	the impediments to international trade. No doubt Tony Street
	16	will have given you an account of his discussions with
	17	Geoffrey Howe, Francis Pym and myself.
	18	Francis Pym is hoping to see Douglas Anthony immediately
	19	after the Versailles Summit to give him some account of how
	20	the discussions went. I am sure that your proposals will
	21	feature in these discussions (I shall certainly mention them)
///	22	and I hope that there will be agreement on their merits.
//	23	You are no doubt considering how their further study might
/	24	be linked to preparations for the GATT Ministerial Meeting
	25	in November. <i>Best wishes. Raymont.</i>

*MS*

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File number	Dept <b>ERD</b>	Distribution
Drafted by (Block capitals) <b>T P HOLLAWAY</b>		
Telephone number <b>233 4916</b>		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats  
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CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

3 June 1982

*Dear John,*

Falklands: Other Territorial Disputes

In your letter of 1 June you said the Prime Minister wished to have a comprehensive list of territorial disputes before she went to Versailles.

/ I enclose a list which we have attempted to make as comprehensive and as accurate as your deadline allowed. Only Eastern Europe has been excluded: none of the historical 'claims' there is being seriously pressed at present (those of Hungary on Romanian Transylvania, of Romania on Soviet Bessarabia, Bulgaria on Yugoslav Macedonia and Albania on Yugoslav Kosovo).

The list is intended for background only. Third parties might regard it as expressing or implying a British official view of the facts or merits of any particular case and it could be used against us. Moreover, some of the entries (eg those relating to possible claims by Saudi Arabia on Oman and by Vanuatu on the Wallis and Hunter islands) include 'sensitive' information. You will see that Africa has a large number of territorial disputes. Member states of the Organisation of African Unity are pledged not to use force in the settlement of disputes and are bound by the Boundary Resolution of 1964 to accept frontiers inherited at independence. But these constraints have not proved fully effective.

No attempt has been made to assess the possible impact had Britain failed to resist Argentina's invasion of the Falklands. But the 'ripple effect' could have exacerbated at least the disputes between Argentina and Chile, Venezuela and Guyana, and Guatemala and Belize.

/I might

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I might mention incidentally that Mr Rostow has told us he had referred to the existence of some 150 (not 100) territorial disputes and that he had plucked the figure out of thin air. Our figure comes to just short of 90.

*Yours ever*

*John Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

CONFIDENTIAL

## TERRITORIAL DISPUTES

(other than those relating to the Falklands and its dependencies)

## LATIN AMERICA

## Argentina/Chile: Islands in the Beagle Channel

Argentina's claim dates from the 1840s. She rejected H M The Queen's Arbitration Award in 1977 which gave the Islands to Chile. War was averted in 1978 by the offer of Papal mediation. Argentina has not rejected the Pope's 1980 proposals but abrogated a treaty with Chile in January 1982 agreeing to submit all disputes to arbitration. Dispute remains highly volatile.

## Bolivia/Chile/Peru: "Corridor" along Chilean-Peruvian Border

As a result of the Pacific War between the three countries in the 1880's Bolivia lost territory to Chile and her outlet to the Pacific. Bolivia still seeks her own corridor to the sea. Peruvian consent must also be obtained before Chile can alienate Chilean territory that was formerly Peruvian. Dispute quiescent (diplomatic relations between Chile and Bolivia were broken off in 1978).

## Ecuador/Peru: Upper Amazon Basin

Ecuador claims some 75,000 square miles of the Upper Amazon Basin in Peru resulting from the failure to agree a boundary at the end of the Spanish Colonial period. The Protocol of Rio de Janeiro (1942) assigned most of the territory to Peru and established a substantial part of the border. The Protocol was declared null and void by Ecuador in 1960 but not formally repudiated. Issue dormant although minor hostilities occurred in 1981.

## Guatemala/Belize

The Guatemalan claim to the whole of Belize dates from the 1820's when Guatemala inherited Spain's claim to the Colony of British Honduras. Outlines of an agreement were reached between the United Kingdom and Guatemala before Belizean independence but Guatemalan claim remains active.

## Honduras/Belize: Sapodilla Cays

Honduran claims emerged in 1981 on the occasion of the admission of Belize to the United Nations. Issue dormant.

## Nicaragua/Colombia: San Andres and Providencia Archipelago

Following overthrow of Somoza, the Sandinista régime in Nicaragua declared null and void the 1928 Treaty giving sovereignty over these Caribbean Islands to Colombia, arguing that the Treaty was invalid because it was agreed only under pressure from the United States. Currently quiescent.

Surinam/Guyana

## Surinam/Guyana

Surinam claims a 6,000 square mile triangle of land in the South of Guyana known as the New River Triangle. (Guyana maintains a counter-claim on the other side of the border.) A draft Anglo-Dutch Treaty providing for Dutch cession of the area to Britain was overtaken by the 1939-45 war. Claim remains dormant; but some possibility of an opportunistic move by Surinam if Venezuela enforced its claims in Guyana.

## Venezuela/Colombia: Part of La Guajira Province

Failure to agree a boundary between Venezuela and Colombia at the end of the Spanish Colonial period has led to disagreement on maritime delimitation in the Gulf of Maracaibo, heightened with the discovery of rich oil reserves in the area. Currently quiescent; last round of negotiation ended in stalemate.

## Venezuela/Guyana: Essequibo Region

Venezuela's claim dates from shortly after Venezuela's independence in 1830. An Arbitration Treaty between Venezuela and Britain in 1897 awarded most territory to Britain but shortly after the last war Venezuela began to claim that the Arbitration Award was invalid. In 1966 a Venezuela-Guyana Mixed Commission was established to seek a solution in four years; in 1970 a twelve year moratorium on this agreement was signed which expires in June 1982, after Venezuelan decision not to renew it. The agreed 1966 procedures for a settlement of the dispute are to be reactivated.

## ANTARCTICA

## Argentina and Chile/British Antarctic Territory (Britain)

The bulk of the continent is subject to claims to territorial sovereignty by seven states: Australia, New Zealand, Norway, France, Chile, Argentina and the UK. The claims of the last three overlap. Those of Argentina and Chile are based in part on possession of, or claims to, territory on the Latin American continent and adjacent islands within longitudes converging on the South Pole. The Antarctic Treaty which entered into force in 1961 prohibited new claims to sovereignty in the Antarctic and froze disputes over existing claims so long as the Treaty remains in force. The Treaty runs indefinitely but there is provision for its review after 30 years in 1991.

## WESTERN EUROPE

## Greece/Turkey: Aegean Islands

The Aegean Islands were Turkish until around the time of the First World War. They passed to Greece (via Italy in the case of the Dodecanese) under the Treaties of Lausanne and Paris: Greece believes that Turkey has territorial ambitions on the islands; Turkey denies this. Other points of tension in the region are the division of the Continental Shelf (possible oil deposits), a possible Greek extension of territorial waters, and control of air space over the Aegean. Greece remains very sensitive to what she sees as Turkish trespassing in the area.

## Cyprus/Turkey

The Turks have occupied the northern third of Cyprus since July 1974, and in February 1975 a Turkish Federated State of Cyprus was declared (unrecognised except by Turkey). The stated objective of both sides remains a unified and independent Cyprus, but there is a dispute over the constitutional form this should take. There has been no serious outbreak of fighting since 1974, but a resumption of hostilities cannot be ruled out.

## Spain/Gibraltar (Britain)

The British title to the Rock of Gibraltar and the Isthmus is based on the Treaty of Utrecht and prescription. Although Spain accepts the validity of the British claim to sovereignty over the Rock (but not the Isthmus) she has never accepted the loss of territory. The present Spanish claim for the return of Gibraltar, based on the principle of territorial integrity, has been actively pursued since the 1950's. Spain continues to renounce the use of force; it is inconceivable that a Spain enjoying democratic Government and membership of NATO and the European Community would overturn this policy.

## AFRICA SOUTH OF THE SAHARA

## Botswana/Namibia/Zambia/Zimbabwe

The quadrijunctional boundary point close to the Kazungula ferry across the Zambesi is in dispute. Claims dormant.

## Comoros/Isles Glorieuses (France)

In 1980 the Comoros' Government expressed a claim, based on historical grounds. Claim now appears dormant.

## Comoros/Mayotte (France)

Comoros has since her unilateral declaration of independence from France in 1975 claimed sovereignty over Mayotte, the fourth main island in the Comoros' archipelago, which refused to associate itself with that decision and has remained under French sovereignty. Comoros seeks eventual "return" of Mayotte by way of negotiated settlement.

## Gabon/Equatorial Guinea

Gabon and Equatorial Guinea claim two small uninhabited islands - Mbane and Cocotiers - and there are disputed pockets of territory along their common mainland border. The claim arises from differing interpretations of the Franco-Spanish convention of 1900. The dispute concerning the islands became active in 1972 and that concerning the land boundary in 1974. The disputes now appear dormant.

## Kenya/Sudan (The Elemi Triangle)

An area of Sudan administered for convenience by Kenya during the past fifty years. Kenya does not question Sudan's present sovereignty but would like to regularise the situation.

## Guinea/Guinea Bissau

Guinea and Guinea Bissau both claim territorial waters, believed to contain oil deposits. Guinea bases its claim on a Franco-Portuguese convention of 1886. The dispute, dating from 1974, now dormant, although tension increased in July 1980 when Guinea Bissau objected to Guinea's prospecting for oil in the area.

## Lesotho/South Africa

Since independence in 1966 Lesotho has pressed claims for the return by South Africa of the "conquered territory", areas of land in the Orange Free State lost by the Basotho in the 1860s. Claims last actively made in the mid-1970s.

/Libya/Chad

## Libya/Chad

Libya claims Aouzou Strip, 114,000 square kilometres in northern Chad: rumoured uranium deposits. Claim, based on boundary alignment set out in an unratified Franco-Italian treaty of 1935 activated following accession to power of Colonel Qadhafi. Libyan troops occupied the Strip in 1971.

## Libya/Niger

Libya claims a 20,000 square kilometre triangle of land in north-east Niger; mineral potential. Claim believed to be based on boundary alignment set out in an unratified Franco-Italian treaty of 1935 (see also Chad). Libyan troops occupied the triangle in 1975 (and still control the border oasis of Toumno) following overthrow in 1974 of Niger President Diouri.

## Madagascar/Tromelin, Juan de Nova, Europa, Bassas da India, Isles Glorieuses (France)

Madagascar's claims over these small islands in the Mozambique Channel date from independence in 1960 and rest on historical and geographical grounds. Claim to Tromelin appears dormant; claims to the other islands are still being pressed.

## Malawi/Mozambique

Dr Banda claimed part of northern Mozambique up to the river Zambezi in 1967, but has not revived the claim since. Claim was based on the area controlled by a former tribal empire in the seventeenth and eighteenth centuries.

## Malawi/Tanzania

Dr Banda claimed areas of southern Tanzania in 1967, but not since. Basis of claim as for Malawi/Mozambique.

## Malawi/Zambia

Dr Banda claimed an area of eastern Zambia in 1967. General claim not revived since, but in late 1981 five Zambian villages bordering Malawi were reported to have been claimed by the Malawians.

## Mali/Upper Volta

Mali claims a 150 square mile strip of land along the Mali/Upper Volta border; rich grazing land, possible mineral wealth. Claim based on pre-independence documents. Dispute dates from 1961; brief hostilities in 1974/75. In 1981 both countries pledged to resolve the dispute by negotiation, but talks broke down after Upper Volta recently vetoed Mali's re-admission to the West African Monetary Union.

## /Mauritius/British Indian Ocean Territory (Britain)

## Mauritius/British Indian Ocean Territory (Britain)

Mauritius' claim is active but not contentious. Britain has given an undertaking to cede the islands to Mauritius (from which they were detached with Mauritian agreement in 1965) when no longer required for defence purposes.

## Mauritius/Tromelin (France)

Mauritius' claim, based on historical and geographical grounds, is active but low key. Island also claimed by Madagascar.

## Namibia/South Africa

The status of Walvis Bay and the Penguin Islands, which have been parts of South Africa since they were annexed to the former Cape Colony in the 1870s and 1880s, is disputed by SWAPO and the OAU. Issue could become a serious bone of contention once Namibia becomes independent, particularly if SWAPO were to form the government.

## Nigeria/Cameroon

In 1975, Nigeria and Cameroon agreed alignment of the maritime boundary over waters containing oil deposits (previously ill-defined): Cameroon ratified the agreement; Nigeria did not. Following serious border incident in 1981 Nigeria denounced the 1975 agreement as null and void. Both sides currently considering best means of achieving a negotiated settlement.

## Somalia/Ethiopia

Somalia has claimed the Ogaden. Claim based principally on ethnic affinity of the inhabitants to the Somalis, reinforced by uncertainties regarding exact location of Somali-Ethiopian boundary dating from the colonial period and the expansion of the Ethiopian Empire in the late 19th century. Somalia conquered much of the area by force during 1977 but was ejected by Ethiopia (with Cuban and Soviet backing) in 1978, since when Somalia has continued to support insurgents in the Ogaden without claiming the territory as such.

## Somalia/Kenya

Somalia has claimed the former Northern Frontier District of Kenya, an administrative region created under British colonial rule. Claim based principally on the ethnic affinity of the inhabitants to the Somalis, reinforced by the findings of a 1962 Commission (1 Nigerian/1 Canadian) set up to ascertain the wishes of the inhabitants. Since 1967 the claim has not been pursued by force and in 1981 Somalia renounced all territorial claims to Kenyan territory.

Swaziland/South Africa



## Swaziland/South Africa

Swaziland has had claims on territory in South Africa since before its independence in 1968. The South African Government is now negotiating with the Swazis on the cession of territory on Swaziland's western and south-eastern borders.

## Swaziland/Mozambique

Swaziland has had a claim on territory in Mozambique since before independence in 1968. Claim dormant.

## Tanzania/Malawi

A Tanzanian claim to the north-east area of Lake Malawi has been active since 1967, although it has been low-key and has not seriously disturbed Tanzania/Malawi relations recently. A Border Commission has met occasionally to try to resolve the dispute.

## Zaire/Cabinda

Prior to Angolan independence, Zaire threatened to annex Cabinda enclave 1973-75. Claim based on geographic proximity, tribal links, presence of oil, and its Protectorate status. Congo (Brazzaville) also claimed tribal affinity but did not press a territorial claim. After Angolan independence, both Zaire and Congo (B) supported the separation of Cabinda from Angola, as independent state in its own right.

## Zambia/Zaire

Zambia has claimed pockets of territory from Zaire (and Zaire makes similar claims) along several stretches of their common boundary. The claims arise from inconsistencies, based on inadequate mapping, in the original treaty of 1894 between Britain and the Congo Free State. The dispute dates from 1894 but was inherited by Zaire in 1960 and Zambia in 1964. Active.

/Zimbabwe/Namibia (Caprivi Strip)

## Zimbabwe/Namibia (Caprivi Strip)

A dormant claim not pursued since the 1930s. Derives from the conquest of the area by British forces in Rhodesia during World War I and subsequent administration.

## MIDDLE EAST AND NORTH AFRICA

## Bahrain/Qatar: Seabed Frontier

In 1939, HMG awarded the Hawar Islands to Bahrain, against protests from Qatar, on the basis of Bahraini usage and administration and Qatari failure to offer evidence in favour of its claim beyond geographical propinquity. In 1947 this award confirmed as part of an award laying down the seabed frontier between the two states. Bahrain objected to the alignment of the seabed frontier and Qatar objected to the confirmation of the award of Hawar to Bahrain. Dispute still live.

## Egypt/Libya

After World War II, Egypt claimed territory awarded to Libya by the Italian-Egyptian agreement of 1925. Issue dormant although mentioned occasionally, viz. during the hostilities between Egypt and Libya in 1977.

## Egypt/Sudan: Halaib Triangle

Egyptian Interior Ministry decrees of 1902 entrusted to Sudanese administrative control an enclave north of the 22nd parallel which had been defined by the Anglo-Egyptian Agreement of 1899 as the Egypt/Sudan border. Issue dormant since 1958, but could be activated by the discovery of substantial mineral deposits coinciding with serious deterioration in bilateral relations.

## Greater Syria

Not a conventional territorial claim, but an ideal adopted by the Syrian Ba'th and some other political parties in the area dating back to the dismemberment of the Arab region after World War I. "Greater Syria" would comprise Lebanon, Syria, Jordan, Israel and the occupied West Bank. Iraq is also included in some versions as is Alexandretta. Currently dormant; Syrian ministers refer to it occasionally as an ideal of unity to which the Arab nation should aspire.

## Iran/Bahrain

Iran's long-standing claim to sovereignty over Bahrain, based on half-truths, apparently settled in 1970 following UN intervention, has been resurrected since the revolution. Not clear how seriously, but further Iranian action cannot be ruled out.

/Iran/Tanbs/Abu Musa

## Iran/Tanbs/Abu Musa

In 1887, Iran claimed a number of islands in the Gulf which had been considered by HMG and the Trucial States as appertaining to Sharjah and Ras al Khaimah, on the grounds of historic title and a British map showing the islands in Iranian colours. As part of the British military withdrawal and the change of treaty relations, agreement was reached between Sharjah and Iran over the future of Abu Musa in which neither side acknowledged the other's sovereignty and was entitled to maintain a presence on the island. No such agreement was reached in the case of the Tanbs, which were occupied by Iran on 30 November 1971. Iran has since remained in effective control but the Arab claim has been raised periodically by both the UAE and Iraq.

## Iraq/Iran: The Shatt al Arab

In 1975 Iran and Iraq signed a frontier agreement which reconfirmed the land frontier established in 1913-14 and modified the frontier in the Shatt al Arab so that it ran down the Thalweg instead of down the Iranian low water mark of the waterway. In 1980 Iraq abrogated the 1975 agreement, on the grounds that Iran had not withdrawn from territory recognised as Iraqi under the 1975 agreement, and claims the frontier runs down the Iranian shore of the waterway. A cause of the present Iraq/Iran war.

## Iraq/Kuwait

Iraq has maintained a claim of sovereignty over Kuwait since 1961 on grounds that Kuwait had been administratively attached to the Basrah vilayet of the Ottoman Empire before its dissolution. Although Iraq has formally renounced the claim on a number of occasions since 1961, it remains a potential problem which might be resurrected if Iraq loses the war with Iran.

## Israel/Egypt: Taba

In 1906 an administrative dividing line between Egypt and the rest of the Ottoman Empire was agreed after considerable British pressure. The line subsequently became the international frontier between Egypt and Palestine, and therefore between Egypt and Israel. Israel claimed a coastal terminal point about one mile south of the point claimed by Egypt in order to include a half-built hotel complex.

## Israel: Golan Heights

Israel occupied the Golan Heights in the 1967 war and in December 1981 extended her civil law to the region, thereby effectively annexing it from Syria. This action was, exceptionally, unanimously condemned by the UN Security Council in its Resolution 497 of 17 December 1981.

/Israel/Jerusalem

## Israel/Jerusalem

Israel occupied East Jerusalem in 1967 and quickly extended her civil law to the area, in effect annexing it. Israel regards Jerusalem on historic and religious grounds as her indivisible capital and in July 1980 enacted a law having constitutional status which formalised her claim to East Jerusalem.

## Israel: (Trans)Jordan

Leading Israelis sometimes argue that, under the Mandate for Palestine, Jews were entitled to settle east of the Jordan and that consequently Israel has territorial rights there. Israel is prepared to forgo this "claim" on condition that the Palestinian homeland is acknowledged to be Jordan and not the West Bank.

## Israel/West Bank/Gaza

Israel occupied the West Bank and Gaza in 1967. Although both regions are subject to the autonomy provisions of the Camp David agreements, Israel has claimed ultimate sovereignty, advancing security, religious and historic arguments for her retention of effective control. HMG recognised Jordanian sovereignty over the West Bank, but Egypt has never claimed sovereignty over the Gaza Strip.

## Israel/South Lebanon

No formal claim. However many Lebanese believe that Israel intends to seize an area of the South up to the Litani River, basing her claim on her (undefined) view of her biblical borders. A number of Lebanese border villages were occupied by Jewish forces in 1948. Israel is interested in maintaining a cordon sanitaire against the PLO inside Lebanese territory between the border and the area occupied by United Nations forces.

## Libya/Gulf of Sirte

Libya claims the international waters of the Gulf of Sirte as part of her internal waters on the ground that she has exercised "sovereign rights throughout history" over the whole Gulf. The claim has been contested most actively by the US, which in August 1981 shot down two Libyan fighters which attacked US planes over the Gulf. Further clashes are possible.

Morocco/Ceuta and Melilla (Spain)

## Morocco/Ceuta and Melilla (Spain)

Morocco claims that the enclaves of Ceuta and Melilla are parts of Morocco which have been detached and occupied by a colonial power. The dispute is currently dormant, but might be re-activated were Spanish-Moroccan relations to deteriorate (eg if Spain were to come out in support of Polisario in the Western Sahara dispute) and certainly if Spain were to recover Gibraltar. Morocco has disputed Spain's possession sporadically since 1937, but not effectively since November 1975, when the Tripartite Agreement between Spain, Morocco and Mauritania on the Western Sahara gave Morocco and Mauritania effective control of that territory.

## Morocco/Western Sahara

Morocco claims the Western Sahara, which was ruled by Spain from 1884 to 1976. Morocco asserts a pre-colonial claim but is opposed by the Polisario movement and its state-in-exile, the Saharan Arab Democratic Republic. Dispute active.

## Palestine Liberation Organisation

\* Israel, occupied West Bank, Gaza. Claim dates from 1947 in respect of the territories occupied by Israel (excluding the Golan and Sinai) in that year. Active.

## PDRY/YAR

In 1934 HMG agreed a "status quo" line between the Yemen and the Aden Protectorate (now part of PDRY) based on tribal land holdings. The matter is raised periodically by both sides but no agreement has yet been reached, both claiming a frontier well beyond the "status quo" line. No identifiable trigger.

## Saudi Arabia/Oman

A residual dispute arising out of the "Buraimi" dispute between Saudi Arabia on the one hand and Abu Dhabi and Oman on the other remains following the settlement of the Saudi Arabia/Abu Dhabi sector in 1974. The origins lie in Saudi Arabia's administration during the early part of the 19th century in the Buraimi oasis. Dormant Saudi claims to territory traditionally regarded as Omani, which Oman fears may be revived.

## Saudi Arabia/PDRY

HMG laid down the frontier between the Aden Protectorate (now part of PDRY) and Saudi Arabia in 1955. Saudi Arabia has consistently claimed a frontier lying further south than this line and there have been counterclaims by PDRY in one small sector of the frontier, near the Saudi Arabia/PDRY/YAR tripoint. Issue dormant.

\*/State of Israel and from 1967 in respect of the

Saudi Arabia/YAR

## Saudi Arabia/YAR

The Yemen/Saudi frontier was agreed in 1934 and demarcated in 1935/6. The Yemen maintains a residual claim to the Asir triangle while Saudi Arabia has attempted to push the frontier further south. In addition there are largely irreconcilable counter claims on the as yet undefined eastern frontier of the YAR based on inflated assessments of tribal holdings. It is possible that a change to a radical régime in the YAR might move Saudi Arabia to press a maximalist position and to take action in support of it.

## Sudan/Libya: Sarra Triangle

In 1934, the British and Egyptian governments ceded to the Italians territory which had been regarded as Sudanese since 1899. The issue is dormant (the only Sudanese reference has been in 1965, in a Sudanese MFA Note to British Embassy, Khartoum: no public claim has been made). The claim could be triggered by discovery of substantial mineral deposits in Sarra Triangle or neighbouring north-west Sudan.

## Syria: Alexandretta

In 1939 the former Sanjak of Alexandretta was ceded by the French Mandate Authorities to Turkey. Syria's claim is dormant but could be reactivated if (a) the concept of Greater Syria (qv) was revived or (b) the continued independence of Lebanon was brought into question.

## SOUTH AND SOUTH EAST ASIA

## Afghanistan/Pakistan: Durand Line

Eastern and southern frontiers of Afghanistan defined and partially demarcated by the British in 19th century and accepted by Afghan government under Treaties of 1919 and 1921. Since the 1950s Afghanistan has refused to accept that the Durand Line constitutes its international border with Pakistan.

## China/India

China claims 30,000 square miles in India's northeast, while India claims 14,000 square miles in Ladakh, progressively occupied by China between 1956 and 1962. Origins of dispute lie in 19th and early 20th century delineation by the British of the northern limits of the Indian Empire. Talks currently under way.

## India/Bangladesh: Bay of Bengal

Each claims the silt island of New Moore on South Talpatty Island, formed in 1971. The dispute relates to the method of determining baselines from which each state's exclusive economic zone should be calculated.

## India/Pakistan: Kashmir

## India/Pakistan: Kashmir

Origin in 1947: partition of India and Maharaja of Kashmir's accession to India under threat of covert Pakistani military action. The territory, which has seen fighting in 1947-9, 1965 and 1971, is divided between the two states by a UN administered ceasefire line. India claims the 1947 accession to the Union was legal, Pakistan that India has failed to abide by UN Resolutions calling for a plebiscite to determine the wishes of the Kashmiris.

## Indonesia/Portugal: East Timor

Indonesia invaded the Portuguese colony of East Timor in 1975 and announced its integration into Indonesia in 1976 in order to avert the prospect of an unstable leftwing state on her borders. Portugal confined itself to diplomatic protests. Dispute not settled, but Portugal is unlikely to resort to force. Local resistance movement against Indonesia.

## Philippines/Malaysia: Sabah

The Philippines claims parts of the Malaysian state of Sabah, on the grounds that the Sultans of Sulu (now part of the Philippines) once exercised authority over these areas. Claim first publicly taken up by Philippine Government in 1962. Dormant since 1976 but not formally dropped.

## Vietnam/China: Paracel Islands

China took the islands by force from South Vietnam in 1974.

## Vietnam/China/Philippines/France: Spratly Islands

A widely scattered archipelago on the South China Sea; some islands are occupied by the Philippines, others by Vietnam and by Chinese Nationalist forces from Taiwan. France's long-standing claim not yet formally renounced.

## FAR EAST

## China/Hong Kong (Britain)

Hong Kong ceded to Britain in 1847; Kowloon in 1860. New Territories leased by Britain for 99 years from 1898. China does not accept the validity of the treaties. Future UK policy under consideration in preparation for Prime Minister's autumn visit to Peking.

## China/Macao (Portugal)

Portuguese settlement since 1557. Ceded (5 sq miles) 1887. The Chinese do not accept the validity of the treaty. Portugal

/reported

reported to have given private assurances in 1979 acknowledging that sovereignty ultimately belongs to China.

China and Taiwan authorities (as the "Republic of China")/Japan: Senkaku (or Diaoyutai) Islands

Small groups of islands (2.5 square miles), annexed by Japan 1895. Administered by the United States from 1945 to 1972 when handed back to Japanese administration. Both the People's Republic of China and the Taiwan authorities have publicly asserted their claims since 1970.

China/USSR: Sino-Soviet border

Large parts of the Western border (Pamir Mountains) and Eastern border (Amur and Ussuri rivers) are in dispute. China claims that the 19th century Russo-Chinese treaties were "unequal" but expressed readiness to abide by them. She claims that the Russians have occupied territory in excess of that ceded under the treaties. Moscow is pressing Peking to reopen border talks, last held in 1979.

China/Taiwan

Taiwan and some islands off the coast of China are still held by the Kuomintang (Nationalist) authorities who fled there in 1949 at the end of the civil war and still claim to be the legitimate government of China. Kuomintang has rebuffed recent PRC overtures, and China has not ruled out the use of force.

Japan/Republic of Korea: Tokto Islands (Takeshima)

Two small rocky islets midway between Korea and Japan. Incorporated within Japanese administration, 1905. Occupied by Korea since 1953.

Japan/USSR: Northern Territories

The territory consists of islands at the southern end of the Kurile chain (5,000 sq kms), which were ceded by treaty to Japan in 1855, but handed to the USSR under the Livadia agreement in 1945. Japan claims that the Livadia agreement was not an instrument with legal effect.

PACIFIC

USA/Central/South Pacific Islands

The USA has in the past claimed over 25 islands in the Central/South Pacific area but intends to renounce claims to sovereignty in favour of Tuvalu, Kiribati (both now independent), the Cook Islands (an associated state of New Zealand) and Tokelau (an external territory of New Zealand), in return for military



facilities and for consultations if a third country wishes to use any of the islands for military purposes. The arrangements have yet to be ratified by Congress.

Vanuatu/New Caledonia: Matthew and Hunter Islands

Vanuatu has asked the UK for views. The UK position is that the islands are part of New Caledonia.

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Foreign and Commonwealth Office

London SW1A 2AH

*Original in USA: Visited by Reagan: Pt 2,*

3 June 1982

Dear John,

Versailles Summit: Prime Minister's meeting with President Reagan  
on 4 June

The main purpose of the bilateral meeting with the President and Mr Haig will be to discuss the Falklands situation. I enclose a summary brief, which is mainly a check-list of points to raise, formulated in terms which take account of US concerns as expressed to us by the President and Messrs Haig and Clark in the past few days.

The brief covers our present policy and does not move into matters on which Ministers have not yet taken decisions. But the President - and indeed Chancellor Schmidt and President Mitterrand and the other participants at Versailles - will be interested in particular to hear about our policy after we have repossessed the Falklands.

On this, Mr Pym suggests that the Prime Minister could draw on the following:

- a) Ministers have been thinking carefully about policy after repossession, with the objective of devising arrangements which would help to ensure a stable future for the Islands and satisfactory relations with the continent of Latin America.
- b) Such arrangements must take full account of the wishes and interests of the Islanders. They must ensure the security of the Islands and provide good prospects for economic development. They should not ignore the wider questions (Western relations with Latin America as a whole, Soviet/Argentine relations) which are of concern to our allies.
- c) There can be no question, after Argentine aggression and refusal to negotiate seriously and after the British casualties, of concessions to Argentina's claim to sovereignty. At the same time, we are not wedded to a return to the precise status quo ante or to any particular long-term solution. Our commitment is to the Falkland Islanders.

/d)

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- d) Time will be needed to get things back to normal on the Islands. The Islanders will need a period to consider their position. Our minds are therefore moving towards the idea of declaring a rehabilitation period [perhaps a couple of years?] in which the question of the long term future of the Islands would be set aside. It would follow that we would not make announcements about long term goals such as independence, since these could be dependent on consultation with the Islanders during and after the rehabilitation period.
- e) At the outset of such a rehabilitation period, ie soon after repossession, we would be willing to undertake a general commitment not to use force in relation to the Falkland Islands dispute except in self-defence and to lift economic measures provided that Argentina ceased to carry out attacks on the Islands or on our forces and undertook the same two commitments.
- f) We have not decided exactly how or by whom the Governments of the Islands would be administered. We might make limited moves to increase the Islanders' participation in their own administration, for instance by adding more elected members to the Legislative and Executive Councils.
- g) We should be prepared to consider at the appropriate moment a conference about the economic development of the Islands (oil, fisheries, kelp, tourism) in which neighbouring countries as well as the UK and perhaps the US could participate.
- h) If Argentina were to accept a mutual obligation on the non-use of force, in a manner which inspired confidence in the longer term, the British military presence in the Islands could be significantly reduced during the rehabilitation period provided we considered that the security of the Islands was assured. Our commitment

/might

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might be supplemented by an international force with US and perhaps Brazilian or other participation.

- i) Depending on developments and the wishes of the Islanders, as revealed in the rehabilitation period, we would be willing to consider discussions about the longer term future of the Islands at the conclusion of that period.

I am sending copies of this letter to the Private Secretaries of the other members of OD(SA), and of the Attorney-General, and to Sir Robert Armstrong and to Sir Michael Palliser.

*Yours ever*

*J E Holmes*  
(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

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Versailles Economic Summit: Prime Minister's Meeting with President Reagan, 4 June

The Falkland Islands

Points to Make

1. Most grateful for extensive and speedy US help with military equipment and supplies.
2. Would have preferred negotiated outcome. But Argentina showed no interest. Now concentrating on repossession. But no desire to humiliate Argentina: she could still save lives by deciding to withdraw.
3. We carefully examined Haig's latest ideas for a diplomatic move. But frankly difficult for Parliament and public opinion in Britain to consider ideas of gestures before full repossession, given the history of Argentine aggression and intransigence and following the British casualties.
4. Fully conscious that significant factors will come into play after repossession: need to repair Western relations with Latin America, to head off risk of Soviet-Argentine relations becoming much closer, to try to deter Argentina from continued military strikes against the Islands. More broadly, need to give Falklands best chance of a secure and economically successful future, in peaceful relations with neighbours.
5. Argentina will have to realise that aggression has not paid and that she must stop insisting on transfer of sovereignty. Can US help to persuade her of this?
6. Important also to go on doing everything possible to block arms supplies to Argentina.
7. US views on internal prospects in Argentina?
8. US plans for rebuilding relations with Latin America including Argentina? Any ideas for new economic cooperation with Argentina?

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Foreign and Commonwealth Office

London SW1A 2AH

3 June 1982

Dear John,

Versailles Economic Summit: Bilateral Meetings

Following your letter of 28 May about bilateral meetings for the Prime Minister, we received a request from Sr Spadolini for a meeting, to which the Prime Minister agreed. Bilateral meetings have therefore been provisionally arranged as follows:

President Reagan at 1500 hours on Friday, 4 June.

Chancellor Schmidt at 1830 hours on Saturday, 5 June.

Mr Trudeau immediately prior to dinner on Saturday, 5 June.

Sr Spadolini at 1515 hours on Sunday 6 June.

The timing for the bilateral meetings with Chancellor Schmidt, Mr Trudeau and Sr Spadolini are provisional, and will need to be confirmed on the spot.

I enclose briefs for the meetings with Chancellor Schmidt, Mr Trudeau and Sr Spadolini. Briefing for the meeting with President Reagan is being arranged separately.

The briefs do not cover Falkland Islands questions, since all material on the Falkland Islands is being brought together separately, as confirmed in the letter of 2 June from David Goodall to Andrew Burns (which was copied to you).

The early bilateral with President Reagan on Friday, 4 June necessitates an earlier departure time for the Prime Minister. Departure has now been arranged from Northolt Airport at 1125 hours. Estimated time of arrival at Orly Airport is 1400 hours.

/The Prime Minister

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The Prime Minister will be met on arrival at Orly by M. Jean-Pierre Chevenement, Minister of State, Minister for Research and Technology. He leads the CERES (left-wing) faction of the French Socialist Party. The Prime Minister met M. Chevenement at the last Anglo-French Summit in London in September 1981. He was due to attend the Franco-British Council Conference in Edinburgh last month but withdrew at the last minute.

The Prime Minister may wish to express to M. Chevenement the government's satisfaction at enhanced Anglo-French collaboration in space (stretched European Communications Satellite and Ariane IV); to note the successful talks between UK and French scientists in Paris last February (follow-up meetings have been arranged); and express the hope that the UK will continue to participate in the European transonic wind tunnel (final details are being discussed with the Treasury).

The Prime Minister is to leave Versailles immediately after the Gala Dinner on Sunday 6 June, but the Chancellor and Sir R Armstrong will stay for the opera performance and the firework display. Separate arrangements are therefore being made for the Chancellor and Sir R Armstrong to return to London. Details of these arrangements will be confirmed at Versailles.

I am copying this to the Private Secretaries to the Chancellor of the Exchequer and to Sir R Armstrong.

*Yours ever.*

(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street



VERSAILLES ECONOMIC SUMMIT: PRIME MINISTER'S MEETING WITH  
CHANCELLOR SCHMIDT

Points to Make

1. Glad that 1982 EC Budget refunds agreed, though longer-term problem remains. Essential to get this settled by November as Council agreed. Overriding of Luxembourg Compromise raises very serious issues. Important for Foreign Ministers to clarify this situation at their next meeting.
2. Looking forward to the NATO Summit in Bonn next week. Main aim must be to reaffirm unity of Alliance. Need to remind own peoples of values on which it is based. Soviet Union must understand our determination to maintain deterrence and the framework within which we believe constructive East/West relations possible.
3. Also need firm statement at Bonn on conventional defences and importance of making better use of existing defence resources. Summit unique opportunity to draw attention to West's commitment to disarmament (START, INF, MBFR initiatives).



VERSAILLES ECONOMIC SUMMIT: PRIME MINISTER'S MEETING WITH  
CHANCELLOR SCHMIDTBackground

1. Chancellor Schmidt comes to Versailles with domestic political worries on his mind. Elections are being held in his home city of Hamburg on 6 June, the results of which may have major repercussions on the Federal political scene.
2. Nationally, both Coalition partners are in poor shape. Schmidt's SPD, whose fortunes have declined steadily since it was returned to power in 1980, now has little more than 30% support in the opinion polls. And Genscher's FDP seems at last to have been infected - in the last 3 months its support has dropped by almost half to 6.6%. The main problem of the Coalition remains its failure to come to grips with economic problems, particularly rising unemployment (which now stands close to 2 million), and the financing of the 1982 supplementary budget and the 1983 budget. Differences between the FDP and SPD over economic policy are acute.
3. In Hamburg, the SPD got 51.5% of the vote last time and at present govern alone. This time the election will be much more closely fought. Latest forecasts show the SPD and the CDU running neck and neck at around 42/43%, with the Greens getting 8/9% and the FDP lucky to clear the 5% hurdle which would get them back into the Land Parliament.
4. At a Federal level, the possible consequences of what happens in Hamburg are far reaching. A poor result there for FDP and SPD might be the final straw leading the FDP to switch Coalition partners in Bonn, which would bring down the Federal Government. But this seems an unlikely scenario for the immediate future. The CDU/CSU opposition who currently enjoy around 52% support nationally, look confidently forward to recovering power in 1984 but do not expect a change of Government before then, despite possible gains in Hamburg and again in Hessen in September.

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VERSAILLES SUMMIT: THE FEDERAL COALITION AND THE HAMBURG ELECTION.

1. WHEN YOU AND THE PRIME MINISTER MEET THEM AT VERSAILLES, HERR SCHMIDT AND HERR GENSCHER WILL ONCE AGAIN HAVE DOMESTIC POLITICAL WORRIES ON THEIR MINDS. THIS TIME THE IMMEDIATE OCCASION IS THE ELECTION IN SCHMIDT'S HOME CITY OF HAMBURG, WHICH TAKES PLACE ON 6 JUNE. THE RESULT (FIRST INDICATIONS OF WHICH MAY BE COMING THROUGH AS THE SUMMIT BREAKS UP) MAY HAVE MAJOR REPERCUSSIONS ON THE FEDERAL POLITICAL SCENE. BOTH THE CHANCELLOR AND HERR GENSCHER ARE WORRIED, AND HAVE DEVOTED MUCH MORE TIME THAN USUAL TO THE ELECTION CAMPAIGN.

2. NATIONALLY, BOTH COALITION PARTIES ARE IN POOR SHAPE. SCHMIDT'S SPD, WHOSE FORTUNES HAVE DECLINED STEADILY SINCE IT WAS RETURNED TO POWER IN 1980, NOW HAS LITTLE MORE THAN 30PER CENT SUPPORT IN THE OPINION POLLS. AND GENSCHER'S FDP SEEMS AT LAST TO HAVE BEEN INFECTED - IN THE LAST 3 MONTHS ITS SUPPORT HAS DROPPED BY ALMOST HALF TO 6.6PER CENT.

3. THE MAIN PROBLEM OF THE COALITION REMAINS ITS FAILURE TO COME TO GRIPS WITH ECONOMIC PROBLEMS, PARTICULARLY RISING UNEMPLOYMENT WHICH NOW STANDS CLOSE TO 2 MILLION. DIFFERENCES BETWEEN THE FDP AND SPD OVER ECONOMIC POLICY ARE ACUTE. THE GOVERNMENT'S EMPLOYMENT CREATION SCHEME HAS NOW BEEN APPROVED BY THE BUNDESTAG BUT THE KEY PROBLEM OF HOW TO FINANCE IT REMAINS UNRESOLVED. MEANWHILE, OTHER DIFFICULT DECISIONS IN THE OFFING ARE HOW TO FINANCE THE 1982 SUPPLEMENTARY BUDGET AND, EVEN MORE DIFFICULT, HOW TO BRIDGE THE DM30 BILLION FINANCIAL GAP IN THE 1983 FEDERAL BUDGET. AS A CONTRIBUTION TO BRIDGING THIS GAP THE FDP ARE INSISTING ON SAVINGS BY FURTHER CUTS IN SOCIAL SECURITY, WHILE THE SPD AGREED AT THEIR PARTY CONFERENCE IN APRIL ON MEASURES TO INCREASE TAXATION ON THE HIGHER PAID. IN THE ECONOMIC FIELD, THE OVERALL IMPRESSION IS OF A COALITION INCREASINGLY IN TROUBLE.

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/ 4. IN

4. IN HAMBURG, THE SPD GOT 51.5PER CENT OF THE VOTE LAST TIME AND AT PRESENT GOVERN ALONE (UNDER KLAUS VON DOHNANYI, WHO AS NO 2 IN THE AUSWAERTIGES AMT MADE THE VITAL CONCESSION WHICH PRODUCED THE EUROPEAN BUDGET SETTLEMENT ON 30 MAY 1980 - ALLEGEDLY TO GENSCHER'S CHAGRIN, AS HE TOLD YOU RECENTLY). THIS TIME THE ELECTION WILL BE MUCH MORE CLOSELY FOUGHT. LATEST FORECASTS SHOW THE SPD AND THE CDU (WHO HAVE IN WALTHER LEISSLER KIEP A CANDIDATE TO EQUAL DOHNANYI IN STATURE) RUNNING NECK AND NECK AT AROUND 42/43PER CENT, WITH THE GREENS GETTING 8/9PER CENT AND THE FDP LUCKY TO CLEAR THE 5PER CENT HURDLE WHICH WOULD GET THEM BACK INTO THE SENAT. SINCE COALITION, OR EVEN COOPERATION, BETWEEN ANY TWO OF SPD, CDU AND GREENS IS EXTREMELY DIFFICULT, HAMBURG COULD BE IN FOR A PERIOD OF MINORITY GOVERNMENT MORE DIFFICULT THAN THAT IN BERLIN.

5. AT A FEDERAL LEVEL, THE POSSIBLE CONSEQUENCES OF WHAT HAPPENS IN HAMBURG ARE FAR REACHING. THE FDP HAVE TOLD US THAT A POOR RESULT THERE FOR FDP AND SPD, CONFIRMING THAT ASSOCIATION WITH THE SPD WAS BAD FOR THE HEALTH OF THE FDP, COULD BE THE FINAL STRAW LEADING THEM TO SWITCH COALITION PARTNERS IN BONN. SINCE THEY HOLD THE BALANCE OF POWER, THIS WOULD BRING DOWN THE FEDERAL GOVERNMENT. IN MY VIEW THE FDP WOULD FIND IT VERY HARD TO JUSTIFY SUCH A STEP TO THEIR PARTY MEMBERSHIP AND TO THE ELECTORATE AND IT THEREFORE SEEMS AN UNLIKELY SCENARIO FOR THE IMMEDIATE FUTURE. BUT THE FDP'S DIFFERENCES WITH THE SPD OVER THE 1983 BUDGET COULD PROVIDE THEM WITH AN OPPORTUNITY TO BAIL OUT.

6. THE CDU/CSU OPPOSITION, WHO CURRENTLY ENJOY AROUND 52PER CENT SUPPORT NATIONALLY, LOOK CONFIDENTLY FORWARD TO RECOVERING POWER IN 1984 BUT DO NOT EXPECT A CHANGE OF GOVERNMENT BEFORE THEN. THEY BELIEVE THE FDP WILL FIND IT DIFFICULT TO CHANGE SIDES IN MID-TERM. AND THOUGH THE NEXT LAND ELECTION, IN HESSEN IN SEPTEMBER, IS LIKELY TO GIVE THE CDU THEMSELVES A TWO-THIRDS BLOCKING MAJORITY IN THE BUNDESRAT (FEDERAL UPPER HOUSE) THEY SEEM AT PRESENT TO HAVE NO INTENTION OF USING IT TO BRING THE GOVERNMENT DOWN. NEVERTHELESS, HAMBURG COULD CHANGE EVERYONE'S PERSPECTIVES, AND GERMAN POLITICIANS OF ALL PARTIES WILL BE WAITING TENSELY FOR THE RESULT.

FCO PASS SAVING ABOVE EXCEPT C-GS IN FRG BMG BERLIN AND CICC(G)

TAYLOR

(REPEATED AS REQUESTED)

FCO/WHITEHALL

ERD

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VERSAILLES ECONOMIC SUMMIT  
BILATERAL MEETING WITH MR TRUDEAU


Points to Make

MINISTERIAL VISIT TO CANADA

1. Sorry unable to accept invitation to attend the Proclamation of the new Constitution in April. Lord Hailsham has given a vivid report of the ceremonies. Congratulations on achievement.
2. Looking forward to visiting Canada in response to invitation as soon as possible. Still have it in mind to aim for the turn of the year or later in 1983.

ANGLO-CANADIAN RELATIONS

3. Now free of constitutional irritant we can concentrate on developing the vast range of mutual interests we share both bilaterally and internationally. We in Britain are anxious that the closeness of our relationship will not result in our taking each other for granted, but that we can work together in pursuit of the many matters of common concern.

  
Foreign and Commonwealth Office

2 June 1982



VERSAILLES ECONOMIC SUMMIT: PRIME MINISTER'S MEETING WITH  
SIGNOR SPADOLINI

Points to Make

1. Looking forward to Anglo-Italian Summit in Rome on 7 July.
2. Interested to hear views on future of Coalition Government.
3. Glad that 1982 EC Budget refunds agreed, though longer-term problem remains. Essential to get this settled by November as Council agreed. Overriding of Luxembourg Compromise raises very serious issues. Important for Foreign Ministers to clarify this situation at their next meeting.

Background

1. Italy's turn to host Anglo-Italian Summit. Last one held in London on 9 November 1981.
2. Spadolini's Coalition Government soldiers on. Christian Democrat Party Congress ended 6 May with elections of De Mita as new Party Secretary. First test likely to come at meeting with Party Secretaries of other Coalition partners to discuss Government programme. Apart from EC sanctions against Argentina (see separate briefing), the main problems facing the Coalition relate to domestic economic issues, namely inflation, unemployment, interest rates (now 15%) and public expenditure.
3. Not certain whether the Coalition can hold together. Some realignment of Ministerial responsibilities possible in June. Prospects remain bleak.

Foreign and Commonwealth Office

3 June 1982

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TO IMMEDIATE FCO  
TELEGRAM NO. 297 OF 03 JUN 82  
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MY TELEGRAM NO. 290: VERSAILLES: ANGLO-ITALIAN BILATERAL  
FROM ORLEBAR

1. WE UNDERSTAND SPADOLINI'S OFFICE HAVE NOW MADE CONTACT WITH NO. 10 AND THEY HOPE THAT A MEETING BETWEEN HIM AND THE PRIME MINISTER MAY BE POSSIBLE ON SUNDAY.
2. THE AMBASSADOR (WHO WAS SEEING PERTINI AND SPADOLINI AGAIN AT YESTERDAY'S GARIBALDI CELEBRATIONS IN SARDINIA) SAID IN TUR THAT HE EXPECTED SPADOLINI WOULD WANT IN PARTICULAR TO EXPRESS HIS REGRETS TO THE PRIME MINISTER FOR THE ITALIAN FAILURE TO RENEW SANCTIONS AGAINST ARGENTINA AND EXPLAIN THE POLITICAL DIFFICULTIES HE AND COLOMBO HAD FACED. SPADOLINI WILL NO DOUBT HOPE THIS CAN BE REGARDED AS A CLOSED CHAPTER. HE CAN BE RELIED ON TO EXPRESS ITALY'S RENEWED POLITICAL SOLIDARITY WITH THE UK, BUT MAY SHOW SOME ANXIETY ABOUT THE EFFECTS OF THE CONFLICT ON EUROPE'S LONG TERM RELATIONS WITH LATIN AMERICA. GIVEN THEIR CONSIDERABLE INTERESTS IN AND KNOWLEDGE OF THE CONTINENT, THE ITALIANS COULD PROVE USEFUL ALLIES IN THE TASK OF REPAIRING ANY BREACHES.
3. AS REGARDS OTHER SUBJECTS, ROME TELEGRAM NO. 295 SET OUT LIKELY ITALIAN OBJECTIVES FOR THE ANGLO-ITALIAN SUMMIT HERE ON 7 JULY AND ROME TELEGRAM NO. 291 SUMMARISED CURRENT ITALIAN THINKING ON COMMUNITY ISSUES. BUT SPADOLINI HAS MORE IMMEDIATE WORRIES. THE EMPLOYERS' ORGANISATION, CONFINDUSTRIA, HAS ANNOUNCED ITS DECISION TO WITHDRAW FROM THE 1975 AGREEMENT WITH THE THREE NATIONAL UNION CONFEDERATIONS WHEREBY EMPLOYEES' SALARIES HAVE BEEN INDEXED AGAINST INFLATION (THE "SCALA MOBILE"). AT THE LEAST, THIS WILL WIDEN RIFTS WITHIN THE COALITION. THE MONETARISTS, LED BY ANDREATTA (DC TREASURY MINISTER), WILL WELCOME CONFINDUSTRIA'S MOVE: ITALY IS NOW THE ONLY EC COUNTRY WHERE SALARIES ARE INDEXED, AND INFLATION AND THE PSBR REMAIN FRIGHTENINGLY HIGH. ALTHOUGH THE SOCIALIST REACTION

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/ HAS SO FAR

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HAS SO FAR BEEN EQUIVOCAL, THE OTHER MINOR PARTIES IN THE COALITION - AND OF COURSE THE UNIONS - HAVE DENOUNCED THE MOVE AS CONFRONTATIONAL. LIGHTNING STRIKES HAVE ALREADY TAKEN PLACE.

4. WHILE THERE IS SCOPE FOR COMPROMISE, THE EMPLOYERS' DECISION COMES AT A DIFFICULT TIME FOR A GOVERNMENT ALREADY BESET BY OTHER DISPUTES AND HAMPERED BY POLITICAL UNCERTAINTY FROM TAKING THE HARSH DECISIONS NECESSARY, EG. TO CONTAIN PUBLIC SPENDING. ANY LANGUAGE IN THE VERSAILLES COMMUNIQUE CONFIRMING THE SUPREMACY OF THE FIGHT AGAINST INFLATION WILL THUS HAVE DOMESTIC REPERCUSSIONS HERE.

5. HAVING MADE THE RESTORATION OF A HEALTHY ECONOMY ONE OF HIS MAIN POLICY OBJECTIVES, SPADOLINI MAY BE EXPECTED TO PRESS FOR AGREEMENT TO TOUGHER ECONOMIC MEASURES WHEN THE PARTY SECRETARIES MEET LATER THIS MONTH. A KEY FIGURE WILL AGAIN BE THE SOCIALIST LEADER, CRAXI, WHO HAS LOST NO RECENT OPPORTUNITY (AS OVER SANCTIONS AGAINST ARGENTINA) TO CAUSE TROUBLE WITHIN THE COALITION. HIS INTRANSIGENCE WOULD BE ENCOURAGED BY A GOOD RESULT FOR THE SOCIALISTS IN THE ADMINISTRATIVE ELECTIONS BEING HELD IN PARTS OF ITALY THIS WEEKEND. IF THE SOCIALISTS FAIL TO IMPROVE THEIR POSITION, ON THE OTHER HAND, THIS WILL STRENGTHEN SPADOLINI'S HAND AS PRIME MINISTER, THOUGH THEN COULD STILL BE SOME RESHUFFLING OF THE CABINET.

ARCULUS

[COPIES SENT TO NO 10 DOWNING STREET]

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ECD  
CABINET OFFICE

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FM ROME 021010Z JUN 82

TO IMMEDIATE FCO  
TELEGRAM NO. 295 OF 02 JUN 82MIPT: ANGLO-ITALIAN SUMMIT  
FROM ORLEBAR

1. OUR CURRENT BEST ESTIMATE OF LIKELY ITALIAN OBJECTIVES FOR THE SUMMIT IS AS FOLLOWS:
  1. TO ALLOW SPADOLINI TO DEMONSTRATE THAT ANGLO-ITALIAN RELATIONS REMAIN HEALTHY DESPITE SOME RECENT DIFFERENCES, E.G. ARGENTINE SANCTIONS AND COMMUNITY QUESTIONS, AND TO RECONFIRM ITALY'S CLAIM TO BE A TOP-TABLE PARTNER.
  2. TO UNDERLINE ITALY'S COMMITMENT TO GREATER EUROPEAN INTEGRATION AND TO PROBE UK THINKING ON THE COMMUNITY'S FUTURE.
  3. WITHIN THIS FRAMEWORK, TO EXPRESS CONCERN AT THE GROWING THREATS TO THE COMMUNITY'S COHESION AND TO PUT FORWARD IDEAS FOR STRENGTHENING THE COMMUNITY, INCLUDING GREATER CONCENTRATION AND EXPENDITURE ON NEW COMMUNITY POLICIES.
  4. TO PRESS FOR EARLY AGREEMENT ON THE GENSCHER/COLOMBO PROPOSALS ON EUROPEAN UNION.
  5. TO COMPARE NOTES ON INTERNATIONAL AND DOMESTIC ECONOMIC ISSUES, ESPECIALLY INFLATION, UNEMPLOYMENT, INTEREST RATES AND PUBLIC EXPENDITURE.
  6. TO REVIEW THE PROGRESS OF THE NATO DOUBLE DECISION, INCLUDING THE SITING OF INF BASES AND THE PROGRESS OF DISARMAMENT NEGOTIATIONS (START WILL BE TOPICAL).
  7. TO DISCUSS EAST-WEST RELATIONS, INCLUDING POLAND, CREDITS FOR THE SOVIET UNION AND MORE GENERALLY THE FUTURE DIRECTION OF SOVIET POLICIES.
  8. TO STRESS THE IMPORTANCE WHICH ITALY ATTACHES TO CLOSE EUROPEAN/LATIN AMERICAN RELATIONS AND THE DANGER THAT ITALY SEES OF SOVIET GAINS IN THE REGIONS AT U S EXPENSE.
2. WE SHOULD BE ABLE TO PUT MORE FLESH ON THESE OBJECTIVES ONCE THE ITALIANS START TO FOCUS ON THE SUMMIT, AND MAY THEREFORE NEED TO COMMENT FURTHER

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FROM ROME 011300Z JUN 82  
TO PRIORITY FCO [FRAME INSTITUTIONAL]  
TELNO 291 OF 01 JUN 82  
INFO PRIORITY ATHENS, BONN, COPENHAGEN  
THE HAGUE, PARIS, BRUSSELS, DUBLIN, LUXEMBOURG, UKREP BRUSSELS

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YOUR TELNO 155 TO ATHENS: LUXEMBOURG COMPROMISE

1. WE DISCUSSED THIS QUESTION WITH IANNI ON 28 MAY. HE WENT OFF AT A LENGTHY TANGENT ON THE INADEQUACIES AND STAGNATION OF THE COMMUNITY, THE NEED FOR COMMON INDUSTRIAL AND ENERGY POLICIES, THE THREAT TO THE COMMUNITY FROM PROTECTIONISM AND ITALIAN DISSATISFACTION WITH THE MANDATE NEGOTIATIONS. THIS WAS BY WAY OF SAYING THAT THE FUTURE OF THE LUXEMBOURG COMPROMISE, ALTHOUGH IMPORTANT, WAS NOT COLOMBO'S MAIN PREOCCUPATION. COLOMBO WAS UPSET ABOUT EUROPE AND DID NOT SEE WHERE IT WAS GOING. WE NOW HAD A BRIEF TRUCE, BUT NONE OF THE UNDERLYING PROBLEMS HAD BEEN SATISFACTORILY RESOLVED. FOR THE ITALIANS, THE ONLY ANSWER WAS TO INCREASE THE VAT TAKE BEYOND ITS PRESENT 1% LIMIT AND TO DEVELOP NEW POLICIES.
  
2. ON THE LUXEMBOURG COMPROMISE ITSELF, HE CLAIMED THAT THE ITALIANS HAD NEVER AVAILED THEMSELVES OF IT. WHEN WE EXPRESSED AMAZEMENT, HE SAID THAT HE WAS TALKING ABOUT ITS FORMAL INVOCATION, AND ACCEPTED THAT IF ITALY'S PARTNERS KNEW IN ADVANCE THAT ITALY WOULD NOT AGREE TO A PARTICULAR PROPOSAL MATTERS WOULD SELDOM GET SO FAR AS TO BRING THE COMPROMISE DIRECTLY INTO PLAY. HE CLAIMED THAT MR WALKER HAD NEVER RAISED SUBSTANTIVE OBJECTIONS TO THE AGRICULTURAL PRICE PACKAGE BECAUSE HE HAD EXPECTED DECISIONS ON THE BUDGET WHICH IN THE EVENT WERE NOT FORTHCOMING WHEN THE AGRICULTURE COUNCIL MET ON 18 MAY. WE CONTESTED THIS ARGUMENT. OUR OWN ASSESSMENT IS THAT, OF THE ARGUMENTS YOU SUGGEST IN YOUR PARA 3, THE MOST IMPORTANT HERE WERE (B) AND (D). THEY WOULD CERTAINLY ACCEPT THAT THE BUDGET WAS AN IMPORTANT NATIONAL INTEREST FOR US (YOUR 3 (C)), AND ARE NOT OPPOSED TO THE LUXEMBOURG COMPROMISE AS SUCH (YOUR PARA 3(E)).

/3.

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3. ON THE FUTURE OF THE COMPROMISE, IANNI MADE IT CLEAR THAT THE EFFECT OF SPANISH AND PORTUGUESE ACCESSION TO THE COMMUNITY WAS MUCH ON ITALIAN MINDS. HE ARGUED THAT THE LUXEMBOURG COMPROMISE HAD WORKED WELL ENOUGH WITH A COMMUNITY OF 6 REASONABLY LIKE-MINDED STATES, WAS ONLY JUST WORKING IN A COMMUNITY OF 10 AND WOULD NOT WORK AT ALL IN A COMMUNITY OF 12. MAINTENANCE OF THE COMPROMISE, WITHOUT QUALIFICATIONS, WOULD SIMPLY BE A RECIPE FOR THE COMMUNITY'S STAGNATION. HE SPECULATED ABOUT TIME LIMITS ON VETOS, AND THE INTRODUCTION OF A SECOND AND THIRD READING PROCEDURE WITH AN INITIAL, HEAVILY WEIGHTED MAJORITY TAPERING OFF IN SUCCESSIVE STAGES SO THAT NO ONE MEMBER STATE ALONE COULD FINALLY VETO A DECISION. WE DID NOT GET THE IMPRESSION, HOWEVER, THAT ANY OF THIS WAS FIRM ITALIAN POLICY. WHEN E ASKED WHETHER ANY SUCH AGREEMENT COULD BE REACHED WITHIN THE FRAMEWORK OF THE GENSCHER/COLOMBO PROPOSALS, IANNI COMMENTED THAT HE THOUGHT IT WOULD TAKE MUCH LONGER TO ARRIVE AT A WORKABLE DEFINITION OF HOW AND WHEN THE COMPROMISE SHOULD BE USED.

4. WE CONCLUDE THAT THE ITALIANS WILL PROBABLY BE READY TO WORK FOR SOME REDEFINITION OF PROCEDURES FOR INVOKING THE LUXEMBOURG COMPROMISE, NOT LEAST BECAUSE OF THEIR FEARS OF PARALYSIS WITHIN THE COMMUNITY AFTER FURTHER ENLARGEMENT. WE DOUBT, HOWEVER, WHETHER THE MFA HAS BEGUN TO CONSIDER CAREFULLY THE ADVANTAGES AND DISADVANTAGES OF DEPARTING FROM THE PREVIOUS INTERPRETATION OF THE 1976 AGREEMENT.

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ECD (1)



From the Secretary of State

*Please insert in P.N.'s  
brief with copies to myself  
and Mr. Whitmore.*

*A.J.C. 3/6*

John Coles Esq  
Private Secretary  
Prime Minister's Office  
No 10 Downing Street  
London SW1

3 June 1982

*Dear John,*

VERSAILLES SUMMIT/EXPORT CREDIT CONSENSUS

Thank you for sending me a copy of Sir Campbell Fraser's 28 May letter to the Prime Minister. We were aware of the concern of the CBI (and British industry generally) about the negotiations on the Consensus which are likely to be discussed at Versailles. The Chancellor has already suggested that the EC should put forward counter-proposals covering the two most difficult points, namely the sharp increase in Consensus rates for Newly Industrialised Countries (NICs) and the margin to be applied to Japan.

The main brief (PMVS(82)9) for the Summit generally identifies the issues, but greater stress should be given to the need to moderate and stage any changes in interest rates for the NICs. We would therefore propose that paragraphs 2 and 3 be amended to read:-

"Like most EC countries we can accept much of the compromise proposals put forward by the Chairman of the OECD Export Credit Group. But it is not sensible to widen the interest rate advantage enjoyed by the Japanese, and we are also anxious to avoid a sharp increase in the Consensus rates for Newly Industrialised Countries (NICs)".

"Given a satisfactory resolution of the Japanese and NIC points, we could go some way towards US concern on credit for the USSR".

I also enclose for your information a supplementary brief prepared by ECGD expanding on the line that might be taken with the other Summit participants.

I will let you have a draft reply to Sir Campbell Fraser shortly.

*Yours sincerely,*

JOHN RHODES  
PRIVATE SECRETARY

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VERSAILLES ECONOMIC SUMMIT

4-6 JUNE 1982

EXPORT CREDIT CONSENSUS

Supplementary Brief by Export Credits Guarantee Department

1 The Export Credit Consensus will now almost certainly be raised at the Summit (probably by the Americans pressing the EC to accept the Swedish Chairman's compromise). Given the stalemate that has emerged in the Consensus negotiations and the real risk of the collapse of the arrangement, we should take the opportunity to apply pressure in three directions:-

A on the Americans to accept some reduction in the proposed increases in the interest rate guidelines for the Newly Industrialised Countries (and to help us with Japan on the problem of the margin (surcharge) to be added to official finance provided by the Japanese Eximbank;

B on the Japanese to agree to some increase in the margin (eg to 0.5%) which would still leave them in a better position than that agreed in November 1981; and

C on the French to accept a realistic scaling down of their hopes of securing changes in the Swedish compromise to the most vital elements (on the lines put forward by the Chancellor - see Annex attached).

2 Although agreement has been given to a short extension of the Consensus until 15 June, it is clear from discussions between officials last week that the Americans are still hoping that the EC will accept the whole compromise package, whilst the French will be insisting on significant changes. The Japanese (who have come out very well in the compromise) have made it clear that they will certainly oppose the

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opening of the negotiations. There is thus a real risk that the Consensus will disintegrate (or split into two rival arrangements) unless the Summit discussion can provide some fresh momentum to the negotiations.

## POINTS TO MAKE

(To all)

- 1 The break up of the Consensus will be to no-one's advantage: it could lead to a costly credit war which might embitter future trade relations between the Seven.
- 2 Further negotiations will be necessary as the EC will be seeking some changes in the Chairman's compromise proposals (as they stand these seem clearly unacceptable to the French and would be very unpopular with British exporters).

To the Americans

- 3 Considerable progress has been made in reducing the level of interest rate subsidies and more would be achieved if the Consensus survives; (thus Consensus rates would range from 10-12 $\frac{1}{2}$ %: quite close to average World market rates of 12%; whereas last October Consensus rates of 7 $\frac{1}{2}$ -8 $\frac{3}{4}$ % were well below market rates then averaging 13.3%).
- 4 As a "windfall benefit", rates for the USSR would rise from 7.75% at present to 12.5% if the Consensus survives.
- 5 The Swedish Chairman's proposals involve far too rapid a change in the credit terms for Newly Industrialised Countries ("NICS" - Brazil, Mexico, etc). This could impair their ability to service their debts and lead to a sharp drop in World trade. (For example, the proposals would mean that the maximum terms for Brazil etc would change immediately from 10 years credit at a Consensus interest rate of 7 $\frac{3}{4}$ %, to 8 $\frac{1}{2}$  years credit at 11.6%).

6 This abrupt change would also severely affect the competitive position of the UK and France vis-a-vis Japan; (thus last October all three countries were charging a common rate of 7 $\frac{3}{4}$ % irrespective of the currency, whereas now it is proposed that the rate for the yen should be 8.7%, compared with a Consensus rate of 11.6%).

7 It is not feasible for Japan to finance all European exports in yen, therefore either the Japanese margin must be increased (to (say) 0.5% compared with the 0.3% proposed by the Swedish Chairman) or the Americans will have to forego the proposed increase in interest rates for the NICs this time.

To the Japanese

8 In addition to the points at 5 -7 above, we consider that the Japanese should make a contribution to help preserve the Consensus. We consider that a margin of 0.5% added to their (fluctuating) Long Term Prime Rate (currently 8.4%) should not be an intolerable burden. (It would enable Eximbank finance to be provided in support of yen credits at a blended rate of 8.9%, compared with about 9% at present).

9 Unless an acceptable margin is finally agreed, European and US demands for equal access to the yen capital market might reach levels the Japanese government would find embarrassing.

10 To the French

10 We have put forward some realistic ideas as to counter-proposals the EC might seek (as per Annex attached). We believe these cover the essential areas for both countries. We hope that the French will support these and not press for more substantial improvements in the Swedish Chairman's package, which are unlikely to be negotiable.

ECCGD  
1 June 1982

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OECD EXPORT CREDIT CONSENSUS - CHAIRMAN'S COMPROMISE

UK COUNTER-PROPOSALS

(Proposed by Chancellor at ECOFIN on 17 May not yet put forward by EC)

- 1 The increase in rates for Newly-Industrialised Countries moving into Category 2 should be staged as a transitional arrangement (eg over 6-12 months).
- 2 The maximum credit terms for NIC's should be 10 years not 8½ years.
- 3 The proposed increase in rates (+0.6% to 11.6%) for Category 2 (middle income) countries should only be implemented if the margin (surcharge) to be applied by Japan for its official financing is increased to 0.5% above the market rate.

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Foreign and Commonwealth Office

London SW1A 2AH

3 June 1982

Dear John,

Lt Commander Astiz

You will have seen a copy of Mr Pym's minute of 3 June to the Secretary of State for Defence about the repatriation of Lt Cmdr Astiz. It referred to the French Government's reaction to our informing them of the refusal of the Argentine Government and of Astiz personally to allow French (and Swedish) questions to be put to him.

The French made a further approach to us on the subject on 2 June. I attach a copy of Sir J Fretwell's reporting telegram. No new legal arguments were adduced for pursuing the French request, but the Ambassador disturbingly commented that M Gutmann came close to making a direct and overt link between the sort of help we are seeking from the French on such matters as the supply of arms to Argentina by third parties and the co-operation they are seeking from us on Astiz.

French refusal to take no for an answer is awkward. Their latest response is a rather crude attempt to pressure us (and unjustified in its accusations that we have been dilatory and not taken their request seriously). But we continue to need French assistance over the supply of arms to Argentina. Against that, the arguments for early repatriation of Astiz remain valid.

President Mitterrand may raise this with the Prime Minister at Versailles. I therefore enclose a brief in the form of Points to Make on which the Prime Minister could draw. As you will see, a Parliamentary statement is offered. If it is decided that the French Embassy could be offered access to Astiz, this would obviously help in presenting our case to them.

Yours ever

*J E Holmes*  
(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

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VERSAILLES ECONOMIC SUMMIT: FALKLANDS: LT CMDR ASTIZ

POINTS TO MAKE

1. Fully understand your need to convince French public opinion that everything possible done to pursue Astiz. An odious man; public opinion rightly enraged.
  
2. Have spent great deal of time on French request to put questions to Astiz. Fact is that Astiz (and Argentine Government) unwilling to answer questions. Further attempt (either by UK or France) not only unproductive but bound to lead to accusations by Argentina of coercion under Article 17 of Third Geneva Convention. Need for UK to be free to criticize Argentina for breaches of Convention.
  
3. Number of considerations:
  - i) no jurisdiction in UK to try Astiz. Could not be handed over to France for trial because crimes not committed there.
  - ii) need to ensure UK is scrupulously fulfilling international legal obligations. We are defending international law over Falklands: cannot abuse it over POWs.
  
  - iii) continued detention of Astiz - and, by extension, further attempts to get him to answer questions - could be used by Argentina as excuse for retaliation against British POWs and other British subjects. Argentines continue to hold Harrier pilot.

/iv) as numbers



- iv) as numbers of Argentine POWs rise, need to retain cooperation of ICRC. They have said further questioning of Astiz would oblige them to criticise UK publicly.
- v) UK decision to detain Astiz has already generated good deal of publicity and support for French case. This presumably helpful to French government.

4. See no point in further questioning: most unlikely he would cooperate. Could have very unwelcome repercussions for UK. How hard would this really be for French opinion to understand? Would a Parliamentary statement (discussed beforehand with the French if they wish) help?

Foreign and Commonwealth Office

3 June 1982

DESKEY 021300Z JUN 82

2 JUN 1982

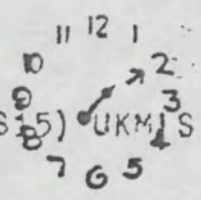
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FM PARIS 021132Z JUN 82

IMMEDIATE FCO

TELEGRAM NUMBER 572 OF 2 JUN 82

INFO BRAZILIA TRIPOLI WASHINGTON MODUK (DS11 AND DS15) UKM/S GENEVA STOCKHOLM



x2

YOUR TELNO 151 TO BRAZILIA AND MY TELNO 562 (NOT TO ALL):  
FALKLANDS

1. GUTMANN, SECRETARY GENERAL AT THE QUAI, TELEPHONED THIS MORNING TO MAKE TWO POINTS.

2. HE SAID THAT IN RESPONSE TO OUR DEMARCHE ON 31 MAY (MY TELNO 566) ABOUT THE POSSIBLE SUPPLY OF LIBYAN ARMS TO ARGENTINA CHEYSSON HAD SPOKEN FORCEFULLY TO GADHAFI WHO HAD CATEGORICALLY DENIED THAT ARMS WERE BEING SUPPLIED BY LIBYA.

3. GUTMANN WENT ON THAT HE HAD BEEN GLAD TO BE ABLE TO GIVE US THIS POSITIVE RESPONSE, BUT WE WOULD FIND HIS SECOND POINT LESS AGREEABLE. HE HAD BEEN FRANKLY SHOCKED TO FIND THAT BRITAIN WAS BEING SO DILATORY IN THE MATTER OF CAPTAIN ASTIZ. THIS WAS NOW A MATTER OF SERIOUS CONCERN TO THE FRENCH GOVERNMENT. THEY DID NOT CONSIDER THAT OUR LEGAL ARGUMENTS HELD WATER. IT SEEMED TO THEM THAT THEIR VIEWS WERE NOT BEING TREATED SERIOUSLY. THE MATTER WAS A VERY IMPORTANT ONE TO THEM. I RECALLED TO HIM MY CONVERSATION WITH DUFOURCQ ON 29 MAY AND SAID THAT THE POINTS RAISED ON THAT OCCASION WERE NO DOUBT BEING CONSIDERED IN LONDON. THERE WOULD BE ~~NO DOUBT~~ <sup>BEFORE</sup> ~~BEFORE~~ <sup>ASTIZ REACHED THE UK.</sup> HOWEVER I WOULD SEE THAT HIS RESTATEMENT OF FRENCH CONCERN WAS TRANSMITTED TO LONDON.

4. GUTMANN CAME CLOSE TO MAKING A DIRECT AND OVERT LINK BETWEEN THE SORT OF HELP WE ARE SEEKING FROM THE FRENCH ON SUCH MATTERS AS THE SUPPLY OF APMS BY THIRD PARTIES AND THE COOPERATION WHICH THEY ARE SEEKING FROM US ON ASTIZ.

FRETWELL

NNNN

SENT AT 021153Z SM/JEG



FCS/82/78

SECRETARY OF STATE FOR DEFENCE

Lt Cmdr Astiz

1. Thank you for your minute of 28 May. I am grateful for all the trouble that your Department has taken over this man since his capture in South Georgia last month. I agree that the arrangements you have made to hold him at Chichester after his arrival from Ascension Island should prove satisfactory insofar as continued custody is required.
  
2. As you will know, we informed the French and the Swedes that neither the Argentine Government nor Astiz personally was prepared to have questions put to him about his earlier alleged misdeeds. There has now been a strong reaction from Paris and Stockholm. Both governments have urged us to reconsider the possibility of putting their questions to Astiz, arguing that the Geneva Convention does not explicitly prevent this. The Swedish Foreign Minister has appealed personally to me through our Ambassador and has undertaken to give me in writing the Swedish legal interpretation of the Geneva Convention on this score. French representations have been equally forceful and may be renewed in Versailles (we are providing separate briefing for the Prime Minister).
  
3. I nevertheless recognise that our own legal advice points to early repatriation and that the Attorney General recommended this in the event that Astiz did not wish to answer further questions, as has proved to be the case. We need to bear in mind, particularly at a time when the Argentine Junta may increasingly see defeat staring them in the face, that the continued detention of Astiz may encourage, or be used as an excuse for, retaliation against British prisoners-of-war and other British subjects. I am very aware of their continued

/detention



detention of our Harrier pilot, Flt Lt Glover. There have been other reports of possible Argentine action against British subjects in Argentina.

4. Moreover, as the numbers of Argentine POWs in our hands may rise still more sharply in the immediate future, we shall need to retain the goodwill and cooperation of the ICRC. The ICRC have told us that they lost credibility with the Argentines when we held back Astiz. From recent contacts with them it is clear that if we were to question Astiz further they would feel bound to criticise us publicly. I am therefore inclined to agree that we may have now exhausted the public relations possibilities of the Astiz case; and that, since extradition of Astiz to France or Sweden is in any case excluded, it would make sense on balance to repatriate him soon after his arrival in the UK. However, clearly no decision should be taken until after Versailles. Moreover the Attorney General is now considering whether the French Embassy could be given access to him first. Finally, we need to make sure that a formal decision is not carried out before we have replied to the Swedish legal memorandum to which I have referred above. I should be grateful therefore if our people could keep in touch about the repatriation arrangements.

5. I am copying this minute to OD(SA) colleagues, Sir Robert Armstrong and Sir Michael Palliser.

A handwritten signature in black ink, appearing to be 'F. Pym', written in a cursive style.

(FRANCIS PYM)

Foreign and Commonwealth Office  
3 June 1982

SECRET



10 DOWNING STREET

Prime Minister

You may like to remind  
yourself of Incident Japan's  
"Eureka" speech of 9 May.

A. J. C.  $\frac{3}{6}$

UNCLASSIFIED

DESKBY 100730Z

FM WASHINGTON 092210Z MAY 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1683 OF 9 MAY

INFO IMMEDIATE MODUK (DUS(P) DS 17 AND DPS)-UKDEL NATO

INFO PRIORITY BONN PARIS MOSCOW UKMIS NEW YORK UKDIS GENEVA IN NEW YORK UKDEL VIENNA

INFO SAVING OTHER NATO POSTS, DUBLIN, WARSAW, BUDAPEST, BUCHAREST, EAST BERLIN, PRAGUE, SOFIA, BELGRADE, NEW DELHI, TOKYO, PEKING

PRESIDENT REAGAN ON EAST-WEST RELATIONS AND NUCLEAR WEAPONS

1. IN A MAJOR SPEECH TODAY AT EUREKA COLLEGE, ILLINOIS, PRESIDENT REAGAN SET OUT A FIVE-POINT PROGRAMME FOR FUTURE RELATIONS WITH THE SOVIET UNION. THIS COMPRISED A SOUND MILITARY BALANCE, ECONOMIC SECURITY, REGIONAL STABILITY, ARMS REDUCTIONS AND DIALOGUE WITH THE RUSSIANS. EXTRACTS ON ARMS REDUCTIONS, IN WHICH REAGAN ANNOUNCED HIS PROPOSALS FOR A NEW STRATEGIC ARMS AGREEMENT, ARE CONTAINED IN MIFT. FOLLOWING WERE THE OTHER MAIN POINTS.

2. THE VERSAILLES AND BONN SUMMITS SHOULD STRENGTHEN THE PARTNERSHIP BETWEEN AMERICA AND HER ALLIES ON WHICH THE FUTURE OF THE WESTERN DEMOCRACIES DEPENDED. UNDERLYING THESE DISCUSSIONS WOULD BE THE MAJOR ISSUE OF FUTURE WESTERN RELATIONS WITH THE SOVIET UNION. TO ESTABLISH A MORE SOLID AND CONSTRUCTIVE RELATIONSHIP WOULD REQUIRE CONTINUED WESTERN UNITY. DESPITE ITS SOCIAL AND ECONOMIC FAILINGS, THE SOVIET UNION HAD CONTINUED ITS MILITARY BUILD-UP, UNCONSTRAINED BY EARLIER ARMS CONTROL EFFORTS. THE SOVIET LEADERS HAD EXPLOITED INCREASED EAST-WEST TRADE WITHOUT MODERATING THEIR OWN BEHAVIOUR. DESPITE HELSINKI, THEY HAD NOT RELAXED THEIR HOLD ON THEIR OWN PEOPLE OR THOSE OF EASTERN EUROPE. THE ERA OF DETENTE HAD PRODUCED DISAPPOINTMENT WITH SOVIET BEHAVIOUR IN EUROPE AND DISILLUSIONMENT WITH THEIR ACTIVITIES BEYOND EUROPE.

3. WITH THE PROSPECT OF CHANGES IN THE SOVIET LEADERSHIP, AN IMPORTANT NEW PHASE IN EAST-WEST RELATIONS WOULD BEGIN. SOVIET AGGRESSION WOULD BE MET BY A FIRM WESTERN RESPONSE. BUT A SOVIET LEADERSHIP DEVOTED TO IMPROVING ITS PEOPLE'S LIVES, RATHER THAN EXPANDING ITS ARMED CONQUESTS, WOULD FIND A SYMPATHETIC PARTNER IN THE WEST, RESPONDING WITH EXPANDED TRADE AND OTHER FORMS OF CO-OPERATION.

4. A REALISTIC, DURABLE POLICY FOR PEACE WITH THE SOVIET UNION SHOULD CONSIST OF FIVE POINTS: MILITARY BALANCE, ECONOMIC SECURITY, REGIONAL STABILITY, ARMS REDUCTIONS AND DIALOGUE. A SOUND MILITARY BALANCE BETWEEN EAST AND WEST WAS ABSOLUTELY ESSENTIAL. THE RECENT NATO SUMMARY OF THE MILITARY BALANCE GAVE A CLEAR MESSAGE: OVER THE PAST DECADE THE RUSSIANS HAD BEEN BUILDING UP THEIR FORCES ACROSS THE BOARD. IN THE SAME PERIOD US DEFENCE EXPENDITURE DECLINED IN REAL TERMS. STEPS TO RECOVER FROM THIS PERIOD OF NEGLECT HAD ALREADY BEEN UNDERTAKEN. MEANWHILE, THE ALLIES HAD INCREASE MILITARY SPENDING SLOWLY BUT STEADILY (AS NOT ALWAYS RECOGNISED IN THE US).

15. CONSENSUS

5. CONSENSUS MUST BE REACHED BETWEEN THE ALLIES ON ECONOMIC SECURITY. CONSULTATIONS WERE UNDER WAY ON RESTRICTING THE TRANSFER OF MILITARILY SIGNIFICANT TECHNOLOGY, ON THE EXTENSION OF FINANCIAL CREDITS TO THE EAST, AND ON THE ISSUE OF ENERGY DEPENDENCE ON THE EAST. SOME OF THE ECONOMIC REQUIREMENTS OF THE ALLIES WERE DIFFERENT FROM THOSE OF THE US. BUT THE RUSSIANS MUST NOT HAVE ACCESS TO WESTERN TECHNOLOGY WITH MILITARY APPLICATIONS, NOR SHOULD THE WEST SUBSIDIZE THE SOVIET ECONOMY. THE SOVIET LEADERS MUST BE FACED WITH HARD CHOICES, CAUSED BY THEIR MILITARY BUDGETS AND ECONOMIC SHORTCOMINGS.

6. REGIONAL STABILITY TOGETHER WITH PEACEFUL CHANGE MUST BE PURSUED. THE US APPROACH WOULD REMAIN BASED ON THE PRINCIPLES FOR ECONOMIC DEVELOPMENT SET OUT IN THE PRESIDENT'S SPEECH LAST YEAR IN PHILADELPHIA AND AT CANCUN. SPECIAL EFFORTS MUST BE MADE TO SOLVE THE PROBLEMS OF AFGHANISTAN, SOUTHERN AFRICA, CENTRAL AMERICA AND EASTERN EUROPE. IF THE THREE WESTERN CONDITIONS FOR POLAND WERE MET, THE US WERE PREPARED TO JOIN IN A PROGRAMME OF ECONOMIC SUPPORT.

7. IT WAS ESSENTIAL TO ENSURE THAT THE NUCLEAR NIGHTMARE NEVER HAPPEND (SEE MIFT).

8. THE FIFTH AND FINAL POINT WAS THE NEED FOR DIALOGUE BETWEEN EAST AND WEST. IF IT WERE NOT POSSIBLE TO ARRANGE HIS MEETING WITH BREZHNEV PROPOSED FOR NEXT MONTH IN NEW YORK, THE PRESIDENT HOPED THAT A FUTURE MEETING COULD BE SET UP WHERE POSITIVE RESULTS COULD BE ANTICIPATED. HE WOULD THEN TELL BREZHNEV THAT HE WAS READY TO BUILD A NEW UNDERSTANDING BASED UPON THE PRINCIPLES OUTLINED ABOVE. THE SOVIET UNION HAD NOTHING TO FEAR FROM THE UNITED STATES, WHO SOUGHT ONLY HARMONY AND MUTUAL RESTRAINT.

FCO PASS SAVING ANKARA ATHENS BRUSSELS COPENHAGEN LISBON  
LUXEMBOURG OTTAWA OSLO ROME REYKJAVIK THE HAGUE DUBLIN WARSAW  
BUDAPEST BUCHAREST EAST BERLIN PRAGUE SOFIA BELGRADE NEW DELHI  
TOKYO PEKING

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MIPT: PRESIDENT REAGAN ON STRATEGIC (NUCLEAR) ARMS REDUCTION  
TALKS (START)

1. FOLLOWING ARE MAIN POINTS FROM SECTION OF TODAY'S EUREKA  
COLLEGE SPEECH ON NUCLEAR WEAPONS.

2. TO ACHIEVE A STABLE NUCLEAR BALANCE AT THE LOWEST POSSIBLE  
LEVEL THERE WAS NO SIMPLE POLICY AVAILABLE, ONLY DIFFICULT  
CHOICES. THE SOVIET UNION HAD USED EARLIER ARMS CONTROL AGREEMENTS  
TO CONSTRAIN US PROGRAMMES AND, VIA ITS OWN MILITARY BUILD-UP,  
TO ENHANCE SOVIET POWER AND PRESTIGE. THERE WERE NOW DOUBTS ABOUT  
SOVIET COMPLIANCE WITH EXISTING AGREEMENTS. ARMS CONTROL IN THE  
1980'S MUST BE BASED ON AGREEMENTS THAT WERE VERIFIABLE, EQUITABLE  
AND MILITARILY SIGNIFICANT. THE US HAD SINCE LAST NOVEMBER BEEN  
ACTIVE IN SEEKING AGREEMENTS ON INF, MBFR AND CHEMICAL WEAPONS  
(IN THE CD).

3. FOLLOWING CAREFUL STUDY AND CONSULTATIONS WITH CONGRESS AND  
THE ALLIES, THE ADMINISTRATION WERE NOW READY TO PROCEED WITH  
PROPOSALS FOR AN AGREEMENT ON STRATEGIC NUCLEAR WEAPONS. THE MAIN  
THREAT TO PEACE WAS THE GROWING INSTABILITY OF THE NUCLEAR  
BALANCE, DUE TO THE MASSIVE SOVIET BUILD-UP OF THEIR BALLISTIC  
MISSILE FORCES. THE US GOAL WOULD BE TO ENHANCE DETERRENCE AND TO  
ACHIEVE STABILITY THROUGH SIGNIFICANT REDUCTIONS IN THE MOST  
DESTABILISING NUCLEAR SYSTEMS — BALLISTIC MISSILES, AND ESPECIALLY  
INTERCONTINENTAL BALLISTIC MISSILES, WHILE MAINTAINING AN  
ADEQUATE NUCLEAR CAPABILITY TO DETER CONFLICT, UNDERWRITE NATIONAL  
SECURITY AND MEET COMMITMENTS TO ALLIES AND FRIENDS.

4. THE US NEGOTIATING TEAM FOR START WOULD PROPOSE A PRACTICAL,  
PHASED REDUCTION PLAN, WHICH WOULD AIM TO REDUCE SIGNIFICANTLY THE  
NUMBER OF BALLISTIC MISSILES, THEIR WARHEADS AND THEIR OVERALL  
DESTRUCTIVE POTENTIAL. AT THE END OF THE FIRST PHASE,  
BALLISTIC MISSILE WARHEADS SHOULD BE REDUCED TO EQUAL CEILINGS  
AT LEAST A THIRD BELOW CURRENT LEVELS. TO ENHANCE STABILITY, NO

MORE

MORE THAN HALF OF THOSE WARHEADS SHOULD BE LAND-BASED. THESE WARHEAD REDUCTIONS AND SIGNIFICANT CUTS IN THE MISSILES THEMSELVES SHOULD BE ACHIEVED AS RAPIDLY AS POSSIBLE.

5. IN A SECOND PHASE, THE US WOULD SEEK AN EQUAL CEILING ON OTHER ELEMENTS OF THE STRATEGIC NUCLEAR FORCES, INCLUDING LIMITS ON BALLISTIC MISSILE THROW-WEIGHT AT LESS THAN CURRENT US LEVELS. IN BOTH PHASES THE US WOULD INSIST ON VERIFICATION PROCEDURES TO ENSURE COMPLIANCE WITH THE AGREEMENT.

6. PRESIDENT REAGAN HAD WRITTEN A LETTER TO BREZHNEV, AND HAD DIRECTED SECRETARY HAIG TO APPROACH THE SOVIET GOVERNMENT ABOUT INITIATING FORMAL NEGOTIATIONS AT THE EARLIEST OPPORTUNITY. HE HOPED THAT NEGOTIATIONS COULD BEGIN BY THE END OF JUNE.

FCO PASS SAVING ANKARA ATHENS BRUSSELS COPENHAGEN LISBON  
LUXEMBOURG OTTAWA OSLO ROME REYKJAVIK THE HAGUE  
DUBLIN WARSAW BUDAPEST BUCHAREST EAST BERLIN PRAGUE SOFIA  
BELGRADE NEW DELHI TOKYO PEKING

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MR GOODISON

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FROM: R R GARSIDE

DATE: 3 June 1982

1. SIR K COUZENS
2. CHANCELLOR

cc Mr Bottrill  
Mr Scholar, No 10 Downing ←  
Street

VERSAILLES ECONOMIC SUMMIT: UP-DATE ON SUMMIT ECONOMIES

I attach a note which brings together information on Summit countries which has become available since our brief on the World Economy was finalised ten days ago. The information is therefore additional to that in PMVS (82)3 Revised.

I also attach our latest note on World Economic Developments and a set of economic statistics on Summit countries.

*R. R. Garside*

R R GARSIDE

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VERSAILLES ECONOMIC SUMMIT: RECENT DEVELOPMENTS IN SUMMIT ECONOMIES

General

No general recovery of output in summit countries is underway yet, but the rate of inflation continues to fall. The average increase of the CPI for the summit countries over the past three months (annualised) has been about 7 per cent compared to its 1980 peak of 12 per cent.

United States

President Reagan comes to Versailles under something of an economic cloud. GNP declined slightly in the first quarter, real interest rates - at about 8 per cent - are higher than at any time since the 1930s, unemployment continued to rise fast in April and M1 growth by mid-May was 7.7% up at/annual rate since November compared to the  $2\frac{1}{2}$ - $5\frac{1}{2}$  per cent target for the whole of 1982.

Equally disturbing, after three months of negotiations and deliberation the Administration and Congress are still far from agreement on a budget for fiscal 1983, which begins on 1 October. Hopes of their reaching agreement have dimmed with the recent rejection by the House of Representatives of the budget plan for a \$116 billion deficit next year passed by the Republican-dominated Senate, and all other proposals before it. Meanwhile forecasts, both by the Administration and others, of federal deficits in years to come grow larger. Fundamental political differences over desirable levels of social spending and defence are reasserting themselves.

The good news is: that the inflation rate over the past 6 months to April - when annualised - has been only 2.8 per cent. (It may well move up a little from this); that some banks lowered their prime rates  $\frac{1}{2}$  per cent to 16 per cent last week, and that in April the index of leading indicators moved up for the first time in 12 months. This last development needs to be treated with caution until one sees whether the new direction is confirmed over the next two months.

Uncertainty continues about the Fed's conduct of monetary policy with some analysts claiming the Fed. has been easing credit recently.

This would be in line with calls now issuing from some Congressmen for easing monetary policy. In contrast to its position some months ago, the Administration however is giving no support to such an easement. Indeed Lawrence Kudlow, Chief Economist at the Office of Management and Budget, recently said: "We don't want to loosen the spigots at this point".

Three-month money market rates have eased down by one percentage point since the early spring to about  $13\frac{1}{4}$  per cent, but longer term rates edged higher last week as the supply of corporate bond issues coming to the market grew rapidly.

#### Federal Republic of Germany

The economic news from Germany is rather better than that from America. Revised figures, just published, show that industrial production rose at an annual rate of 3 per cent (seasonally adjusted) in the first quarter. Unemployment has stopped rising. Inflation has continued to abate (to 5 per cent in April). Wage settlements are generally at or below the 4.2 per cent set by the engineering industry. There is little or no industrial unrest actual or foreseen.

In May the authorities felt able to abolish the special Lombard rate, recently  $9\frac{1}{2}$  per cent, at which the Bundesbank lends to commercial banks, and the nominal Lombard rate, 9 per cent, is once more in effect. Central Bank Money is just above the 7 per cent upper margin of the current target band.

It remains to be seen whether the making of the 1983 Budget will be less of a trial than "Operation 82". Certainly it will not be easy. Difficulties to come were foreshadowed by the blocking by the CDU (by use of its strength in the Upper House of Parliament) of the 1 per cent increase in VAT intended to finance the government's employment package, while letting the rest of the package go through. Consequently in his maiden speech to the Bundestag as Minister of Finance, Lahnstein declared that the conditions for the income tax concessions promised for 1984 had "fallen away". Indeed he has warned that revenue will have to be increased. Even assuming further transfer to the Finance Ministry coffers of Bundesbank profits, an extra DM 5-7 billion of revenue will be required in 1983

to keep the deficit to its presently expected level of DM 30 billion. Left-wing resolutions passed by the SPD congress in April intensify the political strains within the party itself and with the FDP coalition partner.

### France

Signs of crisis in economic policy-making are accumulating, and as they shape their tactics for the Summit the French may remember the use Chancellor Schmidt made of the Ottawa Summit in his own budget-making last year. M. Mauroy and ministerial colleagues have spoken of the need for "rigour and realism", for "a change of speed", and for facing up to a long haul. M. Delors has been preaching the need for belt tightening to bring down increases in wages, health expenditure and social transfers. The government can count on a remarkable degree of realism and understanding from M. Maire, the leader of the CFDT, the Socialist trade union confederation, but the Communist Party and the Communist-controlled trade union confederation, the CGT, are ruling out "austerity" and opposing wage controls. President Mitterrand has confined himself so far to an affirmation that the main outlines of policy will not change.

The franc is under renewed pressure. It is almost at its floor-rate against the mark, and speculation both over a new devaluation and its eventual withdrawal from the EMS is gaining ground. President Mitterrand has told American journalists that he does not rule out either.

A supplementary budget announced in May increased the basic rate of VAT by 1% but lowered VAT on basic foods and reduced local company tax. The increased revenue is to be spent on a major investment programme by newly nationalised industries.

### Japan

Exports picked up in April after the pause round the turn of the year and the current balance moved to a \$1 billion surplus. The low level of output at the end of 1981 and start of 1982 has led to an expected ten per cent shortfall of revenue as compared with budget estimates, producing a government deficit considerably larger

RESTRICTED

than intended. To counteract the economic slowdown, the government brought forward a modest amount of public works expenditure originally planned for later this year. Interest rates have recently risen a little as the deficit has grown. The yen, however, remains weak (Y244 to \$1 at 2 June).

The Keidanren (Federation of Economic Organisations) says that the government should resign itself to low growth for at least the next few years and concentrate on cutting public expenditure to match the lower levels of revenue. On the other hand the Economic Planning Agency under Mr Toshio Komoto, with whom the Chancellor had a meeting at OECD, says the government should borrow more and spend more.

The package of measures relating to import tariffs and quotas announced at the end of May has been received without great enthusiasm by Japan's trading partners.

Italy

The Italian government has at last succeeded in obtaining parliamentary legislation of the core of its 1982 budget, but Signor Spadolini has lost his fight to hold the PSBR to 50 trillion lire, and the government estimates the PSBR will be at least 60 trillion.

The Italian employers' association has announced its intention of withdrawing from the country's wage indexation agreement with effect from next January. Strikes and demonstrations have erupted on a large scale in protest against the decision. Wage negotiations due to be held this year on three-year contracts for 10 million workers have not yet begun in earnest; they will now take place in a highly charged atmosphere.

## RECENT DEVELOPMENTS

Output and unemployment

Although there are no clear signs of a general recovery in the major industrial countries, real GNP is estimated to have risen in Germany in the first quarter. In the US, where output fell 1% in the first quarter, prospects may have brightened slightly with the news that the index of leading indicators rose in April for the first time in a year. Industrial production in the first quarter rose in Germany and Italy but fell in the USA, Canada and France; the growth of output in Japan halted, at least temporarily.

2. Seasonally adjusted unemployment now averages around 8% of the labour force in the major 7 industrial countries; it is now rising strongly in North America but more slowly in Europe. Japanese unemployment edged up slightly in March but still remains at only 2.3% of the labour force (1.3 million people).

Prices

3. Helped at least temporarily by the fall in US interest rates late last year and the fall in oil prices earlier this year consumer prices in the major 7 have rise at an annual rate of 6% in the latest period, while the year on year rate remains around 8%. The rate of increase in earnings in France (16%) and Canada (13 $\frac{1}{2}$ %) is high and rising. Elsewhere it is falling. A fall in food prices pushed commodity prices in SDR terms down 1 $\frac{1}{2}$ % in the first three weeks of May. Spot crude oil prices have fluctuated recently but the overall trend has been upwards; they have reached levels at, or not far short of, OPEC term prices. OPEC's shared reductions in output have been an important factor.

Financial

4. Half way through the year, US monetary growth is significantly above the targetted 2 $\frac{1}{2}$ -5 $\frac{1}{2}$ % annual increase: by mid-May M1 was an annualised 7.7% above the November base. Germany's Central Bank Money outstripped its 7% target growth in the five months to April.



5. Some US banks lowered prime interest rates  $\frac{1}{2}\%$  in mid-May but money market rates began to harden towards the end of the month following Congress's failure to agree a budget resolution. The earlier downward trend in the dollar was reversed. Simultaneously markets were also disturbed by speculation in Bonn and Paris over the possible withdrawal of the French franc from the EMS - fuelled in part by remarks made by President Mitterand to American journalists.

6. The improvement in current balances in Japan and Germany was halted in the first quarter with a reduction in the Japanese surplus and Germany returning to deficit. Japan, however, returned to strong surplus in April. The US was in strong surplus (\$3.8 bn in Q1) but Italy and France remained in deficit (the latter showing signs of worsening).

#### POLICY DEVELOPMENTS

7. United States: Budget-making has been stymied by the House of Representatives' rejection of draft budget proposals which would produce a deficit of \$116 billion ( $3\frac{1}{2}\%$  of GDP) for fiscal 1983, beginning on October 1. The Fed appears to have eased credit conditions in recent weeks - possibly in the aftermath of the Braniff and Drysdale collapses - but has countered Administration concern about too rapid M1 growth by claiming that the recent bulges are likely to be temporary.

8. Germany: The expenditure side of February's Joint Initiative' to stimulate investment and employment passed into law but the 1% increase in VAT from July 1983 that was to finance it has been rejected. The new Finance Minister, Herr Lahnstein, has said that on 16 June the Cabinet will decide on the 1982 Supplementary Budget and the draft 1983 Budget, both of which will be presented to Parliament in early July. Although this year's Federal deficit will probably exceed the planned DM 26.8 billion Schmidt and Lahnstein seem determined it should not exceed DM 30 billion. The general easing of credit conditions was symbolised in the replacement of the Special Lombard (official lending) rate by the normal Lombard system on 6 May.

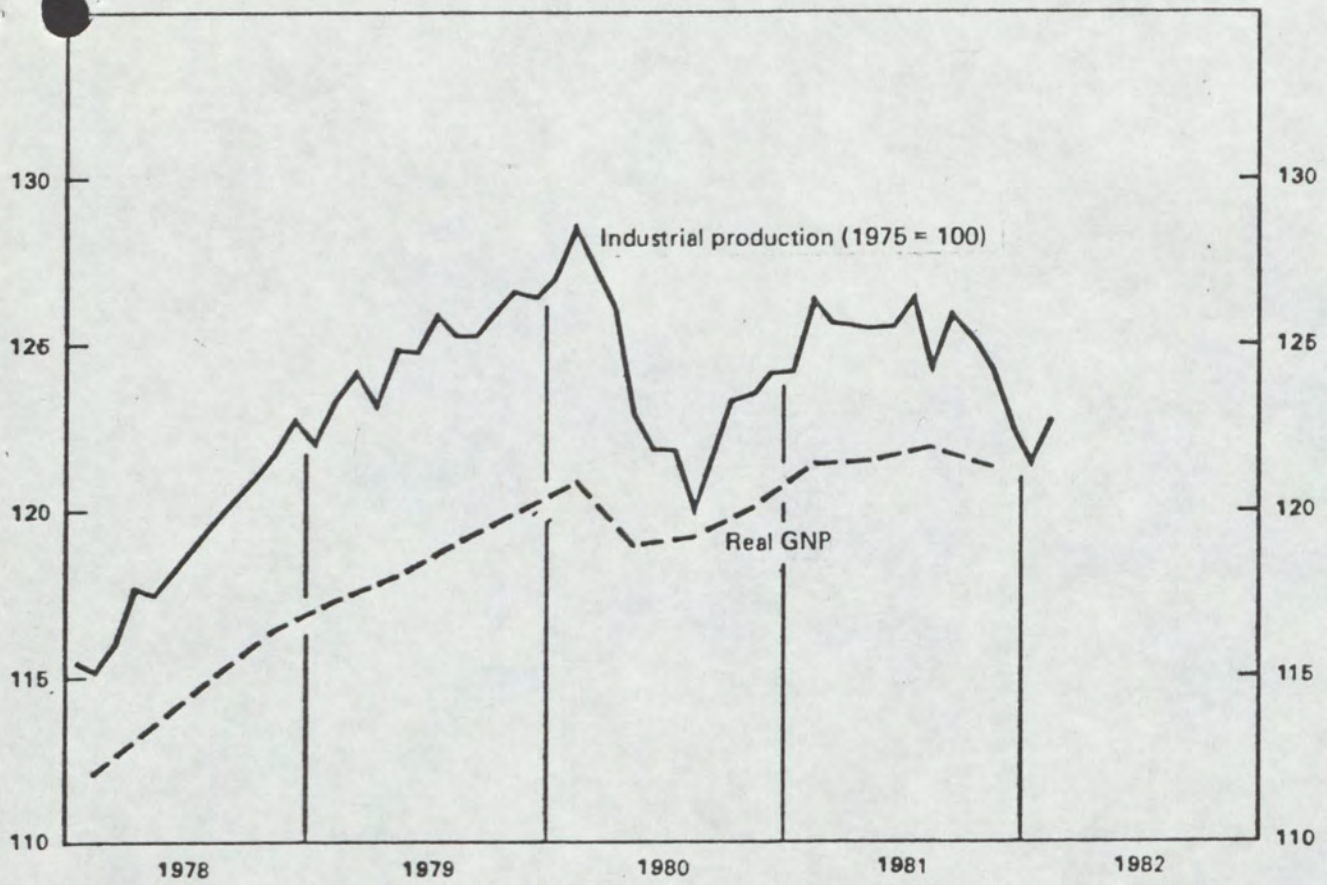
9. France A supplementary budget is passing into law. This raises the basic rate of VAT by 1% to 18.6% but lowers VAT on certain basic foods and reduces local company tax. The measures were announced as part of a fiscally balanced economic package by the Council of Ministers on 12 May in which the revenue gain from the VAT increase would be spent by the newly nationalised industries in a major investment programme to which the newly nationalised banks have also been directed to contribute. More important changes in economic policy have been foreshadowed in public statements by the Prime Minister and several of his colleagues calling for "rigour and realism" in the face of economic difficulties. Views long associated with M Delors are gaining ground.

10. Netherlands: The Labour party has withdrawn from the governing coalition and a new minority government was sworn in on May 29, consisting of Mr Van Agt's Christian Democrats and the Democrat 66 party. The government will rely on passive support from the Liberals (conservatives) to enable it to make controversial cuts in planned public expenditure, in the hope of winning a probable general election on September 8.

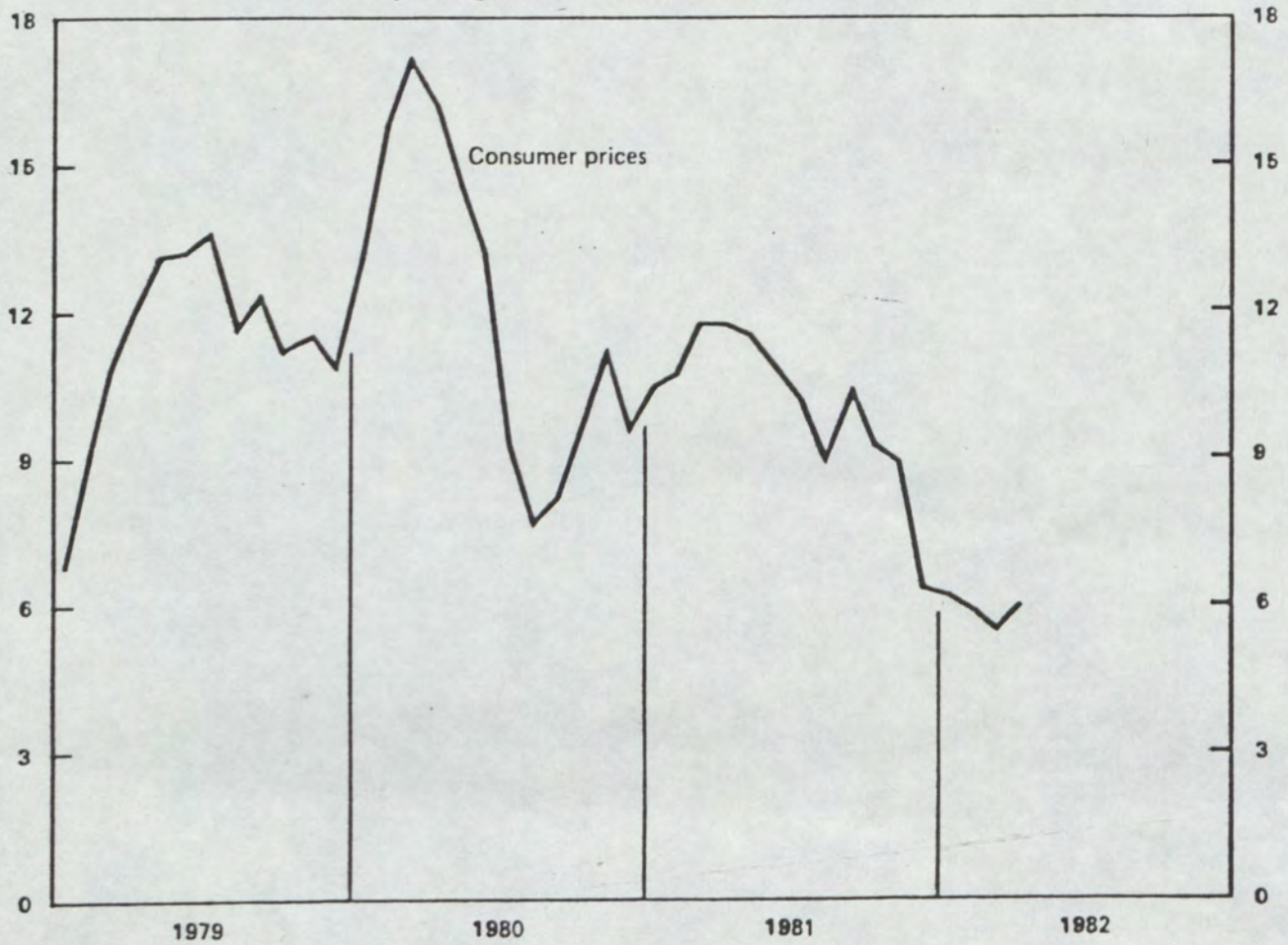
11. Italy: The core of the 1982 Budget was passed at the end of April but Sig Spadolini has probably failed to keep the PSBR to the Finance Bill's figure of 50 trillion lire, and an adjustment budget will be necessary later this year. The latest (government) estimate of the PSBR is 60 trillion lire (13% of GDP).

12. Japan: Lower than planned revenue growth has augmented the likely central government deficit for 1982; this was caused by the halt in the domestic economy's growth earlier this year and has prompted the government to a modest acceleration of public works programmes. To head off criticism at Versailles a package of tariff abolitions, cuts and increased import quotas was announced at the end of May.

Major 7 OECD Countries  
1975 = 100

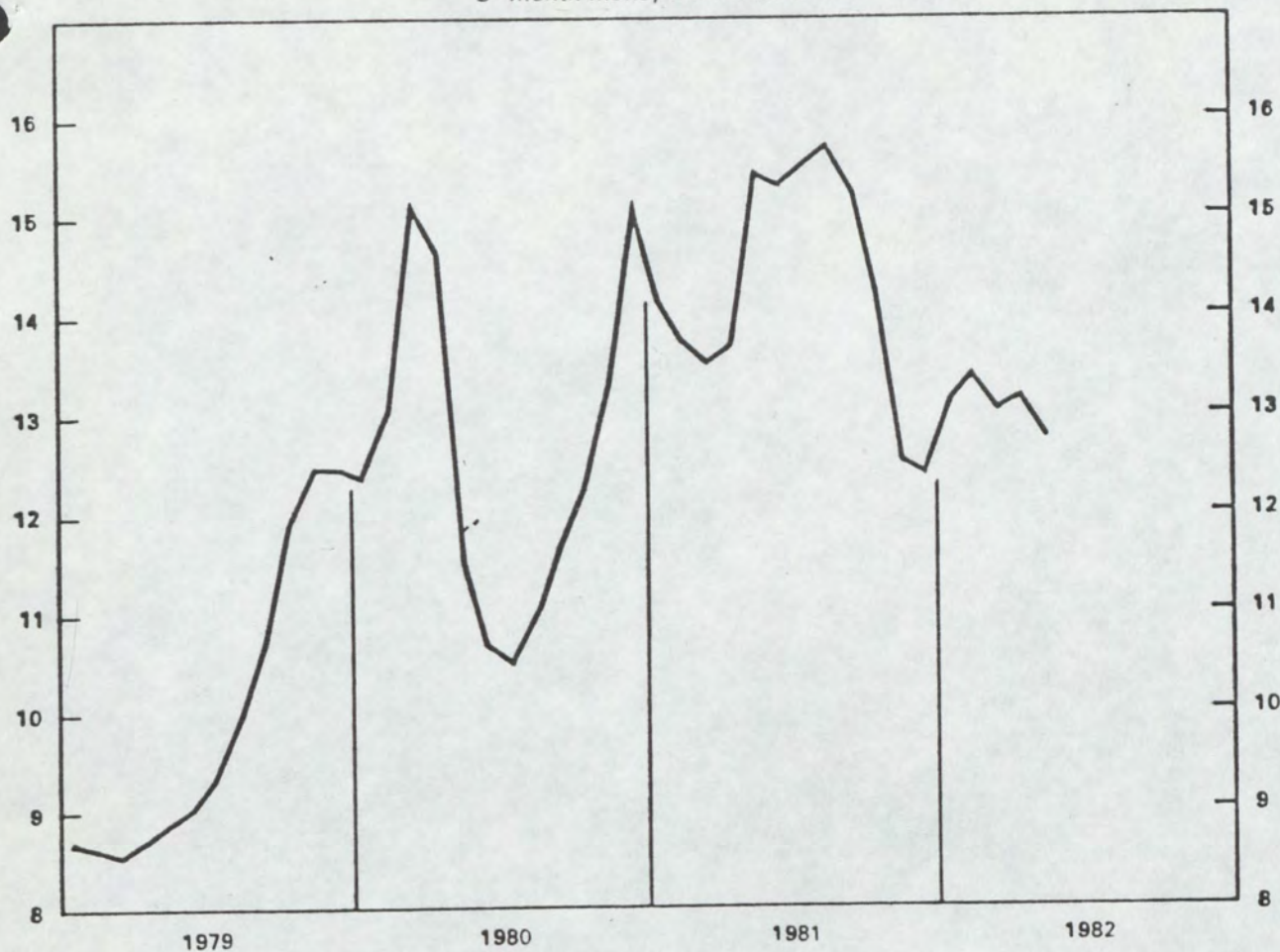


Percentage change over previous three months at an annual rate

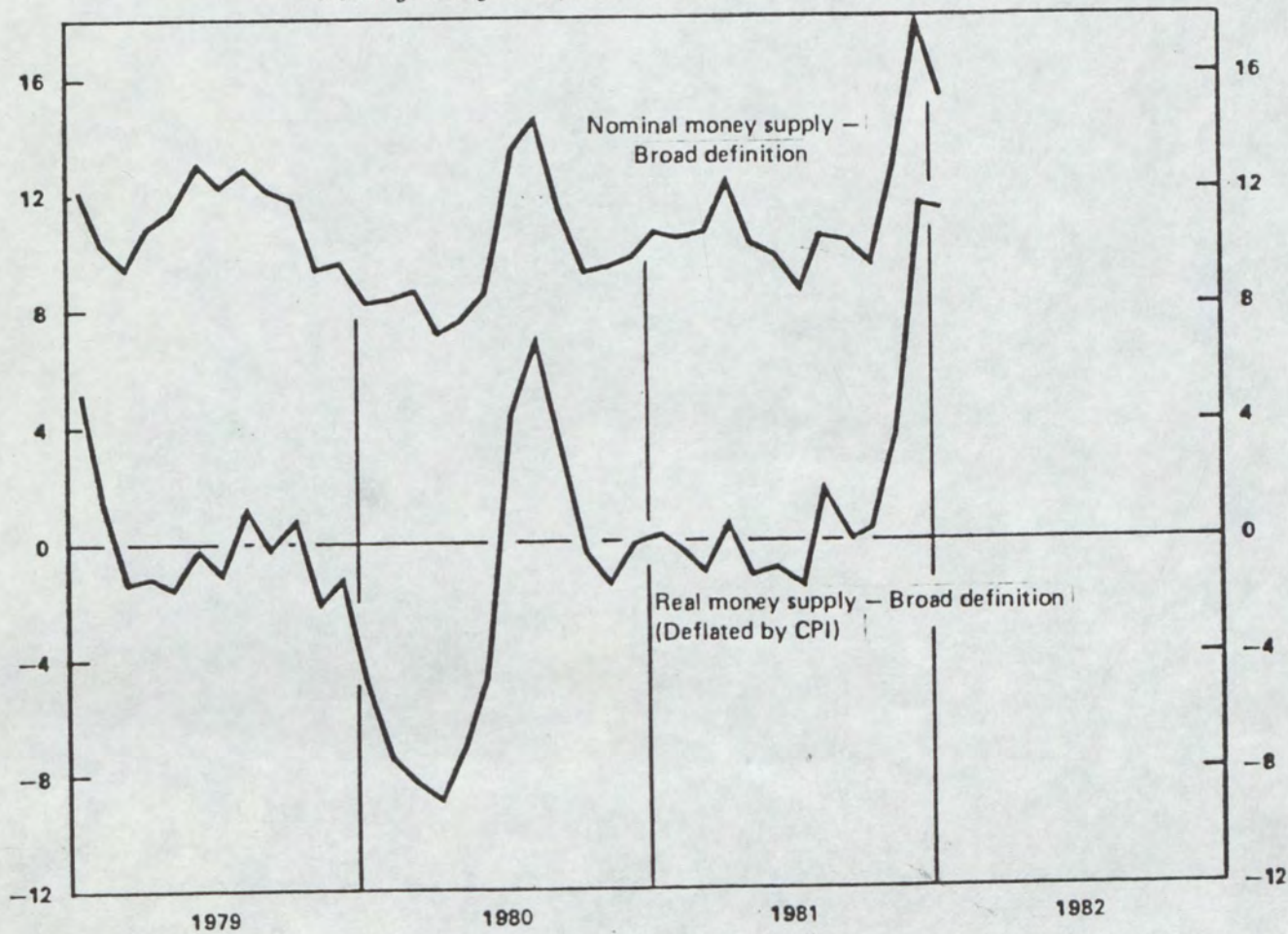


Major 7 OECD Countries

3-month money market rates



Percentage change over previous three months at an annual rate



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3 June 1982

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SHORT-TERM INTEREST RATES

ROSH T Weights	1981				1982			Latest available 31 May			
	1980	1981	I	II	III	IV	I		April	May	
Canada	.021	13.1	18.3	17.08	18.45	20.63	16.99	15.26	15.75	15.36	15.65
US	.345	13.1	15.8	15.81	16.76	17.34	13.22	14.32	14.34	13.39	13.25
Japan	.191	10.9	7.4	8.24	7.15	7.22	6.98	6.41	6.55	6.8	7.09
Germany	.197	9.5	12.1	11.37	13.14	12.76	11.19	10.18	9.34	9.14	9.15
France	.145	12.2	15.0	11.99	16.36	17.71	15.88	15.15	16.42	16.34	16.25
Italy	.101	17.6	20.2	18.01	20.30	21.19	21.23	21.33	20.84	20.88	20.88
Major 6		12.3	13.8	13.2	14.5	15.0	12.9	12.84	12.85	12.52	12.52
UK		16.7	13.9	13.35	12.48	14.33	15.63	14.42	13.81	13.44	13.44

The pattern of short term interest rates developments continues to be shaped predominantly by events in the US (viz the perceived inconsistency between monetary and fiscal policies). Significantly, Japan did not follow most Europeans last year in 'locking in' its rates to those in the US. Recent figures for 1982 show some modest attempts at 'decoupling' in Germany and the UK with some upward movement in Japan.

REAL GROSS NATIONAL PRODUCT

(percentage changes)

	1980 GNP Weights	1980	1981	1981*				1982*	OECD Forecast 1982 on 1981 (December Outlook)
				I	II	III	IV	I	
Canada	.04	0.0	3.0	3.9	5.8	-3.4	-2.1		1
US	.42	-0.2	2.0	8.6	-1.6	1.4	-4.5	-3.9	‡
Japan	.17	4.2	2.9	3.0	4.8	3.0	-3.5		3‡
Germany	.13	1.7	-0.2	1.1	-1.2	3.8	-1.2		1‡
France	.10	1.1	0.5	-1.6	5.1	0.3	5.2		2‡
Italy	.06	3.9	-0.2	3.3	-4.1	-6.6	10.6		1
MAJOR 6	.92	1.3	1.6	4.8	0.5	1.2	-1.7		1
UK	.08	-2.4	-2.8	-2.3	-1.1	1.5	1.5		‡
MAJOR 7	1.0	1.0	1.2	4.2	0.4	1.2	-1.4		1

\* On previous quarter at annual rate

The recovery in activity since mid-1981 has been hesitant and uneven. A sharp drop in export volume was mainly responsible for the fall in Japan's 1981 Q4 GNP. Activity early in 1982 remains especially weak in the US, Canada. In Europe growth in Germany may have picked up in 1982 Q1 (industrial output grew substantially), whilst growth in France may have slackened.

CONSUMER PRICES(percentage changes)

	1980 Consumers Expenditure Weights	1981						1982					Latest month on same month in 1981
		1980	1981	I	II	III	IV	I	Jan	Feb	Mar	April	
Canada	3.70	10.1	12.4	12.7	13.3	12.7	11.3	10.4	9.2	10.4	11.5	10.4	11.3
USA	43.58	8.5	10.4	10.7	10.3	10.8	8.8	4.7	6.0	5.1	2.7	3.3	6.6
Japan	15.82	8.0	4.9	4.2	5.2	3.8	2.8	2.2	2.8	3.5	0.6	2.1	3.0
Germany	11.74	5.5	5.9	6.1	8.1	6.1	5.0	5.4	5.8	5.4	4.8	5.1	5.0
France	10.73	13.3	13.4	12.0	13.1	15.3	15.1	12.7	13.0	12.5	12.6	12.4	14.1
Italy	6.32	21.2	19.3	22.9	20.3	15.2	16.2	18.1	17.5	19.1	17.8	15.4	15.6
MAJOR 6	91.89	9.5	9.9	10.1	10.3	9.9	8.7	6.4	7.2	7.0	5.2	5.5	7.4
UK	8.12	18.0	11.9	8.7	15.2	13.8	8.6	8.5	9.3	7.8	8.4	10.8	9.4
MAJOR 7	100.0	10.2	10.1	10.0	10.7	10.3	8.7	6.6	7.4	7.1	5.5	5.9	7.6

\*Over previous six months at annual rate

Inflation has slackened markedly since mid 1981. The sharpest improvement has occurred in the US where weakening demand, wage moderation and weak commodity prices have been complemented by the strength of the dollar. In Europe - with depreciating exchange rates - the improvement has been rather less marked.



EFFECTIVE EXCHANGE RATES1975 = 100

	1980	1981	<u>1981</u>				<u>1982</u>			Latest available June 1
			QI	QII	QIII	QIV	Q1	April	May	
Canada	84.5	86.9	84.7	86.9	87.9	88.2	88.4	88.4	86.9	86.7
US	93.9	105.7	98.6	105.5	111.2	107.4	111.7	115.4	112.9	115.4
Japan	126.5	142.9	146.7	143.1	140.3	141.7	139.3	135.7	137.7	135.4
Germany	128.8	119.3	111.9	118.2	116.5	122.5	121.8	123.5	125.2	124.1
France	94.4	84.4	88.0	84.5	82.8	82.1	80.0	78.8	80.0	79.4
Italy	67.2	58.3	61.6	58.3	57.2	55.9	55.0	54.1	54.3	54.2
UK	96.1	94.9	101.8	97.8	90.5	89.7	91.1	90.0	89.9	90.5

After some fall in 1981 Q4 the dollar had resumed its climb in 1982 on the back of increasing interest rate differentials. The Yen fell early this year but has firmed more recently, partly reflecting higher domestic interest rates. The strength of the Deutschemark so far this year probably owes much to favourable developments in fundamental factors (unit labour costs, current balances) since the authorities have sought to reduce interest rates.

UNEMPLOYMENT

(Percentage rates, seasonally adjusted)

(Annual figures - OECD definition; quarterly/monthly figures - national definition)

	1980 Labour Force Weights	1981	1981				1982		OECD forecast-1982 (December outlook)
			QI	QII	QIII	QIV	Q1	April	
Canada	4.23	7.5	7.3	7.2	7.6	8.4	8.6		8½
USA	38.99	7.4	7.4	7.4	7.4	8.4	8.8	9.4	9
Japan	20.62	2.2	2.2	2.3	2.2	2.2	2.2	2.2	2½
Germany	9.74	4.3	4.7	5.3	5.9	6.6	7.3	7.5	6
France	8.47	7.6	8.6	9.2	9.6	10.1	10.4	10.6	8½
Italy	8.32	8.3	8.7	8.4	8.8	9.6	10.4		9
MAJOR 6	90.37	6.0							7
UK	9.63	11.2	9.6	10.4	11.1	11.5	11.8	11.9	12
MAJOR 7	100.0	6.5							7½

\*Not seasonally adjusted

Unemployment rates have continued to rise into 1982 (with the notable exception of Japan). The sharpest rises have occurred in the US and Germany (in the latter case prompting a limited package of measures to boost investment). Short term growth prospects do not promise much more than a moderation in the rate of increase in most countries during the rest of 1982.

CURRENT BALANCES

(\$ billion seasonally adjusted)

	1980	1981	1981				1982		OECD forecast -year (December outlook)
			QI	QII	QIII	QIV	QI	April	
Canada	-1.6	-5.4	-1.2	-1.6	-2.1	-0.5	0.1		-10½
USA	3.7	6.6	3.3	1.2	2.2	-0.1	3.8		3
Japan	-10.8	4.7	-0.8	1.9	2.5	1.1	0.9	1.0	17
Germany	-16.3	-7.8	-4.5	-2.6	-2.2	1.5	-1.8	-0.7	1½
France	-7.8	-7.5	-2.2	-0.4	-2.2	-2.7	-2.2	-1.3	-6½
Italy	-9.8	-8.0	-4.5	-2.0	-0.6	-0.9	-3.1		-5
MAJOR 6	-42.7	-17.4	-9.9	-3.5	-2.4	-1.6	-2.5		-½
UK	7.2	16.2	6.8	4.2	2.4	2.8			2½
MAJOR 7	-35.2	-1.2	-3.1	0.7	0	1.2			1½

In 1981 the major economies sharply reduced their combined deficit (as OPEC's current account surplus deteriorated); Japan swung into a strong surplus, Germany halved its deficit and the US doubled its surplus. Japan moved back into strong surplus in April after the fairly modest surpluses around the turn of the year. In Europe the slowly emerging surplus in Germany contrasts continued weakness in France and Italy.

NARROW MONEY SUPPLY

(Percentage changes seasonally adjusted - end period)

		1980	1981	1981*				1982*				
				QI	QII	QIII	QIV	QI	Jan	Feb	Mar	April
Canada	M1	10.7	-0.1	6.2	-4.6	-10.6	10.2	-4.0	25.3	26.2	-4.0	
USA	M1	6.6	6.4	9.9	3.8	2.6	9.3	6.8	15.3	10.4	6.8	0.8
Japan	M1	-1.5	10.1	5.3	15.3	7.9	11.3		-5.3	-4.9		
Germany	CBM	5.3	3.0	4.1	4.0	3.8	0.2	8.8	3.0	8.1	8.8	9.6
France	M1	6.8	14.9	10.6	18.6	27.4	4.2					
Italy <sup>+</sup>	M1	13.4	9.9	-11.4	2.5	-5.0	69.2		46.8			
MAJOR 6		5.6	7.5	6.8	7.1	5.4	11.8					
UK	M1	4.0	9.1	15.8	14.8	5.1	1.4	2.7		6.1	2.7	
MAJOR 7		5.5	7.6	7.5	7.7	5.4	11.0					

\*percentage change on three months earlier at annual rate.

<sup>+</sup>not seasonally adjusted

Growth has been erratic but an expansionary trend can be detected in this year's figures for most countries (especially the USA, with annualised growth above the Fed's 2½-5½ target range for the period since last November). This may in some cases reflect increased transactions demand as activity hesistantly recovers.

BROAD MONEY SUPPLY

(Percentage changes seasonally adjusted - end period)

		1980	1981	1981*				1982*			
				QI	QII	QIII	QIV	Q1	Jan	Feb	Mar
Canada	M3	10.6	20.0	13.5	6.5	27.6	34.2	11.1	28.3	17.2	11.1
USA	M2	9.0	10.0	11.3	9.7	8.9	10.3	9.6	12.0	8.6	9.6
Japan	M2	7.8	10.5	8.9	10.1	12.7	10.3		8.3	9.1	
Germany	M3	6.3	4.8	4.5	9.4	4.5	1.0		9.3	10.0	
France	M2	9.7	11.5	16.5	17.0	10.2	2.8				
Italy <sup>+</sup>	M2	12.7	9.8	-7.8	-0.7	-1.6	61.6		42.0		
MAJOR 6		8.8	9.9	9.3	9.7	9.3	12.6				
UK	EM3	19.1	13.4	6.8	18.6	19.2	9.5	7.2		7.1	7.2
MAJOR 7		9.6	10.2	9.1	10.4	10.1	12.1				

\*percentage change on three months earlier at annual rate.

<sup>+</sup>not seasonally adjusted

In spite of higher interest rates broad money growth was generally greater in 1981 (end year on end year) than in 1980. Towards the end of 1981 growth was abruptly checked in Germany, France and the UK, however. So far this year positive real money growth appears to have continued (especially in the US, Germany and Japan).



Foreign and Commonwealth Office

London SW1A 2AH

3 June 1982

*Dear John,*Falklands: Briefing for Versailles Summit

As requested in David Goodall's letter of 2 June to Andrew Burns, I attach briefing for the Prime Minister's use at Versailles on the attitude of each of our 6 partners to the Falklands crisis. We have included a section on the Community, and also a note on Western relations with Latin America. Some basic documents, including Security Council Resolutions 502 and 505, are also attached. This material has been cleared with the Ministry of Defence.

I wrote to you separately this morning about the Prime Minister's meeting in Paris on 4 June with President Reagan.

In discussing the Falklands more widely at Versailles, whether bilaterally or multilaterally, the other heads of state or Government are likely particularly to ask about our policy once the Islands are recaptured. They are likely to be particularly interested in the future of relations with Argentina, relations with Latin America in general and Soviet influence in the area. As far as Argentina is concerned, the Prime Minister will wish to point out that much will depend on whether the Argentines realize the extent of their miscalculation over the invasion and end hostilities. We hope that they will and that relations can gradually return to normal. If they do not, continuing economic pressure on them will be needed, as well as tight restrictions on arms supplies. Relations with Latin America are covered in Annex 9.

On the dangers of Soviet influence, the Prime Minister will want to make clear our awareness of the Soviet dimension. But she could point to the already existing momentum of Argentine-Soviet relations (grain sales etc) and make clear that the risk of Soviet influence should not be overestimated. Traditional Argentine views are greatly against it. Equally

/the Soviet Union



the Soviet Union's own economic weakness may make her think twice about an expensive commitment in a country which is likely to be economically unsound and politically unstable.

I am copying this letter to Mrs McGraffin in the Cabinet Office and to Mr Webb in MOD.

*Yours ever*

*John Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

## FALKLANDS : BRIEFING FOR VERSAILLES SUMMIT

List of Documents

- Annex 1            Belgian attitude to the Falklands crisis.
- Annex 2            Canadian attitude to the Falklands crisis
- Annex 3            European Community attitude to the Falklands crisis
- Annex 4            French attitude to the Falklands crisis
- Annex 5            FRG attitude to the Falklands crisis
- Annex 6            Italian attitudes to the Falklands crisis
- Annex 7            Japanese attitude to the Falklands crisis
- Annex 8            US attitudes to the Falklands crisis
- Annex 9            Relations with Latin America
- Annex 10           Basic documents
- a) UN SCR 502
  - b) UN SCR 505
  - c) The Falkland Islands : negotiations for a peaceful settlement
  - d) Resolutions adopted by Rio Treaty signatories on 28 April and 29 May.



## CONFIDENTIAL

VERSAILLES ECONOMIC SUMMIT : ATTITUDES TO THE FALKLANDS OF OTHER  
SUMMIT COUNTRIES

## BELGIUM

1. The Belgian Government has supported Britain firmly since the beginning of the crisis. Mr Tindemans, the Foreign Minister, has been robust in his support both in public and privately. King Baudouin has also expressed to our Ambassador his personal support. At the debate in the UN Security Council on 23 May the Belgian representative made a most helpful contribution. The Belgians were also active in their EC Presidency role in securing the renewal of trade sanctions against Argentina.
2. Belgian press comment has been generally balanced and often positively in support of the British position. However, there have been some dissenting voices in the smaller circulation periodicals and, as time goes on, anxiety is being expressed as to the long-term solution of the problem.

10. EL SALVADOR DELIVERED A LEGALISTIC BUT MODERATE STATEMENT (INDEED, ALL THE CENTRAL AMERICANS, EXCEPT NICARAGUA, HAVE BEEN STRIKINGLY MODERATE). THE SECURITY COUNCIL SHOULD PROMOTE A CEASEFIRE AND THE RESUMPTION OF NEGOTIATIONS. THE SECRETARY-GENERAL COULD HAVE BEEN SUCCESSFUL IF HE HAD BEEN GIVEN MORE TIME QUOTE WHICH ARGENTINA APPEARED TO BE READY TO GIVE HIM UNQUOTE. THE COUNCIL SHOULD THEREFORE GIVE HIM A FORMAL MANDATE TO SECURE THE IMPLEMENTATION OF 502.

11. Mlle Dever (Belgium) spoke next (text by facsimile to emergency unit). Her statement was much better than those of either France or the United States. She mentioned the tendency to forget that the Argentine invasion had been the cause of the present situation. Argentina had disregarded SCR 502. There were important principles at stake. The use of force was inadmissible. To reward it would encourage others with territorial ambitions. The reaction of small countries had indicated that this point was well understood. Belgium rejected the novel doctrine that economic sanctions were contrary to Article 41 of the Charter. In taking part in those sanctions Belgium, like its partners, had wanted to demonstrate its disapproval of a Charter violation condemned by a Security Council resolution and above all to support diplomatic efforts to find a negotiated solution.

12. Kamil (Indonesia) congratulated the Secretary-General and called for implementation of SCR 502. The agreement already achieved by the Secretary-General should be built upon. He recalled that in the case of West Irian the Secretary-General had played a role which had brought the war to an end. Although there might be differences in the present case, the West Irian settlement was a precedent that should be kept in mind. The Secretary-General should be mandated to continue his efforts to obtain a ceasefire, implementation of SCR 502 and the establishment of a framework for negotiations under his auspices.

13. Calle y Calle (Peru) made a strongly pro-Argentine statement. If the Security Council had been in existence in 1833 it would have demanded British withdrawal. SCR 502 was partial because it did not cover the de-colonisation aspect. It had not promoted a peaceful settlement. Calle y Calle reviewed Belaunde's efforts: the original call for a truce; the negotiations at the end of April; and the most recent proposals. He succeeded in giving the impression that the failure of Peru's efforts had been due to British insistence that the only solution lay in prior withdrawal by Argentina, i.e. restoration of the status quo, which Argentina could obviously not accept. But the most recent proposals had not been rejected by the UK, so the idea was still alive. Meanwhile, the Council should adopt a resolution calling for an immediate ceasefire and giving a new mandate to the Secretary-General.

VERSAILLES ECONOMIC SUMMIT : ATTITUDES TO THE FALKLANDS OF OTHER  
SUMMIT COUNTRIES

CANADA

1. The Canadians have taken a robust and helpful attitude over the Falklands. Mr Trudeau has said publicly that Canada is 100% behind the British, and Mr MacGuigan declared Canada's full support of whatever action Britain took. They reacted quickly by imposing a ban on arms shipments and withdrawing their Ambassador from Buenos Aires for consultations. Following the EC decision they also imposed sanctions by banning imports and new official export credits. These did not affect the arrangements for continuing to service the Candu nuclear reactor which the Canadians have sold to the Argentines. There is widespread public support in Canada for Britain's policy on the dispute.

2. After Versailles, Mr Trudeau is going on to visit Spain (7-9 June) and Yugoslavia (10-13 June). He could be asked to put the following points on the Falklands to his hosts:-

(a) In Spain. Britain's stance on Falklands not a confrontation between the West and Latin America. Britain greatly values its historic links with Latin America and hopes to build on them. Our sole objective in relation to Falkland Islands is to end Argentina's ill-considered invasion and to restore British administration. Spain would be well placed to assure their Latin American friends of this.

(b) In Yugoslavia. British actions in South Atlantic purely in self-defence, following Argentina's initial invasion and persistent refusal to withdraw its forces peacefully. Falkland Islanders fully entitled, like other peoples, to the right to self-determination.

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VERSAILLES ECONOMIC SUMMIT : ATTITUDES TO THE FALKLANDS OF OTHER  
SUMMIT COUNTRIES

EUROPEAN COMMUNITY

1. In the first week after the invasion the member States agreed to embargo arm exports to Argentina. They later agreed that there would in practice be no offers of new officially supported export credit to Argentina. On 16 April a one month ban on all imports from Argentina was introduced. On 17 May it was extended for one week. Italy and Ireland did not apply the extension, but agreed to make arrangements to prevent this leading to trade diversion.

However, Denmark no longer applies the ban on a Community basis but has introduced equivalent national measures. On 24 May the ban was again extended without time limit, on the same basis.

2. Immediately after the invasion the European Community issued its own statement condemning Argentine aggression. Since then, the Commission has consistently been helpful in preparing and implementing Community decisions on economic measures against Argentina.

## VERSAILLES ECONOMIC SUMMIT : ATTITUDES TO THE FALKLANDS OF OTHER SUMMIT COUNTRIES

## FRANCE

1. The French Government have from the outset been unequivocal in their support for British action over the Falklands, both at the UN and elsewhere, although France has adopted no formal position on the question of sovereignty over the Islands. President Mitterrand, has made several public statements of support : the latest on American television over the weekend of May 29/30. The French position has been based on recognition of the issues of principle involved (international law, peaceful settlement of disputes, Argentina the aggressor), the implications for French overseas territories, and solidarity with a fellow EC/NATO/permanent UN Security Council member.

2. The Communist Ministers have maintained government solidarity over the Falklands, although the Communist Party leader and the official Communist daily L'Humanité, have condemned British action as colonialist in inspiration. For the rest, with one or two exceptions, press reporting has been reasonably fair and objective.

3. French government support has been translated into practical intervention on the UK's behalf, eg with the Japanese, and over arms supplies by third countries. The French have supported EC sanctions throughout.

4. French support will continue 'as long as the conflict lasts'. President Mitterrand has told the Prime Minister that he always expected the present phase to end in military recapture of the Falklands. But he is concerned that a long-term solution should be found and that relations between Europe and Latin America should not be permanently damaged. He has urged publicly and privately that diplomacy should be active in the next phase. France's economic and commercial interests in Latin America will be a factor in her attitude.

5. The Prime Minister will know of the latest developments

concerning the French block on Exocet deliveries to Peru. The French Government have given us vital cooperation in our efforts to prevent Argentina obtaining Exocets via third parties. They have come under strong pressure as a result from the manufacturers, which they believe they have resisted. The French have also provided, on a confidential basis, a considerable amount of technical information on French arms held by Argentina, as well as practice for our pilots against Mirages. On 2 occasions articles in the British press (notably a Sunday Times piece on the sale of Exocet to Argentina) have resulted in French complaints. Those have been smoothed over by letters from Mr Nott to M. Hernu, and by public statements acknowledging French support.

6. Separate briefing is being provided on Lt Cdr Astiz.

France / Falklands

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FALKLANDS : FRENCH ATTITUDE

1. SPEAKING ABOUT THE FALKLANDS IN THE COURSE OF A PRESS CONFERENCE ON 24 MAY IN THE IVORY COAST, PRESIDENT MITTERRAND IS QUOTED BY LE MONDE AS SAYING THAT " BRITAIN IS OUR ALLY, IT IS A COUNTRY WITH WHICH WE HAVE LIVED OVER THE COURSE OF THIS CENTURY THROUGH THE MOST TRAGIC MOMENTS OF OUR EXISTENCE. WE HAVE LIVED THROUGH A PERIOD OF INTENSE SOLIDARITY WITH BRITAIN AND BRITAIN WITH US. ALL THESE LINKS BETWEEN US CANNOT BE AT THE MERCY OF EVENTS, HOWEVER REGRETTABLE, SUCH AS THOSE GOING ON AT THE MOMENT". AFTER DESCRIBING LATIN AMERICAN VIEWS THAT BRITAIN'S BEHAVIOUR WAS COLONIALIST AS "RATHER EXCESSIVE", MITTERRAND WENT ON: "FRANCE HAS VERY STRONG STRONG LINKS WITH LATIN AMERICA WHICH GO BEYOND TRADE LINKS, WHICH DERIVE FROM FACTORS OF CIVILISATION. WE THEREFORE WANT THE FRIENDSHIP OF THESE PEOPLES, WE HAVE IT AND WE DON'T WANT TO LOSE IT". MITTERRAND ADDED THAT THE ARGENTINE INITIATIVE HAD OFFENDED "BRITAIN, OUR FRIEND" IN ITS INTERESTS AND ITS PRIDE. HE OBSERVED THAT FROM THE MOMENT WHEN BRITAIN IT COULD NOT ACCEPT THE FAIT ACCOMPLI IN THE FALKLANDS, ITS FLEETS COULD NOT RETURN HOME WITHOUT FULFILLING ITS MISSION WHICH COULD NOT BE JUST ONE OF INTIMIDATION. MITTERRAND CONCLUDED: "FRANCE WILL ALWAYS BE A FIRM SUPPORTER OF A RETURN TO A JUST PEACE ("PAIX DANS LE RESPECT DU DROIT"). THIS MEANS THAT EVERYTHING THAT MIGHT BE DONE AND SAID TO BRING ABOUT THE EARLIEST POSSIBLE END TO THE FIGHTING WHILE RESPECTING THE LAW WILL BE DONE BY FRANCE. HOWEVER WE WILL NOT DO IT OUT OF INDULGENCE TOWARDS ONE PARTY OR THE OTHER, WE WILL DO IT BECAUSE THE RETURN TO A JUST PEACE IS A CONSTANT THEME OF FRENCH DIPLOMACY". IN THIS CONNECTION, MITTERRAND RECALLED FRANCE'S ATTACHMENT TO RESOLUTION 502.

2. SPEAKING IN SIMILAR VEIN AT AIX-EN-PROVENCE ON 23 MAY, THE FRENCH DEFENCE MINISTER SAID " IF WE WANT PEACE THAT MEANS A JUST PEACE ALLOW THE DEFENCE MINISTER TO SAY IN THIS CONTEXT THAT THE AGRESSOR IS ARGENTINA, AND THE VICTIM IS BRITAIN, AND THAT BRITAIN IS DEFENDING ITS RIGHTS".

3. HERNU IS ALSO QUOTED AS SAYING THAT HE HAD NO KNOWLEDGE OF ANY OFFICIAL REQUEST FROM MR NOTT OR THE BRITISH GOVERNMENT CONCERNING THE POSSIBLE LOAN OF FRENCH PLANES TO BRITAIN. HE WAS COMMENTING ON REPORTS STEMMING APPARENTLY FROM A CLAIM

MARCEL



RESTRICTED

MARCEL DASSAULT HAD MADE ON THE RADIO THAT BRITAIN HAD ASKED FOR THE LOAN OF SUPER-ETANDARDS AND MIRAGES TO STUDY THEIR STRENGTHS AND WEAKNESSES.

4. FRENCH PRESS COVERAGE OF THE PENDING HAS BEEN REASONABLY FAVOURABLE. LE FIGARO AND LE QUOTIDIEN ( BOTH RIGHT-WING ) HAVE CARRIED STRONGLY SUPPORTIVE EDITORIALS AND EVEN LE MONDE IN ITS EDITORIAL ON 23 MAY ADMITTED THAT WHATEVER ARGENTINA'S RIGHTS MIGHT BE OVER THE FALKLANDS IT HAS BEEN THE AGGRESSOR.  
FRETWELL

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*France/Falklands*

FALKLANDS: US TELEVISION INTERVIEW WITH PRESIDENT MITTERRAND

1. IN A US TELEVISION INTERVIEW AT THE WEEKEND (A CURTAIN RAISER TO THE VERSAILLES SUMMIT) PRESIDENT MITTERRAND WAS ASKED WHETHER CONTINUED FIGHTING BETWEEN BRITAIN AND ARGENTINA WOULD INTRUDE ON THE SUMMIT. HE REPLIED :

'IT SO HAPPENS THAT LIKE MANY OTHERS WE FOUND OURSELVES IN A DIFFICULT SITUATION BECAUSE OF THE — EMBARRASSING SITUATION — BECAUSE OF THE FALKLANDS CRISIS. ON THE ONE HAND, GREAT BRITAIN, AN ALLY, A FRIEND, THE WHOLE HISTORY OF THAT COUNTRY IS INTERWOVEN WITH OUR OWN, MANY, MANY YEARS AND PARTICULARLY SINCE THE BEGINNING OF THIS CENTURY, WITH TWO WORLD WARS, WE ARE REALLY WELDED TOGETHER WITH GREAT BRITAIN. AND SO IF THERE ISN'T A REFLEX OF SOLIDARITY BETWEEN ENGLAND AND FRANCE THEN BETWEEN WHOM COULD SUCH A REFLEX EXIST?

WE AREN'T, IN SAYING THAT, SETTLING THE PROBLEM IN LAW. BY USING FORCE, BY CHOOSING FORCE, ARGENTINA HAS IN FACT BROKEN THE RULE OF LAW AND DISPLACED SOMETHING WRONG. AND SO, THE BRITISH REACTION WAS A FAIRLY OBVIOUS ONE. THE BRITISH WOULDN'T HAVE SENT A NAVAL TASK FORCE ALL THAT DISTANCE JUST TO MAKE IT GO ON, SAIL TOWARDS CHINA OR POLYNESIA.

WE HAVE NOTHING AGAINST THE PEOPLE OF ARGENTINA, AND WE ARE REALLY VERY SAD TO BE IN SUCH A SITUATION IN WHICH THOSE COUNTRIES COULD PERHAPS DOUBT OUR FRIENDSHIP, THE COMMON BASIS, THE COMMON CIVILIZATION THAT WE HAVE. SO WE ARE IN A SITUATION WHERE THERE IS ONLY A BAD SIDE TO IT AND THAT OF COURSE IS VERY FREQUENT IN POLITICAL LIFE. SO I DECIDED THAT OUR DUTY WAS FIRST OF ALL TO SHOW FULL SOLIDARITY WITH THE BRITISH, NUMBER ONE, BECAUSE THEY HAVE BEEN THE VICTIMS OF AN OPPRESSION. THEY HAVE BEEN INJURED, THEIR INTERESTS, AND THEIR INTERNATIONAL PRIDE AS WELL.

THE SECOND POINT IS THAT WE MUST DO EVERYTHING THAT WE CAN DO BECAUSE, ONCE GREAT BRITAIN HAS MANAGED TO AGAIN GET CONTROL OF THE PROPERTY OR PART OF THE PROPERTY, THEN WE MUST DO ALL THAT WE CAN POSSIBLY DO IN ORDER TO MOVE TOWARDS PEACE BY THE VARIOUS MEANS THAT THE UNITED NATIONS WILL EVOLVE, IN PARTICULAR, THE SECRETARY GENERAL'S MISSION. AND AS WE SAID AT THE VERY BEGINNING, THROUGH RESOLUTION 502 IN PARTICULAR WE MUST MOVE TOWARDS PEACE THROUGH LAW. SO THAT IS THE SITUATION''.

HENDERSON

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FALKLAND ISLANDS

## VERSAILLES ECONOMIC SUMMIT : ATTITUDES TO THE FALKLANDS OF OTHER SUMMIT COUNTRIES

## GERMANY

1. The Federal Government have made it clear that they will support us over the Falklands 'as long as the conflict lasts' (Schmidt with Mitterrand, 15 May) and have agreed to extend Community sanctions indefinitely. They also made valiant efforts to keep the Italians on board over sanctions. But German support, which wobbled greatly after the sinking of the Belgrano, has become reluctant since the first UN negotiations broke down and our landing took place. The Chancellor repeated last week in public that German support is not a 'blank cheque' for Britain, and indeed gives Germany a 'moral duty' to impress on Britain the need for 'proportionality' in her reactions. Members of the Chancellor's office have told us of the Chancellor's deep concern over our present stance on negotiations. Herr Genscher has been staunch in his support for our rights and principles, but told the Cabinet on 26 May, we understand, that he had agreed to extend sanctions only on the understanding that the UK as well as Argentina would do everything possible to achieve a political solution.
2. The German Government condemn Argentina's aggression and the breach of international law involved. They were impressed by our efforts to find a peaceful solution, embodied in our draft interim agreement of 17 May, but felt that we abandoned the attempt too quickly.
3. Behind this attitude lies the emotional German aversion to war. Two other worries have loomed larger in the past ten days. One is the possibility of damage to Europe's and (especially) the US's relations with Latin America, from which they believe only the USSR stand to gain. The other is the possible effect in both short and long term on our NATO contribution and our forces in the FRG.
4. The German interest in trade with Argentina is very substantial. They took 28% of all the European Community's imports from Argentina

5. German firms have a contract to build four frigates for Argentina. The first of these is one for delivery at the end of this year, but sea trials have been delayed partly as a result of the withdrawal of Rolls Royce engineers. Completion of the subsequent three vessels will be at five monthly intervals after the first. The value of the contract is £430 million of which contracts awarded to UK companies are in excess of £35 million. The value of progress payments is not known but can be assumed to be about a third.

VERSAILLES ECONOMIC SUMMIT : ATTITUDES TO THE FALKLANDS OF OTHER  
SUMMIT COUNTRIES

ITALY

1. About half of Argentina's population is of Italian extraction. There are over one million Italian passport holders in the country, who are entitled to vote in Italy's national elections and therefore form an important lobby. Italy has important commercial interests in Argentina and generally in South America.
2. Italian foreign policy often closely reflects internal political considerations. The Prime Minister, Spadolini, along with Foreign Minister, Colombo, was keen to maintain Community solidarity (a constant in Italian foreign policy) by renewing EC sanctions against Argentina, but his tiny Republican party commands only 3% of the Italian vote. The Christian Democrats and Socialists, the two largest coalition partners, were opposed. Had Spadolini gone ahead with a renewal of EC sanctions the government could have collapsed.
3. Many Italians saw sanctions as contributing to the escalation of the conflict. They saw opportunities for the Soviet Union in Argentina and adverse effects on long term relations between Europe and Latin America. Coupled with this were doubts about the efficacy of sanctions. Many Italians, including politicians, thought they would make matters worse by hardening junta attitudes.
4. Among Italian politicians and public there is an automatic assumption that every problem can be solved by negotiation. Issues tend to be sidestepped in search of acceptable compromise rather than tackled head on. The common press clichés are that the hostilities are 'absurd' and Britain's reaction to the Argentine invasion 'disproportionate'. The Pope's comments on the tragedy of war and senseless loss of life will understandably have struck a chord with most Italians.
5. Since the decision not to renew sanctions there has been some

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criticism of the Government's stance. Spadolini and Colombo have stressed that there has been no weakening in Italy's political support for the UK. Spadolini took a robust line in a meeting with the new Argentine Ambassador to Italy on 24 May, (Rome telno 282).

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FROM ROME 260700Z MAY 82

TO PRIORITY FCO

TELNO 282 OF 26 MAY 82

INFO ROUTINE WASHINGTON, UKMIS NEW YORK, PARIS, BONN,

UKREP BRUSSELS

INFO SAVING BIS BUENOS AIRES

MY TELNO 274: FALKLANDS: ITALIAN VIEWS

1. SPADOLINI RECEIVED LUCHETTA, THE NEW ARGENTINE AMBASSADOR, ON 24 MAY. OUR TRANSLATION OF THE MAIN POINTS OF THE COMMUNIQUE ISSUED AFTERWARDS IS AS FOLLOWS :

QUOTE. SPADOLINI STATED THE ITALIAN GOVERNMENT'S VIEW THAT THERE ARE NO ALTERNATIVES TO NEGOTIATION FOR THE GRAVE CONFLICT WHICH HAS STRUCK THE SOUTH ATLANTIC, FOLLOWING ON FROM THE ARMED VIOLATION OF INTERNATIONAL LAW CARRIED OUT BY THE ARGENTINE GOVERNMENT WITH THEIR INVASION OF THE FALKLAND ISLANDS AND FROM ALL THE MILITARY ACTION WHICH RESULTED. SPADOLINI RECALLED ITALY'S CONDEMNATION OF THE USE OF FORCE TO SOLVE INTERNATIONAL DISPUTES AND HER CALL , IN COMMON WITH THE EC COUNTRIES, FOR THE FULL APPLICATION OF RESOLUTION 502. ITALY HAD DEMONSTRATED IN DIFFICULT CONDITIONS THAT SHE TOOK ACCOUNT OF HER ETHNIC LINKS WITH THE ARGENTINE PEOPLE. SPADOLINI ASKED LUCHETTA TO TRANSMIT TO HIS AUTHORITIES AN URGENT APPEAL TO GIVE PROOF OF A GREATER SENSE OF RESPONSIBILITY, COOPERATING IN EVERY WAY FOR A PEACEFUL AND NEGOTIATED SETTLEMENT IN THE CONTEXT OF THE UN INITIATIVE, AN INITIATIVE WHICH WAS ITSELF WITHIN THE GUIDELINES OF THE US MEDIATION.

UNQUOTE.

2. THE MFA ASSURE US THAT THE COMMUNIQUE ACCURATELY REFLECTS THE FIRM LINE TAKEN BY SPADOLINI. THEY BELIEVE THE PHRASE ABOUT "GREATER SENSE OF RESPONSIBILITY" MAY CAUSE DIFFICULTY IN BUENOS AIRES.

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## VERSAILLES ECONOMIC SUMMIT : ATTITUDES TO THE FALKLANDS OF OTHER SUMMIT COUNTRIES

## JAPAN

1. Japan voted for SCR 502, although there were reports of some initial hesitation. Thereafter, although the Japanese Government claimed to have spoken firmly to Argentine representatives and to have warned of the possible economic consequences, they took no clear economic measures for several weeks. The letter of 12 April from the Japanese Prime Minister sets out the Japanese view in general terms, and was amplified when the Japanese Ambassador told the FCO on the same day that no application for new commitments for export credit to Argentina was expected (but was not prepared to make a public statement to this effect). A further message from the Japanese Prime Minister delivered on 27 April said that the Japanese Government would advise Japanese businessmen not 'unduly' to take advantage of the import ban imposed by the EC and other countries. A reply from Mrs Thatcher dated 28 April took up the reference to 'unduly' and asked Japan to consider imposing actual restrictions on trade. There has been no response. Japan's reluctance to do more is based on her economic interests in Argentina, including a large surplus on bilateral trade; the large numbers of Japanese nationals or people of Japanese origin in Argentina and elsewhere in Latin America; and claimed difficulties about taking specific action on imports in the absence of an explicit UN resolution, because of the restrictions of GATT and of Japan's domestic legislation.



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FCO DESKBY 121000Z

FM TOKYO 120810Z

TO IMMEDIATE F C O

TELEGRAM NO 192 OF 12 APRIL

AND RFPRIORITY WASHINGTON UKMIS NEW YORK CANBERRA OTTAWA AND

EC POSTS

SAVING WELLINGTON

MIPT FALKLANDS

FOLLOWING IS TEXT OF MR SUZUKI'S LETTER TO MRS THATCHER:-

DEAR PRIME MINISTER,

THANK YOU VERY MUCH FOR YOUR DETAILED MESSAGE CONCERNING THE FALKLAND ISLANDS ISSUE, WHICH WAS DELIVERED TO ME THROUGH YOUR AMBASSADOR, SIR HUGH CORTAZZI. I HAVE BEEN FOLLOWING WITH A SENSE OF GRAVE CONCERN THE DEVELOPMENTS IN AND AROUND THE FALKLAND ISLANDS SINCE MILITARY ACTION WAS TAKEN BY THE ARGENTINE ARMED FORCES. I HAVE ALSO READ YOUR MESSAGE WITH GREAT ATTENTION. THE GOVERNMENT OF JAPAN CONSIDERS THAT THE USE OF FORCE BY ARGENTINA VIOLATES THE BASIC PRINCIPLES OF PEACEFUL SETTLEMENT OF CONFLICTS AND NON-USE OF FORCE OF THE UNITED NATIONS CHARTER AND THAT SUCH ACTION CAN NEVER BE ACCEPTED. WE STRONGLY HOPE THAT THE WITHDRAWAL OF THE ARGENTINE FORCES WILL BE PROMPTLY REALIZED AND THAT THIS DISPUTE PEACEFULLY SETTLED THROUGH DIPLOMATIC NEGOTIATIONS.

IT WAS FROM THIS BASIC STANDPOINT THAT JAPAN IMMEDIATELY SUPPORTED THE RESOLUTION Tabled BY YOUR GOVERNMENT AT THE SECURITY COUNCIL OF THE UNITED NATIONS AND THAT, ALSO IN TOKYO, THE JAPANESE GOVERNMENT CLEARLY EXPLAINED OUR POSITION BOTH DOMESTICALLY AND INTERNATIONALLY.

THIS POSITION OF JAPAN HAS BEEN CONVEYED TO THE ARGENTINE SIDE ON VARIOUS OCCASIONS, AND ON APRIL 12, THE MINISTER FOR FOREIGN AFFAIRS, IN CONFORMITY WITH MY WISHES, MADE THE FOLLOWING REPRESENTATIONS TO THE ARGENTINE AMBASSADOR:

(I) WE DEEPLY REGRET THE USE OF FORCE BY ARGENTINA AND URGE THAT ITS FORCES WITHDRAW IN COMPLIANCE WITH THE SECURITY COUNCIL RESOLUTION:

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(11) THE GOVERNMENT OF JAPAN PLACES HIGH EXPECTATIONS ON GOOD OFFICES BY THE UNITED STATES AND HOPES THAT ARGENTINIAN WILL RESPOND POSITIVELY TO THE EFFORTS OF THE UNITED STATES IN ITS GOOD OFFICES AND WILL TRY TO REACH A PEACEFUL SETTLEMENT THROUGH DIPLOMATIC NEGOTIATIONS.

IN THIS CONNECTION I WISH TO STATE SIMILARLY TO YOU THAT JAPAN PLACES, FOR THE PRESENT, EXPECTATIONS ON THE EFFORTS OF GOOD OFFICES BY THE UNITED STATES.

TO YOUR REQUEST FOR CO-OPERATION IN THE CONCRETE MEASURES PROPOSED IN YOUR MESSAGE, I SHOULD LIKE TO REPLY AS FOLLOWS:

THE BASIC IDEA OF THE JAPANESE GOVERNMENT IS THAT MEASURES TO SECURE THE IMPLEMENTATION OF THE SECURITY COUNCIL RESOLUTION ADOPTED ON APRIL 3 SHOULD PRIMARILY BE SOUGHT WITHIN THE FRAMEWORK OF THE UNITED NATIONS IN ACCORDANCE WITH ITS CHARTER. WE ARE CERTAINLY PREPARED TO MAKE EFFORTS FOR THE IMPROVEMENT OF THE SITUATION BY DIPLOMATIC AND OTHER MEANS OUTSIDE THE UNITED NATIONS, TOO. SUCH EFFORTS SHOULD BE NATURALLY EXERTED IN SUCH A MANNER AS NOT INCOMPATIBLE WITH THE EXISTING INTERNATIONAL OBLIGATIONS. IT IS ALSO NATURAL THAT WE SHALL EXERT SUCH EFFORTS ON THE BASIS OF WHAT WE JUDGE FOR OURSELVES TO BE THE LONG TERM INTERESTS OF THE FREE WORLD.

IN MORE CONCRETE TERMS, JAPAN PURSUES THE POLICY OF ABSTAINING FROM EXPORTING ARMS TO FOREIGN COUNTRIES AND IS SATISFIED THAT IT IS THUS CONTRIBUTING TOWARDS THE MAINTENANCE OF INTERNATIONAL PEACE AND STABILITY. THIS POLICY IS BEING APPLIED STRICTLY TO ARGENTINA.

BEARING THESE CONSIDERATIONS IN MIND, WE STATED TO THE ARGENTINE SIDE IN OUR REPRESENTATIONS OF APRIL 12 THAT IF THE PRESENT CRISIS IS PROLONGED, IT IS FEARED THAT THE CONFIDENCE OF THE GOVERNMENT AND THE PEOPLE OF JAPAN IN THAT COUNTRY'S FUTURE MIGHT BE UNDERMINED AND THAT THE SMOOTH DEVELOPMENT OF RELATIONS BETWEEN THE TWO COUNTRIES MIGHT BE IMPEDED, ESPECIALLY IN THE ECONOMIC FIELD, AND EXPRESSED OUR HOPE THAT FOR THESE AND OTHER REASONS THE ARGENTINE SIDE WILL ENDEAVOUR FOR AN EARLY SOLUTION OF THE CURRENT SITUATION.

WE SHALL CONTINUE TO SEE THAT THE ARGENTINE SIDE IS REMINDED OF IT.

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AS A STATESMAN SHOULDERING THE RESPONSIBILITIES OF GOVERNMENT AS YOU ARE, I CAN IMAGINE HOW SERIOUSLY YOU ARE CONCERNED ABOUT THIS AFFAIR. BUT I HAVE KNOWN FOR A LONG TIME YOUR OUTSTANDING LEADERSHIP IN A BROAD RANGE OF STATE AFFAIRS. IN THE FIRM BELIEF THAT THE UNITED KINGDOM WILL NOT FAIL TO TIME OVER THIS DIFFICULT SITUATION UNDER YOUR ABLE GUIDANCE, I SEND YOU MY VERY BEST WISHES FOR YOUR GOOD HEALTH AND FOR EVERY SUCCESS IN THE DISCHARGE OF YOUR IMPORTANT RESPONSIBILITIES

YOURS SINCERELY,

ZENKO SUZUKI  
PRIME MINISTER OF JAPAN

FCO PASS SAVING WELLINGTON

[REPEATED AS REQUESTED]

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PACIFIC ISLANDS

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MR FULLER SAFU CABINET OFFICE

FCO

S AM D

CABINET OFFICE

CONFIDENTIAL

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OO TOKYO

GRS 554

CONFIDENTIAL

FM FCO 271730Z APRIL 82

TO IMMEDIATE TOKYO

TELEGRAM NUMBER 161 OF 28 APRIL 1982

AND TO PRIORITY WASHINGTON, UKMIS NEW YORK

MIPT: FALKLANDS: JAPANESE POSITION

1. TEXT OF MR SUZUKI'S LETTER:

BEGINS: DEAR MRS THATCHER,

I HAVE BEEN FOLLOWING WITH SERIOUS CONCERN - AS I MENTIONED IN MY LETTER OF APRIL 12TH - THE DEVELOPMENTS IN AND AROUND THE FALKLAND ISLANDS AND EARNESTLY HOPING FOR AN EARLY AND PEACEFUL SOLUTION OF THE DISPUTE, EVER SINCE THE ARGENTINE MILITARY ACTION.

IN PURSUANCE OF ITS NATIONAL POLICY OF THE PEACEFUL SETTLEMENT OF INTERNATIONAL DISPUTES, JAPAN DEEPLY REGRETS THE ARGENTINE USE OF FORCE AND CONSIDERS THAT THEIR FORCES SHOULD WITHDRAW PROMPTLY IN ACCORDANCE WITH RESOLUTION 502 OF THE UNITED NATIONS SECURITY COUNCIL. IN LINE WITH THIS POSITION, MY GOVERNMENT HAS CONTINUED TO MAKE APPROACHES TO THE ARGENTINE SIDE. OUR ACTIONS, AS MENTIONED IN MY PREVIOUS LETTER AND REPEATEDLY EXPRESSED AS OUR OFFICIAL VIEWS, ARE BASED ON THE CONSIDERATION, INTER ALIA, THAT THEY SHOULD BE COMPATIBLE WITH OUR EXISTING INTERNATIONAL OBLIGATIONS - INCLUDING THOSE UNDER THE UNITED NATIONS' CHARTER - WHILE ENSURING THE LONG-TERM INTERESTS OF THE FREE WORLD WITH DUE ATTENTION TO UNITY AND COOPERATION WITH THE WESTERN INDUSTRIALISED COUNTRIES.

FROM THIS POINT OF VIEW, MY GOVERNMENT INTENDS TO GUIDE THE BUSINESS CIRCLES TO PAY DUE ATTENTION NOT TO UNDULY TAKE ADVANTAGE OF THE MEASURES TO BAN IMPORTS FROM ARGENTINA TAKEN BY THE EC MEMBERS AND OTHER COUNTRIES FOR THE BENEFIT OF ECONOMIC INTERESTS OF JAPAN. I BELIEVE THAT IT NOT ONLY CONFORMS TO JAPAN'S BASIC POSITION, BUT ALSO MEETS YOUR REQUESTS.

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FM FCO 271700Z APRIL 82

TO IMMEDIATE TOKYO

TELEGRAM NUMBER 162 OF 28 APRIL 1982

AND TO PRIORITY WASHINGTON, UKMIS NEW YORK

MIPT FALKLANDS: JAPANESE POSITION

1. YOU SHOULD DELIVER AT APPROPRIATE LEVEL FOLLOWING REPLY  
FROM PRIME MINISTER:

BEGINS: DEAR MR SUZUKI,

I WAS GRATEFUL FOR YOUR LETTER WHICH YOUR AMBASSADOR DELIVERED ON  
27 APRIL. I AM PLEASED TO NOTE THAT JAPAN WILL CONTINUE TO GIVE  
DIPLOMATIC AND OTHER SUPPORT TO OUR EFFORTS TO SECURE ARGENTINE  
WITHDRAWAL FROM THE FALKLAND ISLANDS.

AS YOU KNOW, THE EUROPEAN COMMUNITY WERE ABLE TO AGREE VERY  
SWIFTLY TO BAN IMPORTS FROM ARGENTINA, AND OTHER INDUSTRIALISED  
COUNTRIES (NOT ALL FROM THE COMMONWEALTH) HAVE TAKEN SIMILAR  
MEASURES. WHILE I AM GRATEFUL FOR YOUR ASSURANCE THAT JAPANESE  
BUSINESS CIRCLES WILL BE GUIDED 'NOT TO UNDULY TAKE ADVANTAGE'  
OF THESE RESTRICTIONS, I AM BOUND TO SAY THAT  
THIS DOES NOT FULLY MEET OUR REQUEST. PUBLIC OPINION IN EUROPE  
WOULD CERTAINLY NOT UNDERSTAND IT IF ANY (UNDERLINED) INCREASED  
TRADE BETWEEN ARGENTINA AND JAPAN WERE TO RESULT. I SHOULD LIKE  
TO URGE YOU NOW TO RECONSIDER WHETHER JAPAN COULD NOT IMPOSE  
ACTUAL RESTRICTIONS ON TRADE WITH ARGENTINA. AND MAKE PUBLIC THE  
DECISION YOU TAKE, AS WELL AS THOSE YOU HAVE ALREADY TAKEN. IN  
MY VIEW SUCH A MOVE BY JAPAN, IF UNDERTAKEN SWIFTLY,  
COULD HAVE AN IMPORTANT EFFECT IN SHOWING ARGENTINA THE  
SERIOUS ECONOMIC CONSEQUENCES OF REFUSAL TO WITHDRAW HER FORCES IN  
ACCORDANCE WITH SECURITY COUNCIL RESOLUTION 502.

YOURS SINCERELY

MARGARET THATCHER ENDS

PYM

FCO

FED

CABINET OFFICE

ADDITIONAL DISTRIBUTION

FALKLAND ISLANDS

COPIES TO

PS/CHANCELLOR

SIR I COUZENS

MR LITTLE

MR HAWKIN

MR FRIEDT

MR ILETT

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SIR M PALMER CABINET OFFICE

MISS DICLSON (EMP DIR) D/ENERGY

MR A WILLIAMS

DSW 60

VERSAILLES ECONOMIC SUMMIT : ATTITUDES TO THE FALKLANDS OF OTHER  
SUMMIT COUNTRIES

UNITED STATES

1. There have been sharp divisions in the US Administration between those who have argued for support for Britain, and those who have favoured the preservation of US relations with Latin America, particularly in order to limit Soviet and Cuban influence in South and Central America. Haig and Weinberger have been on our side, Mrs Kirkpatrick and most of the National Security Council on the other. President Reagan, after an initial show of evenhandedness, has been with us, though in his public pronouncements he has sought to maintain a reasonable relationship with Latin American countries.

2. The pull of opposing factors led to Haig's initial attempts at mediation, but when these failed the Americans came down firmly, though after much thought, on our side. They banned arms supplies to Argentina (in effect closing loopholes in an earlier not fully effective ban), and agreed to withhold export credit cover on new business. We asked if they would consider a ban on imports from Argentina, but in view of their reluctance, and their support in other areas, we have not pressed this. Above all, they agreed to provide us with material support. US relations with Argentina and other Latin American States have suffered as a result of these measures. Nevertheless this did not prevent Haig making a firm statement in support of us at the Rio Treaty meeting on 27-29 May.

3. Subsequent American reluctance to commit themselves to a security guarantee for the Islands shows that their support for us has limits. But material support (see Washington telno 1977 paragraph 5) has been very considerable. (The MOD are providing a further brief on this for President Reagan's visit to London next week). Haig has also offered help with the welfare and repatriation of POWs after Stanley is taken.

4. US public opinion was initially very strongly in support of our policies, but has shown signs recently of wavering.

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5. Sir N Henderson has stressed that we should 'bear in mind that US assistance should not be taken for granted : that it requires constant working on the US Administration, Congress and public opinion to keep them in the right position : often its value to us is very great'. In discussions at Versailles Reagan and Haig are likely to concentrate on asking about our plans for the future of the Islands once they are repossessed, and to stress the risk of growing Soviet influence in Argentina.

6. The following telegrams are attached as background:

- i) Washington telno 1964, giving Haig's most recent ideas for a settlement;
- ii) Washington telno 1977 : Falklands : what USA support has meant;
- iii) Washington telno 1979 : Falklands : Haig/Kirkpatrick;
- iv) FCO telno 1098 of 2 June giving Sir N Henderson instructions for a call on Reagan : and our reply to (i) above.

DBY 292330Z

[PLEASE RETURN COPY TO TYPISTS]

FALKLANDS SELECTIVE ADVANCES (37)

ADVANCE COPY

IMMEDIATE

PS  
PS/MR HURD  
PS/MR ONSLOW  
PS/PUS  
PS/LORD BELSTEAD  
MR BULLARD  
SIR I SINCLAIR  
MR GIFFARD  
MR WRIGHT  
MR GILLMORE  
MR URE  
MR BARRETT  
HD/S AM D  
DEF D  
HD/PLANNING STAFF  
HD/UND  
HD/NEWS D  
HD/ERD  
HD/PUSD  
MR REED, PUSD  
EMERGENCY ROOM  
RESIDENT CLERK

PS/NO 10 DOWNING STREET (2 copies)  
PS/S OF S DEFENCE  
PS/HOME SECRETARY  
PS/HOME SECRETARY (c/o NO 10 DSt)  
PS/ATTORNEY GENERAL  
PS/CHANCELLOR DUCHY OF LANCASTER  
PS/SIR R ARMSTRONG  
PS/SIR M PALLISER  
PS/SIR A DUFF  
MR WADE-GERY  
MR FULLER  
MR COLVIN  
MR O'NEILL HD ASSESS-  
MENTS STAFF  
DIO  
MR J M STEWART AUSD STAFF MOD  
ADMIRAL SIR ROY HALLIDAY DGI MOD  
DIRECTOR G.C.H.Q. (via Room 8)

CABINET  
OFFICE

SECRET

DESKBY 292330Z

FM WASHINGTON 292144Z MAY 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1964 OF 29 MAY

INFO IMMEDIATE UKMIS NEW YORK

MIPT: FALKLANDS

1. THE FOLLOWING IS THE TEXT OF THE PAPER HAIG HAS GIVEN ME.

IDEAS FOR AN APPROACH

WHEN BRITISH MILITARY SUCCESS IS AT HAND, THE US AND BRAZIL WOULD PROPOSE AN AGREEMENT TO THE UK AND ARGENTINA CONTAINING THE FOLLOWING ELEMENTS TAKEN AS AN INTEGRATED WHOLE.

1. GENERAL AND PERMANENT CEASEFIRE (INCLUDING PROVISIONS FOR THE NON-RESUPPLY AND THE REGROUPING OF ARGENTINE FORCES);  
ESTABLISHMENT OF A TEMPORARY BRITISH MILITARY ADMINISTRATION;  
LIFTING OF SANCTIONS BY ARGENTINA; THE UK AND THIRD COUNTRIES



1. ESTABLISHMENT OF A TEMPORARY BRITISH MILITARY ADMINISTRATION:  
LIFTING OF SANCTIONS BY ARGENTINA, THE UK AND THIRD COUNTRIES:
2. IMMEDIATE INTRODUCTION OF A PEACEKEEPING FORCE CONSISTING OF  
CONTINGENTS FROM THE US AND BRAZIL TO VERIFY THE CEASEFIRE AND  
ENSURE THE SEPARATION OF FORCES:
3. RAPID WITHDRAWAL OF ARGENTINE FORCES:
4. CREATION OF A CONTACT GROUP CONSISTING OF THE UK, THE US,  
BRAZIL AND ARGENTINA:
5. END OF MILITARY ADMINISTRATION AND START OF LOCAL SELF-  
GOVERNMENT BY THE LOCAL COUNCILS WITH THE CONTACT GROUP RATIFYING  
ALL DECISIONS NOT INCONSISTENT WITH THE PURPOSES OF THE AGREEMENT:
6. PHASED WITHDRAWAL OF BRITISH FORCES, WITH THE PEACE-KEEPING  
FORCE TO ASSUME RESPONSIBILITY FOR THE SECURITY OF THE ISLANDS  
FOR A LIMITED PERIOD:
7. NEGOTIATIONS, WITHOUT PRECONDITIONS, ON THE DEFINITIVE  
SETTLEMENT OF THE DISPUTE WITH THE ASSISTANCE OF THE OTHER  
MEMBERS OF THE CONTACT GROUP:
8. UNDERTAKING BY BOTH PARTIES NOT TO TAKE ANY ACTION THAT  
WOULD PREJUDICE THE OUTCOME OF THE NEGOTIATIONS.

HENDERSON

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FM WASHINGTON 012135Z JUN 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 1977 OF 1 JUNE

INFO IMMEDIATE MODUK (FOR P/S S OF S AND CD5).

FALKLANDS: WHAT USA SUPPORT HAS MEANT.

1. IT IS NOW A LITTLE MORE THAN A MONTH SINCE THE ADMINISTRATION MADE ITS PUBLIC DECLARATION OF U S SUPPORT IN THE FALKLANDS CRISIS AND PROMISED MATERIEL ASSISTANCE. THE DECISION ANNOUNCED BY HAIG ON 30 APRIL WAS NOT AUTOMATIC GIVEN OTHER U S INTERESTS AT STAKE. AS WILL BE EVIDENT FROM THE ACCOUNTS WE HAVE SENT YOU OF THE DIFFERENCES WITHIN THE U S ADMINISTRATION, IT WAS NOT ARRIVED AT WITHOUT DIFFICULTY. ON THE OTHER SIDE THERE WERE THOSE WHO ATTACHED GREAT IMPORTANCE TO THE PRESERVATION OF U S RELATIONS WITH LATIN AMERICA; THE NEED TO GIVE THE RUSSIANS AND CUBANS NO OPPORTUNITIES IN THIS HEMISPHERE; THE GENERAL ANTI-WAR SENTIMENT IN THE AFTERMATH OF VIETNAM; AND THE WIDELY HELD VIEW, HOWEVER UNREASONABLE, THAT THE FALKLANDS ARE A QUOTE COLONIAL UNQUOTE PROBLEM. ALL THESE FACTIONS WOULD HAVE PREFERRED THE U S TO CONTINUE TO SIT ON THE FENCE. PRESERVING ITS ROLE AS A MEDIATOR.

2. THE U S ADMINISTRATION HAVING TAKEN ITS DECISION HAS STOOD FIRMLY BY IT, THOUGH MRS KIRKPATRICK AND THE LATIN AMERICAN SPECIALISTS IN THE STATE DEPARTMENT AND THE NSC HAVE CONSTANTLY AND MORE OR LESS PUBLICLY QUESTIONED THE WISDOM OF CONTINUING FOR IT

FIRMLY BY IT, THOUGH MRS KIRKPATRICK AND THE LATIN AMERICAN SPECIALISTS IN THE STATE DEPARTMENT AND THE NSC HAVE CONSTANTLY AND MORE OR LESS PUBLICLY QUESTIONED THE WISDOM OF CONTINUING PUBLIC SUPPORT. U S PUBLIC OPINION WHILE GENERALLY VERY SUPPORTIVE HAS ON OCCASIONS SHOWN SOME SIGNS OF WAVERING, WITH CONCERN ABOUT THE LOSS OF LIFE AND DAMAGE TO U S INTERESTS. HAIG PUT UP A COURAGEOUS PERFORMANCE IN THE OAS LAST WEEK WHERE U S POLICY WAS UNIVERSALLY DENOUNCED. THE PRESIDENT HAS REMAINED FIRM IN SUPPORT OF HIS DECISION, THOUGH SOME OF THOSE AROUND HIM HAVE NOT. U S SUPPORT HAS BEEN ESSENTIALLY ATTRIBUTABLE, HOWEVER TO THE EFFORTS OF HAIG AND WEINBERGER.

3. HAIG HAS I REALISE AN EXTREMELY DISCONCERTING TENDENCY TO SHIFT HIS POSITION FROM DAY TO DAY. HE IS HYPERACTIVE AND ANXIOUS TO GET INTO THE ACT AND EVER READY TO COME UP WITH SOME PLAN. THE CONTRADICTIONS WE GET IN HIS THINKING ARE ALSO A FUNCTION OF HIS CONCERN TO CONFIDE IN US AT EVERY STAGE, EVEN WHEN HIS IDEAS ARE HALF-FORMED.

4. AGAINST THIS BACKGROUND IT IS I THINK IMPORTANT TO BEAR IN MIND THAT U S ASSISTANCE SHOULD NOT BE TAKEN FOR GRANTED; THAT IT REQUIRES CONSTANT WORKING ON THE U S ADMINISTRATION, CONGRESS AND PUBLIC OPINION TO KEEP THEM IN THE RIGHT POSITION; AND THAT ITS VALUE TO US IS VERY GREAT.

5. I DO NOT NEED TO GO INTO DETAILS ABOUT THE VALUE OF THE INTELLIGENCE COOPERATION WHICH HAS BEEN GIVEN, THE FULL EXTENT OF WHICH IS WELLKNOWN TO THE JIC. SO FAR AS COMMUNICATIONS FACILITIES ARE CONCERNED, THE AMERICANS HAVE MADE ESPECIALLY AVAILABLE SATELLITE COMMUNICATION CHANNELS AT CONSIDERABLE COST TO THEIR OWN OPERATIONS, COMMUNICATION SETS FOR OUR SPECIAL FORCES ON THE ISLANDS, SECURE SPEECH FACILITIES WITH THE FLEET AND SATELLITE WEATHER INFORMATION. SO FAR AS EQUIPMENT IS CONCERNED, WE HAVE OVER THE LAST MONTH PROCURED AT LEAST DOLLARS 122 MILLION OF U S MATERIEL MADE AVAILABLE AT VERY SHORT NOTICE AND FREQUENTLY FROM STOCKS NORMALLY EARMARKED FOR U S OPERATIONAL REQUIREMENTS. THIS EQUIPMENT HAS INCLUDED THE LATEST AIR TO AIR SIDE-WINDER MISSILES URGENTLY REQUIRED FOR USE BY THE HARRIERS, THE VULCAN PHALANX ANTI-MISSILE GUN SYSTEM FOR HMS ILLUSTRIOUS, 4730 TONS OF AIRSTRIP MATTING FOR PORT STANLEY AIRPORT ONCE IT HAS BEEN RECAPTURED, CONVERSION OF THE SS STENA INSPECTOR FOR USE AS A REPAIR SHIP IN THE SOUTH ATLANTIC, SHRIKE MISSILES FOR USE BY THE VULCANS, HELICOPTER ENGINES,

PORT STANLEY AIRPORT ONCE IT HAS BEEN RECAPTURED, CONVERSION OF THE SS STENA INSPECTOR FOR USE AS A REPAIR SHIP IN THE SOUTH ATLANTIC, SHRIKE MISSILES FOR USE BY THE VULCANS, HELICOPTER ENGINES, SUBMARINE DETECTION DEVICES FOR USE BY THE SEA KING HELICOPTERS, TEMPORARY ACCOMMODATION ON A LARGE SCALE FOR ASCENSION ISLAND FOR OUR FORCES, STINGER GROUND TO AIR MISSILES (ALREADY USED SUCCESSFULLY AGAINST ARGENTINE AIRCRAFT), AS WELL AS THE USUAL ARRAY OF WEAPONS AND AMMUNITION. MANY OF THESE ITEMS HAVE BEEN PROCURED AT EXTREMELY SHORT NOTICE (OFTEN 24 HOURS) AND FLOWN IMMEDIATELY TO THE UNITED KINGDOM OR ASCENSION ISLAND. BOTH HAIG AND WEINBERGER HAVE TAKEN THE CLOSEST INTEREST IN THE PROCESSING OF THESE REQUESTS, WITH WEINBERGER INTERVENING TO ENSURE THAT THE LARGER AND MORE DIFFICULT ITEMS WERE MADE AVAILABLE IMMEDIATELY AT WHATEVER THE COST TO U S FORCES' REQUIREMENTS. THERE HAS BEEN THE SAME PATTERN OF HELP WITH THE NUMEROUS REQUESTS WE HAVE PROCESSED FOR URGENT TECHNICAL ADVICE IN RELATION TO U S SUPPLIED WEAPONRY AND THEIR MATTERS.

6. AS YOU KNOW, THE ADMINISTRATION IS ANXIOUS THAT THE DETAILS OF THE HELP THEY HAVE GIVEN SHOULD NOT OFFICIALLY BE MADE PUBLIC, DESPITE THE MANY LEAKS WHICH HAVE TAKEN PLACE. BUT I HAVE NO DOUBT THAT THE FULL EXTENT OF THEIR ASSISTANCE WILL BE TAKEN INTO ACCOUNT IN THE CONVERSATIONS WITH PRESIDENT REAGAN AND HAIG. THEY CERTAINLY FEEL THAT IN TERMS OF PRACTICAL SUPPORT AND IN WAYS THAT REALLY MATTER THEY HAVE, DONE, AS THEY COULD BE EXPECTED TO, A VERY GREAT DEAL TO ASSIST US.

7. F C O PLEASE PASS TO NO. 10 DOWNING ST.

HENDERSON

NNNN

PP UKMIS NEW YORK

PP BIS NEW YORK

GR 333

RESTRICTED

FM WASHINGTON 012150Z JUN 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1979 OF 1 JUNE

INFO PRIORITY UKMIS NEW YORK BIS NEW YORK

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MY TELNO 1965: FALKLANDS; HAIG/KIRKPATRICK

1. YOU ARE FAMILIAR WITH THE DIFFERENCES OF OPINION BETWEEN HAIG AND MRS KIRKPATRICK OVER THE FALKLANDS. NEWSWEEK HAS NOW GIVEN A CIRCUMSTANTIAL AND, WE ARE TOLD, GENERALLY ACCURATE ACCOUNT OF A 45-MINUTE TELEPHONE QUOTE SLANGING MATCH UNQUOTE BETWEEN HAIG AND MRS KIRKPATRICK AS THE MOST DRAMATIC EXAMPLE YET OF THE RUNNING BATTLE BETWEEN THE TWO.
2. AS WELL AS DEPICTING HAIG AND HIS AIDES AS QUOTE AMATEURS ... BRITS IN AMERICAN CLOTHING ... TOTALLY INSENSITIVE TO LATIN CULTURES ... UNQUOTE, MRS KIRKPATRICK IS SAID TO HAVE DISMISSED AS TOTALLY UNREALISTIC THE STATE DEPARTMENT VIEW THAT QUOTE EVENTUALLY THE LATINOS WILL COME WHORING AFTER US BECAUSE THEY ARE, FOR THE MOST PART, RIGHT-WING JUNTAS. UNQUOTE ALLUDING TO HAIG'S SUPPORT FOR BRITAIN AS A BOYS CLUB VERSION OF GANG LOYALTY, MRS KIRKPATRICK IS SAID TO HAVE ASKED HAIG WHY HE DID NOT JUST DISBAND THE STATE DEPARTMENT AND HAVE THE BRITISH FOREIGN OFFICE MAKE US POLICY.
3. REPORTING MRS KIRKPATRICK'S PUBLICLY EXPRESSED VIEW THAT THE US SHOULD HAVE REMAINED NEUTRAL IN THE DISPUTE, NEWSWEEK SAYS THAT SHE TRIED TO PERSUADE REAGAN AND CLARK THAT THIS WOULD BE THE BEST COURSE BUT THAT HAIG OVERRULED HER. REMAINING NEUTRAL HE ARGUED, WOULD HAVE STRAINED THE ATLANTIC ALLIANCE, WORRIED OTHER KEY ALLIES AND AWARDED LEGITIMACY TO THE USE OF FORCE IN SETTLING INTERNATIONAL DISPUTES. THE ARTICLE CONCLUDES THAT, SINCE MRS KIRKPATRICK IS THE SOLE WOMAN IN REAGAN'S CABINET AND THE LAST DARLING OF THE NEW RIGHT IN THE ADMINISTRATION, AND HAS THE BEST LINK TO LATIN AMERICA, SHE WILL NOT BE FIRED. THE WHITE

KIRKPATRICK IS THE SOLE WOMAN IN REAGAN'S CABINET AND THE LAST DARLING OF THE NEW RIGHT IN THE ADMINISTRATION, AND HAS THE BEST LINK TO LATIN AMERICA, SHE WILL NOT BE FIRED. THE WHITE HOUSE IS SAID TO BE TRYING NOT TO GET INVOLVED: QUOTE ALL WE CAN DO IS STAND ON THE SIDELINES AND HOLD THE JACKETS UNQUOTE.

4. TODAY'S NEW YORK TIMES AND WASHINGTON POST BOTH REPORT THAT MRS KIRKPATRICK, HAVING TOLD HAIG THAT SHE REPRESENTED NOT HIM BUT THE PRESIDENT, INSISTED ON SEEING THE PRESIDENT FOR 40 MINUTES YESTERDAY TO DISCUSS HER POINT OF VIEW.

HENDERSON

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S E C R E T

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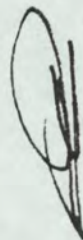
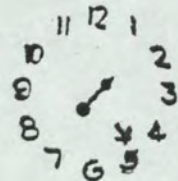
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SECRET

FROM FCO 021136Z JUN 82  
TO FLASH WASHINGTON  
TELEGRAM NUMBER 1098 OF 2 JUNE  
INFO IMMEDIATE UKMIS NEW YORK  
YOUR TELNO 1971: FALKLANDS



1. WHEN YOU CALL ON PRESIDENT REAGAN, PLEASE SAY THAT THE PRIME MINISTER AND I HAVE ASKED YOU TO TELL HIM ONCE AGAIN BEFORE HE LEAVES FOR EUROPE HOW VERY GREATLY WE APPRECIATE ALL THE SUPPORT WHICH WE HAVE RECEIVED AND ARE CONTINUING TO RECEIVE FROM THE UNITED STATES THROUGHOUT THIS CRISIS PERIOD. THE VERY CLOSE DIALOGUE WHICH YOU HAVE BEEN ABLE TO MAINTAIN WITH HAIG, CLARK AND OTHERS HAS BEEN INVALUABLE. THE PRACTICAL ASSISTANCE OPEN BRACKETS YOUR TELNO 1977 CLOSE BRACKETS WHICH THE AMERICANS HAVE MADE AVAILABLE HAS FACILITATED OUR OPERATIONS AS NOTHING ELSE COULD HAVE DONE. THE PRIME MINISTER AND I ARE CONSCIOUS OF THE DIFFICULTIES CAUSED TO THE UNITED STATES BY ARGENTINA'S ATTACK ON THE FALKLANDS OPEN BRACKETS YOUR TELNO 1978 CLOSE BRACKETS ESPECIALLY IN THE CONTEXT OF THEIR RELATIONS WITH LATIN AMERICA. THE POSITION OF PRINCIPLE TAKEN BY THE PRESIDENT HIMSELF, AND ESPECIALLY HIS PUBLIC INSISTENCE THAT AGGRESSION MUST NOT BE ALLOWED TO PAY HAS BEEN AND REMAINS AN IMMENSELY BENEFICIAL INFLUENCE.

2. YOU SHOULD GO ON TO SAY THAT WE LOOK FORWARD GREATLY TO OUR FORTHCOMING DISCUSSIONS IN VERSAILLES AND LONDON. WE HAD TO CONCLUDE IN RESPONSE TO HAIG'S MOST RECENT SUGGESTIONS THAT THESE COULD NOT BE PURSUED SO LONG AS ARGENTINA CONTINUES TO ATTACH CONDITIONS TO COMPLIANCE WITH UNSCR 502. IT WOULD STILL BE POSSIBLE FOR THE ARGENTINE COMMANDER TO EFFECT AN HONOURABLE WITHDRAWAL, AND THUS PROBABLY TO SAVE MANY LIVES. UNFORTUNATELY, WE SEE NO SIGN THAT THE ARGENTINES ARE PREPARED TO DO THIS. WE CONSIDER THAT THE BEST HOPE LIES IN LEAVING THEM TO CONFRONT THE CHOICE THEMSELVES. WE HAD

S E C R E T

## RELATIONS WITH LATIN AMERICA

1. The Falklands crisis has affected not only Britain's relations with Latin America but also those of the European Community and, more particularly, of the United States.
2. Following repossession of the Falkland Islands, Britain and the West will need to give priority to repairing relations with the region. The scope for this will be influenced by the military outcome: in particular, whether Argentina continues hostilities and seeks Latin American support. The policy which we ourselves adopt towards the future of the Falkland Islands will play its part. It is hard to make predictions at this stage. But, if active confrontation continues, the task of restoring relations with the region will be made much more difficult.
3. For Britain, Latin America is important primarily for economic and commercial reasons. It is an area of vigorous growth and is an expanding source of commodities and raw materials. Venezuela and Mexico are major oil-producers. Brazil, Argentina (and also Mexico) have ambitious and advanced civil nuclear programmes. There is substantial British investment in the region and British banks have played an important role in financing Latin America's development needs. Although British exporters have so far failed to capitalise sufficiently on the opportunities, the area offers a substantial and fast-growing market and considerable major project business.
4. The area is also of increasing political significance. The UK has sought in recent years to repair previous neglect and to demonstrate that we take Latin America seriously. Although the region as a whole is not of first importance to us strategically, the inherent instability of many Latin American Governments and internal economic disparities provide potential for Soviet/Cuban mischief-making, of which the dangers have already been clearly shown in Central America. A defeated Argentina may give further

/opportunities



opportunities to the Soviet Union. The West, including Britain, needs to work to buttress stability and democracy in the region so as to preclude opportunities for Soviet infiltration. We have also to take account of the growing political influence of Brazil, Venezuela and Mexico and to encourage them to play a more forward and moderating role in international fora and to serve as a bridge between North and South. The accession of Spain and Portugal to the European Community will give fresh impetus to the Community's efforts to consolidate and develop relations with the region.

5. It is also in the Latin American interest to rebuild relations with Britain and with Europe generally. Here again the prime interest is economic and commercial. The Community is an important market for their commodities and the provision of finance and technology is essential for the region's development. But there has also been a genuine wish to improve the level of political exchanges. The region has close historical and cultural affinities with Europe and, whatever the Third World labels, is generally pro-Western in its underlying sympathies. Europe has offered an alternative to the increasingly uneasy relationship with the United States. Memories of British participation in the Latin American independence struggle, the leading part played by British capital and entrepreneurs in the region's development and the sizeable British communities which remain in Latin America have provided a solid platform of goodwill towards Britain.

6. These factors have been reflected in Latin American reactions to the Argentine invasion of the Falklands. With certain exceptions (eg Venezuela, Panama), the countries of the region have responded slowly and with reluctance to Argentine pressures. There is little love for Argentina or for its military government in the region: either openly or in private, there has been wide condemnation of the Argentine aggression. It has in the

/circumstances

circumstances been quite remarkable that, despite Latin American support for Argentina's sovereignty claim and the considerable pull of regional solidarity, the military conflict in the Falklands has reached its culminating stage without any Latin American country, other than Argentina itself, as yet taking direct action on its relations with the UK. Provided that we can now repossess the Islands quickly and without too much bloodshed, there is a good chance that we can emerge from the crisis with our bilateral relations bruised (badly in some cases) but not seriously or lastingly damaged.

7. In moving to restore good relations the UK will nonetheless need to move with tactful regard for Latin American sensitivities. A breathing-space will be required during which contacts can be gradually resumed. Ministerial exchanges may have to wait a while. We shall also need to be selective in our approach, taking account of countries' individual attitudes and interests: as well as bearing in mind that too early or too demonstrative gestures towards those countries who have given most active support to Argentina (eg Venezuela) would be badly received in this country. We should make particular targets of the moderates (Mexico, Colombia, Costa Rica) and of those who might act as a restraining influence on future Argentine action (Brazil). We shall need to be sensitive towards Chile (where the price for the support given us may require a softening of our previous attitude to its human rights performance).

8. In seeking to pick up the threads of our relations, we shall need to move gradually, using traditional methods of political and commercial diplomacy, such as:

- promotion of non-official visits (inward and outward) in the cultural, academic and trade fields through the British Council, Canning House, Chambers of Commerce, etc:
- coordination of an official visits programme (first at senior official level and, when and where the situation allows, at Ministerial level);

- a vigorous information effort both through our Embassies and through Latin American correspondents in London. Special attention to Latin America in official speeches and statements;
- encouragement to British businessmen to visit the market;
- Government funding for major project business: a positive review of ECGD credit levels for Latin America: a review of our aid programme to Latin America.

9. In working to reassert the general Western interest in Latin America (and to limit the scope for the Soviet Union to gain influence by default), we should recognise that, at least in the immediate aftermath of the Falklands crisis, our EC partners may be able to act more effectively than we can. This will of course be particularly the case in attempts to restrain Argentina itself from any dangerous political re-alignment. We have however to keep in mind that if Argentina continues hostilities there will be a need for us to seek to maintain EC sanctions. On this will depend whether the EC will be able to get back on terms with other countries in the region. If so, the scope for positive policies to consolidate the relationship (EC/Andean Pact, EC/GRULA, encouragement of European Parliament links with Latin America) might be considered at an early stage by the Ten.

10. For the United States the problem of restoring relations with the region will be particularly acute. The Reagan Administration has given a high priority to its relations with Latin America and to strengthening the region's resistance to Soviet/Cuban expansionism. The Falklands crisis has been a severe setback. The US has borne a great deal of the brunt of Latin American criticism, and doubts about US motives in the region have been accentuated. It will be a matter of urgency for the US to repair the damage. But developments on the Falklands will continue to affect their ability to do this and will thus have a bearing on UK/US relations.

/Conclusions

Conclusions

11. Western relations with Latin America will inevitably have suffered considerable damage as a result of the Falklands crisis. Developments in the Falklands, particularly the degree of Argentine determination to continued confrontation, will condition the scope for healing the wounds. But Latin American countries have so far shown reluctance to move from rhetoric to action: and there will be a mutual interest in a gradual resumption of normal relations. It will be to our advantage to support Community action to repair the relationship. We shall need to take particular account of the very high priority which the United States attaches to its relations with the region.



Security Council

Distr.  
GENERAL

S/RES/502 (1982)  
3 April 1982

Annex 10 A  
S

RESOLUTION 502 (1982)

Adopted by the Security Council at its 2350th meeting,  
on 3 April 1982

The Security Council,

Recalling the statement made by the President of the Security Council at the 2345th meeting of the Security Council on 1 April 1982 (S/14944) calling on the Governments of Argentina and the United Kingdom of Great Britain and Northern Ireland to refrain from the use or threat of force in the region of the Falkland Islands (Islas Malvinas),

Deeply disturbed at reports of an invasion on 2 April 1982 by armed forces of Argentina,

Determining that there exists a breach of the peace in the region of the Falkland Islands (Islas Malvinas),

1. Demands an immediate cessation of hostilities;
2. Demands an immediate withdrawal of all Argentine forces from the Falkland Islands (Islas Malvinas);
3. Calls on the Governments of Argentina and the United Kingdom to seek a diplomatic solution to their differences and to respect fully the purposes and principles of the Charter of the United Nations.



Security Council

Distr.  
GENERAL

S/RES/505 (1982)  
26 May 1982

UNITED NATIONS

MASTER COPY

RESOLUTION 505 (1982)

Adopted by the Security Council at its 2368th meeting  
on 26 May 1982

The Security Council,

Reaffirming its resolution 502 (1982) of 3 April 1982,

Noting with the deepest concern that the situation in the region of the Falkland Islands (Islas Malvinas) has seriously deteriorated,

Having heard the statement made by the Secretary-General to the Security Council at its 2360th meeting on 21 May 1982, as well as the statements in the debate of the representatives of Argentina and of the United Kingdom of Great Britain and Northern Ireland,

Concerned to achieve as a matter of the greatest urgency a cessation of hostilities and an end to the present conflict between the armed forces of Argentina and of the United Kingdom of Great Britain and Northern Ireland,

1. Expresses appreciation to the Secretary-General for the efforts which he has already made to bring about an agreement between the parties, to ensure the implementation of Security Council resolution 502 (1982), and thereby to restore peace to the region;

2. Requests the Secretary-General, on the basis of the present resolution, to undertake a renewed mission of good offices bearing in mind Security Council resolution 502 (1982) and the approach outlined in his statement of 21 May 1982;

3. Urges the parties to the conflict to co-operate fully with the Secretary-General in his mission with a view to ending the present hostilities in and around the Falkland Islands (Islas Malvinas);

4. Requests the Secretary-General to enter into contact immediately with the parties with a view to negotiating mutually acceptable terms for a cease-fire, including, if necessary, arrangements for the dispatch of United Nations observers to monitor compliance with the terms of the cease-fire;

5. Requests the Secretary-General to submit an interim report to the Security Council as soon as possible and, in any case, not later than seven days after the adoption of the present resolution.

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## THE FALKLAND ISLANDS: NEGOTIATIONS FOR A PEACEFUL SETTLEMENT

### Argentine Aggression

1. It is now almost 7 weeks since Argentina invaded the Falkland Islands. This unlawful use of force in unprovoked aggression threatened not only to destroy the democratic way of life freely chosen by the Falkland Islanders but also the basis on which international order rests. The invasion was also a singular act of bad faith: it took place when Britain and Argentina were engaged in negotiations in accordance with requests from the United Nations.

2. On 1 April the President of the United Nations Security Council had formally appealed to Argentina not to invade the Falkland Islands. Yet on 2 April Argentina invaded. On 3 April, the United Nations Security Council passed its mandatory resolution 502, demanding a cessation of hostilities and an immediate withdrawal of all Argentine forces from the Islands. The same day, Argentina took South Georgia. In the ensuing weeks she has shown no sign of complying with the Security Council Resolution: on the contrary, she has continued a massive build up of the occupying forces on the Falkland Islands. There could hardly be a clearer demonstration of disregard for international law and for the United Nations itself.

### The British Response

3. Britain need have done nothing more than rest on the mandatory resolution of the Security Council. Indeed Britain's inherent right of self-defence under Article 51 of the United Nations Charter would have justified the Government in adopting



a purely military policy for ending the crisis. But in pursuit of a peaceful settlement, Britain adopted a policy, frequently explained by the Government in Parliament, of building up pressure on Argentina. Military pressure was exerted by the rapid assembly and despatch of the British naval task force. Diplomatic pressure, first expressed in Security Council Resolution 502, was built up by the clear statements of condemnation of Argentine aggression which were made by many countries across the world. It was widely recognised that aggression could not be allowed to stand, since otherwise international peace and order would be dangerously prejudiced in many regions. The members of the European Community, Australia, New Zealand, Canada and Norway joined Britain in rapidly imposing economic measures against Argentina, as did the United States a little later.

#### Efforts for a Negotiated Settlement

4. Britain dedicated her maximum diplomatic efforts to the search for a negotiated solution, and the Government kept Parliament as fully informed as the confidentiality of difficult negotiations would allow. Efforts for an interim agreement to end the crisis were first undertaken by the United States Secretary of State, Mr Alexander Haig. His ideas for an interim agreement were discussed repeatedly with Argentina and Britain. The Government expressed their willingness to consider Mr Haig's final proposals, although they presented certain real difficulties. Argentina rejected them. The next stage of negotiations was based on proposals originally advanced by President Belaunde of Peru and modified in consultations between him and the United States Secretary of State. As the Foreign and Commonwealth Secretary

/informed

informed Parliament on 7 May, Britain was willing to accept the final version of these proposals for an interim agreement. -  
But Argentina rejected it.

5. Since then, the Secretary-General of the United Nations, Senor Perez de Cuellar, has been conducting negotiations with Britain, represented by our Permanent Representative at the United Nations, Sir Anthony Parsons, and Argentina, represented by the Deputy Foreign Minister, Senor Ros. In these negotiations, as in earlier ones, Britain made repeated efforts to establish whether Argentina was willing to be sufficiently flexible to make a reasonable interim agreement possible. But it became increasingly clear that Argentina was not seeking an agreement but was playing for time in the negotiations in the hope of holding on to the fruits of aggression, with all that this would imply for the international rule of law. There was an important meeting of British Ministers, attended by Sir Anthony Parsons and the British Ambassador in Washington, Sir Nicholas Henderson, on Sunday 16 May. On the following day, Sir Anthony Parsons returned to New York and handed to the United Nations Secretary-General two documents:

- a draft interim agreement between Britain and Argentina which set out the British position in full;
- a letter to the Secretary-General making clear the British position that the Falkland Islands Dependencies were not covered by the draft interim agreement.

The draft agreement is in Annex A to this Paper and the letter is in Annex B.

6. Sir Anthony Parsons made clear to the Secretary-General that the draft agreement represented the furthest that Britain could go in the negotiations. He requested that the Secretary-General should give the draft to the Argentine Deputy Foreign Minister. The Secretary-General did this, and asked for a response within two days. Argentina's response, which the Government received on the evening of 19 May, represented a hardening of the Argentine position and amounted to a rejection of the British proposals.

#### Britain's Fundamental Principles in Negotiations

7. The Government's approach in all the negotiations has been based on important principles, which Ministers have set out repeatedly in Parliament:

- a. International Law. Argentina's unlawful aggression must end and Security Council Resolution 502 must be implemented. Aggression must not be rewarded, or small countries across the world would feel threatened by neighbours with territorial ambitions.
- b. Freedom. The Falkland Islanders are used to enjoying free institutions. The Executive and Legislative Councils were established with their agreement and functioned with their participation. Britain insisted that any interim administration in the Falkland Islands must involve democratically elected representatives of the Islanders, so as to enable the latter to continue to participate in the administration of their affairs and to ensure that they could express freely their wishes about the future of the Islands, in accordance with the principle of self-determination.

c. Sovereignty. Britain has no doubt of her sovereignty over the Falkland Islands, having administered them peacefully since 1833. Nevertheless, successive British governments have been willing, without prejudice, to include the question of sovereignty in negotiations with Argentina about the future of the Falkland Islands. In the recent negotiations, the Government have been willing that an interim agreement should provide for new negotiations about the future of the Islands, which likewise could discuss sovereignty in good faith, so long as there was no prejudgement as to the outcome of negotiations.

8. Britain upheld these principles in the draft agreement which we presented on 17 May to the United Nations Secretary-General:

- The agreement provided for complete Argentine withdrawal from the Falkland Islands within 14 days, thus terminating the aggression and upholding international law.
- It provided that the Legislative and Executive Councils representing the Falkland Islanders would continue in existence and be consulted by the UN interim Administrator, thus maintaining the democratic structure of the Administration.
- It provided explicitly that the outcome of negotiations about the future of the Islands was not prejudged, thus safeguarding the British position on sovereignty.

9. In the Secretary-General's negotiations, Britain has insisted that the Falkland Islands Dependencies should not be

covered by an interim agreement to end the crisis. South Georgia and the South Sandwich Islands are geographically distant from the Falkland Islands themselves. They have no settled population. The British title to them of which the Government have no doubt, does not derive from the Falkland Islands, and these territories have been treated as Dependencies of the Falkland Islands only for reasons of administrative convenience.

10. Throughout the negotiations, Britain, while being firm on the essential principles, has been willing to negotiate on matters where these principles were not breached. In particular:

- a. In-return-for Argentine withdrawal from a zone of 150 nautical miles radius around the Falkland Islands and an undertaking in the agreement that no forces would return, Britain was willing (Article 2(3)) to withdraw her Task Force from the zone and not return during the interim period. She proposed international verification (Article 6(4)) of the mutual withdrawal, in which the United Nations might have made use of surveillance aircraft from third countries.
- b. Britain was willing that the exclusion zones (Article 3) declared by herself and Argentina, and the economic measures (Article 5) introduced during the present crisis, should be lifted from the moment of ceasefire, although these actions would give more comfort to Argentina than to Britain.

- c. Britain was prepared to accept the appointment of a UN Administrator (Article 6(3)) to administer the Government of the Falkland Islands. Britain wanted him to discharge his functions in consultation with the representative institutions in the Islands - the Legislative and Executive Councils - which have been developed in accordance with the terms of Article 73 of the UN Charter. (This makes clear that the interests of the inhabitants of non-self-governing territories are paramount and refers to the need to take due account of the political aspirations of the peoples.) It is inconceivable that Britain, or any other democratic country, could accept that her people should be deprived of their democratic rights. Britain was nevertheless willing to accept that one representative from the Argentine population of the Islands (some 30 people out of 1800) should be added to each of the Councils. Additionally, Britain was willing to accept the presence of up to 3 Argentine observers on the Islands in the interim period.
- d. Britain was willing (Article 7) to agree to re-establishment of communications, travel, transport, postage, etc, between the Falkland Islands and the Argentine mainland, on the basis existing before the invasion.
- e. Britain was willing to enter into negotiations (Article 8) under the auspices of the UN Secretary-General for a peaceful settlement of the dispute with Argentina about the Falkland Islands and to seek the completion

of these negotiations by the target date of 31 December 1982. Our position was that no outcome to the negotiations should be either excluded or predetermined.

11. Argentina's final position in the negotiations speaks for itself. In particular:

- a. Argentina insisted that South Georgia and the South Sandwich Islands be covered by the interim agreement. One effect of this would be that British forces would have to withdraw from the British territory of South Georgia.
- b. Argentina wanted thirty days for the completion of the withdrawal of forces. She wanted all forces to return to their normal bases and areas of operation, thus requiring British forces to be enormously further away than Argentine ones.
- c. Argentina wanted the Administration of the Islands to be exclusively the responsibility of the United Nations. There would have been Argentine and British observers. The Administration would have been free to appoint advisers from the population of the Islands, in equal numbers from the Argentine population and from the population of British origin. The flags of Britain and Argentina would have flown, together with that of the United Nations.
- d. Argentina wanted free access for her nationals to the Islands, with respect inter alia to residence, work and property. Argentina also opposed a provision in the

British draft agreement (end of Article 6(3)) about the UN Administrator exercising his powers in conformity with the laws and practices traditionally observed in the Islands. It was evident that Argentina hoped to change the nature of Falklands society and its demographic make-up in the interim period, and thus prejudge the future.

- e. Argentina proposed a formula about negotiations on the future of the Islands which stated that they should be 'initiated' without prejudice to the rights and claims and positions of the two parties. Argentina would not accept an additional phrase stating also that the outcome would not be prejudged. Argentine leaders continued in public to say that Argentina insisted on having sovereignty. In the negotiations Argentina also resisted a provision in the British draft (beginning of Article 9) which would have ensured that the interim arrangements should stay in place until a definitive agreement about the future of the Islands could be implemented. Argentina's evident aim in resisting this was that, if no definitive agreement had been reached by the target date of 31 December 1982, the interim administration would cease to exist and a vacuum be created which Argentina could hope to fill.

12. The present crisis was brought about by Argentina's unlawful act of aggression. In their subsequent attitude the Argentine government showed that they had no respect either for democratic principles nor for the rule of law. Britain stands firmly for both.



FALKLAND ISLANDS: PROPOSED INTERIM AGREEMENT

The Government of the Republic of Argentina and the Government of the United Kingdom of Great Britain and Northern Ireland,  
Responding to Security Council Resolution 502 (1982) adopted on 3 April 1982 under Article 40 of the Charter of the United Nations

Having entered into negotiations through the good offices of the Secretary-General of the United Nations for an Interim Agreement concerning the Falkland Islands (Islas Malvinas), hereinafter referred to as 'the Islands',

Having in mind the obligations with regard to non-self-governing territories set out in Article 73 of the Charter of the United Nations, the text of which is annexed hereto,

Have agreed on the following:

Article 1

(1) No provision of this Interim Agreement shall in any way prejudice the rights, claims and positions of either Party in the ultimate peaceful settlement of their dispute over the Islands.

(2) No acts or activities taking place whilst this Interim Agreement is in force shall constitute a basis for asserting, supporting or denying a claim to territorial sovereignty over the Islands or create any rights of sovereignty over them.

Article 2

(1) With effect from a specified time, 24 hours after signature of this Agreement (hereinafter referred to as Time 'T'), each Party undertakes to cease and thereafter to refrain from all firing and other hostile actions.

(2) Argentina undertakes:

(a) to commence withdrawal of its armed forces from the Islands with effect from Time 'T';

(b) to withdraw half of its armed forces to at least 150

nautical miles away from any point in the Islands by Time 'T' plus 7 days; and

(c) to complete its withdrawal to at least 150 nautical miles away by Time 'T' plus 14 days.

(3) The United Kingdom undertakes:

(a) to commence withdrawal of its armed forces from the Islands with effect from Time 'T';

(b) to withdraw half of its armed forces to at least 150 nautical miles away from any point in the Islands by Time 'T' plus 7 days; and

(c) to complete its withdrawal to at least 150 nautical miles away by Time 'T' plus 14 days.

#### Article 3

With effect from Time 'T', each Party undertakes to lift the exclusion zones, warnings and similar measures which have been imposed.

#### Article 4

On the completion of the steps for withdrawal specified in Article 2, each Party undertakes to refrain from reintroducing any armed forces into the Islands or within 150 nautical miles thereof.

#### Article 5

Each Party undertakes to lift with effect from Time 'T' the economic measures it has taken against the other and to seek the lifting of similar measures taken by third parties.

#### Article 6

(1) Immediately after the signature of the present Agreement, Argentina and the United Kingdom shall jointly sponsor a draft Resolution in the United Nations under the terms of which the Security Council would take note of the present Agreement, acknowledge the role conferred upon the Secretary-General of the United Nations therein, and authorize him to carry out the tasks entrusted to him therein.

(2) Immediately after the adoption of the Resolution referred to in paragraph (1) of this Article, a United Nations Administrator, being a person acceptable to Argentina and the United Kingdom, shall be appointed by the Secretary-General and will be the officer administering the government of the Islands.

(3) The United Nations Administrator shall have the authority under the direction of the Secretary-General to ensure the continuing administration of the government of the Islands. He shall discharge his functions in consultation with the representative institutions in the Islands which have been developed in accordance with the terms of Article 73 of the Charter of the United Nations, with the exception that one representative from the Argentine population normally resident on the Islands shall be appointed by the Administrator to each of the two institutions. The Administrator shall exercise his powers in accordance with the terms of this Agreement and in conformity with the laws and practices traditionally obtaining in the Islands.

(4) The United Nations Administrator shall verify the withdrawal of all armed forces from the Islands, and shall devise an effective method of ensuring their non-reintroduction.

(5) The United Nations Administrator shall have such staff as may be agreed by Argentina and the United Kingdom to be necessary for the performance of his functions under this Agreement.

(6) Each Party may have no more than three observers in the Islands.

#### Article 7

Except as may be otherwise agreed between them, the Parties shall, during the currency of this Agreement, reactivate the Exchange of Notes of 5 August 1971, together with the Joint Statement on Communications between the Islands and the Argentine mainland referred to therein. The Parties shall accordingly take appropriate steps to establish a special consultative committee to carry out the functions entrusted to the Special Consultative Committee referred to in the Joint Statement.

Article 8

The Parties undertake to enter into negotiations in good faith under the auspices of the Secretary-General of the United Nations for the peaceful settlement of their dispute and to seek, with a sense of urgency, the completion of these negotiations by 31 December 1982. These negotiations shall be initiated without prejudice to the rights, claims or positions of the Parties and without prejudgement of the outcome.

Article 9

This Interim Agreement shall enter into force on signature and shall remain in force until a definitive Agreement about the future of the Islands has been reached and implemented by the Parties. The Secretary-General will immediately communicate its text to the Security Council and register it in accordance with Article 102 of the Charter of the United Nations.

Done in .....  
in the English and Spanish languages, in a single copy.

For the Republic of Argentina

For the United Kingdom of  
Great Britain and Northern  
Ireland

ARTICLE 73 OF THE UNITED NATIONS CHARTER

Members of the United Nations which have or assume responsibilities for the administration of territories whose peoples have not yet attained a full measure of self-government recognize the principle that the interests of the inhabitants of these territories are paramount, and accept as a sacred trust the obligation to promote to the utmost, within the system of international peace and security established by the present Charter, the well-being of the inhabitants of these territories, and, to this end:

- a. to ensure, with due respect for the culture of the peoples concerned, their political, economic, social, and educational advancement, their just treatment, and their protection against abuses;
- b. to develop self-government, to take due account of the political aspirations of the peoples, and to assist them in the progressive development of their free political institutions, according to the particular circumstances of each territory and its peoples and their varying stages of advancement;
- c. to further international peace and security;
- d. to promote constructive measures of development, to encourage research, and to co-operate with one another and, when and where appropriate, with specialized international bodies with a view to the practical achievement of the social, economic, and scientific purposes set forth in this Article; and
- e. to transmit regularly to the Secretary-General for information purposes, subject to such limitation as security and constitutional considerations may require, statistical and other information of a technical nature relating to economic, social, and educational conditions in the territories for which they are respectively responsible other than those territories to which Chapters XII and XIII apply.

TEXT OF LETTER DATED 17 MAY 1982 FROM THE UNITED KINGDOM  
PERMANENT REPRESENTATIVE TO THE UNITED NATIONS TO THE  
SECRETARY-GENERAL OF THE UNITED NATIONS

You will note from the text of the Interim Agreement which I have given you on behalf of the United Kingdom that it concerns "the Falkland Islands (Islas Malvinas) hereinafter referred to as 'the Islands'".

I wish to confirm the understanding of the British Government that this description excludes the Dependencies. I should be grateful if you would be good enough to acknowledge receipt of this letter and its terms.

GRS 700

UNCLASSIFIED

FM WASHINGTON 282724Z APR 82

TO FLASH F C O

TELEGRAM NUMBER 1491 OF 28 APRIL

INFO IMMEDIATE UKMIS NEW YORK UKDEL NATO PARIS BONN O A S POSTS  
(EXCLUDING RIO)

TOP COPY

M I P T: FALKLANDS/RIO TREATY.

1. TEXT OF RESOLUTION APPROVED BY THE RIO SIGNATORIES THIS MORNING  
IS AS FOLLOWS:

SERIOUS SITUATION IN THE SOUTH ATLANTIC

THE TWENTIETH MEETING OF CONSULTATION OF MINISTERS OF FOREIGN  
AFFAIRS,

CONSIDERING:

THE PRINCIPLES OF INTER-AMERICAN SOLIDARITY AND COOPERATION AND  
THE NEED TO FIND A PEACEFUL SOLUTION TO ANY SITUATION THAT  
ENDANGERS THE PEACE OF THE AMERICAS:

THAT A DANGEROUS CONFRONTATION HAS ARISEN BETWEEN THE  
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE  
ARGENTINE REPUBLIC, WHICH WAS AGGRAVATED TODAY BY THE EVENTS  
ARISING FROM THE PRESENCE OF THE BRITISH NAVY IN THE SOUTH ATLANTIC,  
WITHIN THE SECURITY REGION REFERRED TO IN ARTICLE 4 OF THE RIO  
TREATY:

THAT THE PRIMARY PURPOSE OF THE INTER-AMERICAN TREATY OF  
RECIPROCAL ASSISTANCE IS THE MAINTENANCE OF THE PEACE AND SECURITY  
OF THE HEMISPHERE, WHICH, IN THE CASE THAT HAS ARISEN, REQUIRES  
ENSURING THE PEACEFUL SETTLEMENT OF THE DISPUTE:

THAT TO FACILITATE PEACEFUL SETTLEMENT OF THE DISPUTE, IT IS  
URGENT THAT THE HOSTILITIES CEASE, SINCE THEY DISTURB THE PEACE OF  
THE HEMISPHERE AND MAY REACH UNFORESEEABLE PROPORTIONS:

THAT IT IS AN UNCHANGING PRINCIPLE OF THE INTER-AMERICAN SYSTEM  
THAT PEACE BE PRESERVED AND THAT ALL THE AMERICAN STATES UNANIMOUSLY  
REJECT THE INTERVENTION OF EXTRA-CONTINENTAL OR CONTINENTAL ARMED  
FORCES IN ANY OF THE NATIONS OF THE HEMISPHERE:

THAT ARGENTINA'S RIGHTS OF SOVEREIGNTY OVER THE MALVINAS  
(FALKLAND) ISLANDS, AS STATED IN SOME IMPORTANT RESOLUTIONS PASSED  
BY VARIOUS INTERNATIONAL FORUMS, INCLUDING THE DECLARATION OF THE  
INTER-AMERICAN JURIDICAL COMMITTEE ON JANUARY 16, 1976, WHICH  
STATES: QUOTE THAT THE REPUBLIC OF ARGENTINA HAS AN UNDENIABLE  
RIGHT OF SOVEREIGNTY OVER THE MALVINAS ISLANDS UNQUOTE, MUST BE  
BORNE IN MIND AND

THAT THE PEACE EFFORTS BEING MADE WITH THE  
CONSENT OF THE PARTIES MUST BE EMPHASIZED, AND THAT INTER-AMERICAN

/ SOLIDARITY

SERIOUS PRECEDENT INASMUCH AS THEY ARE NOT COVERED BY RESOLUTION 502 (1982) OF THE UNITED NATIONS SECURITY COUNCIL AND ARE INCOMPATIBLE WITH THE CHARTERS OF THE UNITED NATIONS AND OF THE O A S AND THE GENERAL AGREEMENT ON TARIFFS AND TRADE (G A T T).

7. TO INSTRUCT THE PRESIDENT OF THE TWENTIETH MEETING OF CONSULTATION TO TAKE IMMEDIATE STEPS TO TRANSMIT THE APPEAL CONTAINED IN OPERATIVE PARAGRAPHS 1, 2 AND 3 OF THIS RESOLUTION TO THE GOVERNMENTS OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND OF THE REPUBLIC OF ARGENTINA, AND ALSO TO INFORM THEM, ON BEHALF OF THE FOREIGN MINISTERS OF THE AMERICAS, THAT HE IS FULLY CONFIDENT THAT THIS APPEAL WILL BE RECEIVED FOR THE SAKE OF PEACE IN THE REGION AND IN THE WORLD.

8. TO INSTRUCT THE PRESIDENT OF THE TWENTIETH MEETING OF CONSULTATION IMMEDIATELY TO PRESENT THIS RESOLUTION FORMALLY TO THE PRESIDENT OF THE UNITED NATIONS SECURITY COUNCIL SO HE MAY BRING IT TO THE ATTENTION OF THE MEMBERS OF THE COUNCIL.

9. TO KEEP THE TWENTIETH MEETING OF CONSULTATION OPEN, ESPECIALLY TO OVERSEE FAITHFUL COMPLIANCE WITH THIS RESOLUTION AND TO TAKE SUCH ADDITIONAL MEASURES AS ARE DEEMED NECESSARY TO RESTORE AND PRESERVE PEACE AND SETTLE THE CONFLICT BY PEACEFUL MEANS.

HENDERSON

FOO

S AM D

CABINET OFFICE

ADDITIONAL DISTRIBUTION

FALKLAND ISLANDS

COPIES TO

PS/CHANCELLER }  
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MR HAWKIN }  
MR FREEST }  
MR TOTT }

TREASURY

SIR M PALMER CABINET OFFICE

MISS DICKSON (EIP DIVN) D/ENERGY

MR A WILLIAMS RM60 DSW



GA 1450

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DE BY FCO 291000Z

FM WASHINGTON 290800Z MAY 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1958 OF 29 MAY

INFO IMMEDIATE UKMIS NEW YORK, OAS POSTS.

29 MAY

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MIPT : FALKLANDS/RIO TREATY

1. TEXT OF RESOLUTION APPROVED TODAY, 29 APRIL, IS AS FOLLOWS:

SERIOUS SITUATION IN THE SOUTH ATLANTIC

HEREAS:

RESOLUTION I OF THE TWENTIETH MEETING OF CONSULTATION OF MINISTERS OF FOREIGN AFFAIRS, ADOPTED ON APRIL 28, 1982, DECIDED QUOTE TO KEEP THE TWENTIETH MEETING OF CONSULTATION OPEN, ESPECIALLY TO OVERSEE FAITHFUL COMPLIANCE WITH THIS RESOLUTION, AND TO TAKE SUCH ADDITIONAL MEASURES AS ARE DEEMED NECESSARY TO RESTORE AND PRESERVE PEACE AND SETTLE THE CONFLICT BY PEACEFUL MEANS UNQUOTE:

THAT RESOLUTION URGED THE GOVERNMENT OF THE UNITED KINGDOM QUOTE IMMEDIATELY TO CEASE THE HOSTILITIES IT IS CARRYING ON WITHIN THE SECURITY REGION DEFINED BY ARTICLE 4 OF THE INTER-AMERICAN TREATY OF RECIPROCAL ASSISTANCE, AND ALSO TO REFRAIN FROM ANY ACT THAT MAY AFFECT INTER-AMERICAN PEACE AND SECURITY, UNQUOTE AND URGED THE GOVERNMENT OF THE REPUBLIC OF ARGENTINA QUOTE TO REFRAIN FROM TAKING ANY ACTION THAT MAY EXACERBATE THE SITUATION UNQUOTE:

THE SAME RESOLUTION URGED THE GOVERNMENTS OF THE UNITED KINGDOM AND THE ARGENTINE REPUBLIC QUOTE TO CALL A TRUCE THAT WILL MAKE IT POSSIBLE TO RESUME AND PROCEED NORMALLY WITH THE NEGOTIATION AIMED AT A PEACEFUL SETTLEMENT OF THE CONFLICT, TAKING INTO ACCOUNT THE RIGHTS OF SOVEREIGNTY OF THE REPUBLIC OF ARGENTINA OVER THE MALVINAS ISLANDS AND THE INTERESTS OF THE ISLANDERS UNQUOTE:

WHILE THE GOVERNMENT OF THE ARGENTINE REPUBLIC INFORMED THE ORGAN OF CONSULTATION OF ITS FULL ADHERENCE TO RESOLUTION I AND ACTED CONSISTENTLY THERE WITH, THE BRITISH FORCES PROCEEDED TO CARRY OUT SERIOUS AND REPEATED ARMED ATTACKS AGAINST THE ARGENTINE REPUBLIC IN THE ZONE OF THE MALVINAS ISLANDS, WITHIN THE SECURITY REGION DEFINED BY ARTICLE 4 OF THE INTER-AMERICAN TREATY OF RECIPROCAL ASSISTANCE, WHICH MEANS THAT THE UNITED KINGDOM HAS IGNORED THE APPEAL MADE TO

WHICH MEANS THAT THE UNITED KINGDOM HAS IGNORED THE APPEAL MADE  
IT BY THE TWENTIETH MEETING OF CONSULTATION:

FOLLOWING THE ADOPTION OF RESOLUTION 1, THE GOVERNMENT OF  
THE UNITED STATES OF AMERICA DECIDED TO APPLY COERCIVE MEASURES  
AGAINST THE ARGENTINE REPUBLIC AND IS GIVING ITS SUPPORT, INCLUDING  
MATERIAL SUPPORT, TO THE UNITED KINGDOM, WHICH CONTRAVENES THE SPIRIT  
AND THE LETTER OF RESOLUTION 1:

AS A CULMINATION OF ITS REPEATED ARMED ATTACKS, BEGINNING ON  
MAY 21, 1982, THE BRITISH FORCES LAUNCHED A BROAD-SCALE MILITARY  
ATTACK AGAINST THE ARGENTINE REPUBLIC IN THE AREA OF THE MALVINAS  
ISLANDS WHICH AFFECTS THE PEACE AND SECURITY OF THE HEMISPHERE:

THE DEPLORABLE SITUATION RAISED BY THE APPLICATION OF POLITICAL  
AND ECONOMIC COERCIVE MEASURES THAT ARE NOT BASED ON PRESENT INTERN-  
ATIONAL LAW AND ARE HARMFUL TO THE ARGENTINE PEOPLE, CARRIED OUT BY  
THE EUROPEAN ECONOMIC COMMUNITY—WITH THE EXCEPTION OF IRELAND AND  
ITALY—AND BY OTHER INDUSTRIALIZED STATES, IS CONTINUING: AND

THE PURPOSE OF THE INTER-AMERICAN TREATY OF RECIPROCAL ASSISTA-  
NCE IS TO QUOTE ASSURE PEACE, THROUGH ADEQUATE MEANS, TO PROVIDE  
FOR EFFECTIVE RECIPROCAL ASSISTANCE TO MEET ARMED ATTACKS AGAINST  
ANY AMERICAN STATE, AND IN ORDER TO DEAL WITH THREATS OF AGGRESSION  
AGAINST ANY OF THEM, UNQUOTE.

RESOLVES:

1. TO CONDEMN MOST VIGOROUSLY THE UNJUSTIFIED AND DISPROPORT-  
IONATE ARMED ATTACK PERPETRATED BY THE UNITED KINGDOM, AND ITS  
DECISION, WHICH AFFECTS THE SECURITY OF THE ENTIRE AMERICAN HEMIS-  
PHERE, OF ARBITRARILY DECLARING AN EXTENSIVE AREA OF UP TO 12 MILES  
FROM THE AMERICAN COASTS AS A ZONE OF HOSTILITIES, WHICH IS  
AGGRAVATED BY THE CIRCUMSTANCE THAT WHEN THESE ACTIONS WERE TAKEN ALL  
POSSIBILITIES OF NEGOTIATION SEEKING A PEACEFUL SETTLEMENT OF THE  
CONFLICT HAD NOT BEEN EXHAUSTED.

2. TO REITERATE ITS FIRM DEMAND UPON THE UNITED KINGDOM THAT IT  
CEASE IMMEDIATELY ITS ACTS OF WAR AGAINST THE ARGENTINE REPUBLIC  
AND ORDER THE IMMEDIATE RETURN TO THEIR USUAL STATIONS OF ITS TASK  
FORCE AND ALL OF ITS ARMED FORCES DETAILED THERE.

3. TO DEPLORE THE FACT THAT THE ATTITUDE OF THE UNITED KINGDOM  
HAS HELPED TO FRUSTRATE THE NEGOTIATIONS FOR A PEACEFUL SETTLEMENT  
THAT WERE CONDUCTED BY MR. JAVIER PEREZ DE CUELLAR, THE SECRETARY  
GENERAL OF THE UNITED NATIONS.

4. TO EXPRESS ITS CONVICTION THAT IT IS ESSENTIAL TO REACH  
WITH THE GREATEST URGENCY A PEACEFUL AND HONORABLE SETTLEMENT OF  
THE CONFLICT UNDER THE AUSPICES OF THE UNITED NATIONS.

THE CONFLICT, UNDER THE AUSPICES OF THE UNITED NATIONS, AND IN THAT CONNECTION, TO RECOGNIZE THE PRAISEWORTHY EFFORTS AND GOOD OFFICES OF MR. JAVIER PEREZ DE CUELLAR, THE SECRETARY GENERAL OF THE UNITED NATIONS, AND TO PROVIDE ITS FULL SUPPORT TO THE TASK ENTRUSTED TO HIM BY THE SECURITY COUNCIL.

5. TO URGE THE GOVERNMENT OF THE UNITED STATES OF AMERICA TO ORDER THE IMMEDIATE LIFTING OF THE COERCIVE MEASURES APPLIED AGAINST THE ARGENTINE REPUBLIC AND TO REFRAIN FROM PROVIDING MATERIAL ASSISTANCE TO THE UNITED KINGDOM, IN OBSERVANCE OF THE PRINCIPLE OF HEMISPHEREIC SOLIDARITY RECOGNIZED IN THE INTER-AMERICAN TREATY OF RECIPROCAL ASSISTANCE.

6. TO URGE THE MEMBERS OF THE EUROPEAN ECONOMIC COMMUNITY, AND THE OTHER STATES THAT HAVE TAKEN THEM, TO LIFT IMMEDIATELY THE COERCIVE ECONOMIC OR POLITICAL MEASURES TAKEN AGAINST THE ARGENTINE REPUBLIC.

7. TO REQUEST THE STATES PARTIES OF THE RIO TREATY TO GIVE THE ARGENTINE REPUBLIC THE SUPPORT THAT EACH JUDGES APPROPRIATE TO ASSIST IT IN THIS SERIOUS SITUATION, AND TO REFRAIN FROM ANY ACT THAT MIGHT JEOPARDIZE THAT OBJECTIVE. IF NECESSARY, SUCH SUPPORT MAY BE ADOPTED WITH ADEQUATE COORDINATION.

8. TO REAFFIRM THE BASIC CONSTITUTIONAL PRINCIPLES OF THE CHARTER OF THE ORGANIZATION OF AMERICAN STATES AND OF THE INTER-AMERICAN TREATY OF RECIPROCAL ASSISTANCE, IN PARTICULAR, THOSE THAT REFER TO PEACEFUL SETTLEMENT OF DISPUTES.

9. TO KEEP THE ORGAN OF CONSULTATION AVAILABLE TO ASSIST THE PARTIES IN CONFLICT WITH THEIR PEACE-MAKING EFFORTS IN ANY WAY IT MAY SUPPORT THE MISSION ENTRUSTED TO THE UNITED NATIONS SECRETARY GENERAL BY THE SECURITY COUNCIL, AND TO INSTRUCT THE PRESIDENT OF THE MEETING OF CONSULTATION TO KEEP IN CONTINUOUS CONTACT WITH THE SECRETARY GENERAL OF THE UNITED NATIONS.

10. TO KEEP THE TWENTIETH MEETING OF CONSULTATION OPEN TO SEE TO IT THAT THE PROVISIONS OF THIS RESOLUTION ARE FAITHFULLY AND IMMEDIATELY CARRIED OUT AND TO TAKE, IF NECESSARY, ANY ADDITIONAL MEASURES THAT MAY BE AGREED UPON TO PRESERVE INTER-AMERICAN SOLIDARITY AND COOPERATION.

PRIME MINISTER

cc Mr Whitmore

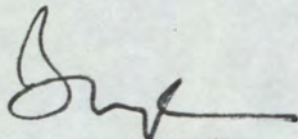
REAGAN TALKS TOMORROW

There is, of course, massive press interest in your talks with President Reagan tomorrow. A photocall is planned before the meeting; no media arrangements have been made for Paris afterwards but Mr Haig will brief at Versailles at 6.00pm.

You will wish to consider whether Mr Pym should brief the British press at Versailles. Otherwise, I shall brief there and will arrange with Clive to get a rundown on what I can say.

But it will be most important to try to agree with the Americans what is to be said afterwards. I do not think it will be realistic or sensible to say nothing; that would merely fuel speculation.

I would much prefer to see us stating a clear line - and holding to it.



B. INGHAM

3 June 1982



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

The figures relating to the  
John Brown contract - which you  
need with Mr. Haig earlier -  
are in the last page attached.

3 June 1982

Dear John,

A.F.C.  $\frac{3}{6}$ East/West Economic Relations

I enclose a copy of Washington telno 1976. This makes it clear that, in the view of American officials, the related subjects of export credit for the Soviet Union and the exemption of existing European contracts from the impact of the measures against the Soviet Union adopted by the United States Administration on 29 December 1981 are likely to be the most difficult issue at the Versailles Economic Summit. It quotes the comment of a State Department official that the problem of existing contracts cannot now be resolved within the Washington bureaucracy and his belief that only a direct appeal by the Prime Minister to the President when she meets him will do the trick; ie secure the exemption of these contracts.

The Foreign and Commonwealth Secretary spoke to the American Ambassador about existing contracts on 2 June. He reminded Mr Louis that President Reagan had not replied to either of the two messages (dated 29 January and 5 April) in which the Prime Minister had referred to the subject; pointed out to him that it was the Americans who had created a link between the problems of export credit and existing contracts; and underlined to him the serious difficulties which were now faced by the British companies concerned, especially John Brown.

Although Mr Louis undertook to report our concerns to Mr Haig immediately, the Foreign and Commonwealth Secretary hopes that the Prime Minister will be willing to have a word with President Reagan about the problem of existing contracts at Versailles. It is really most important that the Americans should make a move on this issue. Unless they do, John Brown will face extremely serious problems; and it is possible that the related question of export credit for the Soviet Union, by which the Americans set so much store, could become a serious bone of contention at the Summit. It is hard to believe that either President Mitterrand or Chancellor Schmidt would be willing to give the Americans much over export credit unless the Americans were prepared to do something about the contracts of French and German firms which have now been blocked for over five months.

(attached) The Prime Minister could remind President Reagan of what she said to him in her messages of 29 January and 5 April; point out to him that it is the Americans who have established a link between the problems of export credit and existing contracts; and indicate to him just how far we have been prepared to go, so far

/on



on an unrequited basis, on the first of these problems. She could also point out that the French and the Germans, who have so far been dragging their feet over export credit, would be much more likely to offer something substantial in this field if they could be assured that the contracts of their companies were to be exempted from the impact of the American measures. She could also, perhaps, mention the fact that NATO contingency planning for a Soviet invasion of Poland specifically exempted existing contracts from any measures to be adopted, precisely because of the legal and political problems which would otherwise arise.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Trade, the Secretary of State for Industry and Sir Robert Armstrong.

*Yours ever.*

A handwritten signature in dark ink, appearing to read 'Francis Richards'.

(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 62A/82



Subject filed on:  
Foreign Policy,  
East/West Relations,  
Part 2.

10 DOWNING STREET

THE PRIME MINISTER

5 April 1982

*Dear Ron*

Thank you for your message of 8 March about the visit to Europe of Under-Secretary Buckley.

As you will have heard, Mr. Buckley and his team spent 17 March in London. They met Peter Carrington and had talks with a team of British officials which filled most of the day. I understand that they gave a detailed account of your concerns about the granting of Western credit to the Soviet Union and made a number of suggestions about how these might be met. We have since been studying these suggestions and Peter Carrington is writing to Al Haig to give our views about some of them.

I share your concern about the manner in which Western Governments and banks have built up increasing credit exposure in the Soviet Union. There is a problem here that we must consider carefully. I look forward to discussing it with you personally during your visit to London in June.

For future work on this subject I think we must find a framework which will allow the necessary analytical work to be done and which will also link action with the outstanding action on East/West economic relations which was commissioned in the North Atlantic Council Declaration of 11 January. Operationally, we must ensure that all the countries which matter in terms of granting credit to the Soviet Union, including Japan, are associated with the work. We also need to avoid action which may cause greater damage to the West collectively than to the Soviet Union or disproportionate difficulties for particular Western countries.

/I also

I also attach great importance to the subject raised in my message of 29 January - that of existing contracts between British companies and Soviet importers affected by the measures which you announced on 29 December. It is now more urgent, as the companies concerned will soon have to make decisions about their manufacturing programmes in relation to these contracts. The most important of the companies concerned, John Brown Engineering, has held decisions in suspense for three months, but time is now running short for them. It would therefore be most helpful to know whether you can accept the arrangement about reciprocal commitments which I suggested in my message.

Very good wish

Yours ever

Raymond



11/15/82  
R 1200

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 18/82

CAB/WH001/29  
O 291834Z JAN 82  
FROM CABINET OFFICE LONDON  
TO WHITE HOUSE  
BT  
MISC 033  
CONFIDENTIAL

Subject: <sup>p.a.</sup> Filed on Poland, <sup>1/2</sup> 1/2  
UK/Polish Relations, Pt 7

HIS EXCELLENCY MR RONALD REAGAN,  
PRESIDENT OF THE UNITED STATES,  
WHITE HOUSE,  
WASHINGTON

DEAR RON,

I WAS MOST GRATEFUL TO AL HAIG FOR REARRANGING HIS PLANS AT SHORT NOTICE TO CALL IN HERE TODAY. IT GAVE US AN INVALUABLE OPPORTUNITY TO HEAR FROM HIM HOW HE HAD GOT ON IN GENEVA AND IN THE MIDDLE EAST: AND WE WERE ABLE TO HAVE A GOOD DISCUSSION OF THE POLISH SITUATION.

I KNOW THAT AL WILL GIVE YOU A FULL ACCOUNT OF OUR TALK: BUT I THOUGHT NEVERTHELESS THAT I SHOULD SEND YOU THIS PERSONAL MESSAGE, TO UNDERLINE MY DEEP CONCERN AT THE DANGER THAT THE UNITY OF THE WESTERN ALLIANCE COULD BE SERIOUSLY DAMAGED BY THE CURRENT DIFFERENCES OVER HOW TO REACT TO THE REPRESSION IN POLAND.

WE MUST AT ALL COSTS AVOID A DEMONSTRATION OF DISUNITY IN THE ALLIANCE WHICH WOULD GIVE MOSCOW A FIRST CLASS PROPAGANDA VICTORY AND IMPAIR OUR EFFORTS TO CHECK FURTHER ADVENTURISM ON THEIR PART IN THE FUTURE. WE MUST ALSO AVOID MEASURES WHICH WOULD DO MORE HARM TO THE WEST THAN TO THE SOVIET UNION.

I HAVE TAKEN A CLOSE INTEREST IN THE PREPARATION OF A PACKAGE OF BRITISH MEASURES BOTH TOWARDS POLAND AND TOWARDS THE SOVIET UNION. WE HAVE ALREADY SAID IN NATO THAT WE WOULD BE WILLING TO TAKE A NUMBER OF MEASURES AS PART OF AN ALLIED REACTION TO COMPLEMENT YOUR OWN RESOLUTE STAND, PROVIDED THAT WE CAN ALL AGREE ABOUT NOT UNDERMINING EACH OTHER'S MEASURES.

THE MEASURES WHICH THE UNITED KINGDOM HAS TAKEN, OR WOULD IN PRINCIPLE BE WILLING TO TAKE, INCLUDE:

TOWARDS POLAND: RESTRICTIONS ON POLISH DIPLOMATIC MISSIONS, INCREASED BROADCASTS, ALREADY BEGUN, TO POLAND: SUSPENSION OF COMMERCIAL CREDIT EXCEPT FOR CONTRACTS ALREADY CONCLUDED: THE PLACING IN SUSPENSE OF NEGOTIATIONS ABOUT DEBT RESCHEDULING FOR 1982: THE SUSPENSION WITH OUR PARTNERS IN THE EUROPEAN COMMUNITY OF FOOD EXPORTS AT SPECIALLY SUBSIDISED PRICES: AND INCREASED HUMANITARIAN AID TO THE POLISH PEOPLE.

TOWARDS THE SOVIET UNION: SIGNIFICANT NEW RESTRICTIONS ON SOVIET DIPLOMATS: REDUCED ACTIVITY UNDER TECHNICAL CO-OPERATION AGREEMENTS: CLEAR EXPOSURE IN THE MADRID REVIEW CONFERENCE OF SOVIET COMPLICITY IN THE REPRESSION IN POLAND: READINESS TO MOVE WITH OUR EUROPEAN COMMUNITY PARTNERS TO INCREASE THE INTEREST RATES ON EXPORT CREDIT AND TO RESTRICT CERTAIN IMPORTS FROM THE SOVIET UNION: TERMINATION, IN CONCERT WITH OTHERS, OF OUR BILATERAL MARITIME AGREEMENT: AND NEW RESTRICTIONS ON SOVIET FACTORY SHIPS.

I AM SURE THAT OUR JOINT OBJECTIVE NOW SHOULD BE A CREDIBLE AND UNITED ALLIED POSITION, TO DEMONSTRATE OUR REJECTION OF MARTIAL LAW AND OF THE SOVIET HAND IN IT. WE MUST NOT ALLOW THE SOVIET CRISIS IN POLAND TO BRING ABOUT A CRACK IN THE WESTERN ALLIANCE WHICH WOULD

SUBSIDISED PRICES: AND I DECREASE HUMANITARIAN AID TO THE POLISH PEOPLE.

TOWARDS THE SOVIET UNION: SIGNIFICANT NEW RESTRICTIONS ON SOVIET DIPLOMATS: REDUCED ACTIVITY UNDER TECHNICAL CO-OPERATION AGREEMENTS: CLEAR EXPOSURE IN THE MADRID REVIEW CONFERENCE OF SOVIET COMPLICITY IN THE REPRESSION IN POLAND: READINESS TO MOVE WITH OUR EUROPEAN COMMUNITY PARTNERS TO INCREASE THE INTEREST RATES ON EXPORT CREDIT AND TO RESTRICT CERTAIN IMPORTS FROM THE SOVIET UNION: TERMINATION, IN CONCERT WITH OTHERS, OF OUR BILATERAL MARITIME AGREEMENT: AND NEW RESTRICTIONS ON SOVIET FACTORY SHIPS.

I AM SURE THAT OUR JOINT OBJECTIVE NOW SHOULD BE A CREDIBLE AND UNITED ALLIED POSITION, TO DEMONSTRATE OUR REJECTION OF MARTIAL LAW AND OF THE SOVIET HAND IN IT. WE MUST NOT ALLOW THE SOVIET CRISIS IN POLAND TO BRING ABOUT A CRISIS IN THE WESTERN ALLIANCE WHICH WOULD SUIT ONLY SOVIET PURPOSES.

I KNOW YOU AGREE WITH THIS AIM. THE QUESTION IS HOW TO ATTAIN IT. I CAN WELL UNDERSTAND WHY SOME OF YOUR PEOPLE MAY BE GROWING IMPATIENT AND THINKING OF A SECOND SET OF AMERICAN MEASURES AGAINST THE SOVIET UNION. MY FEAR IS THAT FURTHER MEASURES TAKEN UNILATERALLY WOULD NOT CARRY THE ALLIES WITH THEM BUT WOULD GREATLY DEEPEN AND EXPOSE THE DIVISIONS WITHIN THE ALLIANCE. THAT COULD ADVANCE SOVIET INTERESTS MORE THAN YOUR NEW MEASURES WOULD SET THEM BACK. I HOPE THEREFORE THAT YOU WILL FEEL ABLE TO HOLD BACK ON FURTHER MEASURES UNTIL WE HAVE THOROUGHLY EXPLORED THE POSSIBILITY OF A UNITED ALLIED POSITION.

I UNDERSTAND THAT NEW MEASURES UNDER CONSIDERATION IN WASHINGTON MAY INCLUDE STEPS SUCH AS DENUNCIATION OF THE 1981 AGREEMENT ON RE-SCHEDULING POLISH DEBT, WHICH WOULD LEAD TO A POLISH DEFAULT. BUT THE IMMEDIATE EFFECT OF THAT WOULD BE THAT THE POLES WOULD GIVE UP THEIR PRESENT EFFORTS TO MAKE SUCH PAYMENTS AS THEY CAN UNDER THE RESCHEDULING ARRANGEMENTS, EITHER TO WESTERN GOVERNMENTS OR TO WESTERN BANKS. THAT IN TURN WOULD TAKE PRESSURE OFF THE SOVIET UNION TO HELP THEM. ON THE OTHER SIDE, THE EFFECTS ON THE INTERNATIONAL BANKING SYSTEM WOULD BE UNPREDICTABLE, AND PROBABLY VERY SEVERE, PARTICULARLY IF OTHER DEFAULTS FOLLOWED. THESE EFFECTS WOULD CERTAINLY NOT BE CONFINED TO EUROPE. THE DAMAGE TO THE WEST COULD BE AT LEAST AS GREAT AS THE DAMAGE TO THE SOVIET UNION. THE HEALTH OF THE INTERNATIONAL FINANCIAL SYSTEM IS A WESTERN, NOT A SOVIET INTEREST. THEY HAVE EVERY REASON TO REJOICE IF IT IS IMPAIRED.

WHAT WE NEED NOW IS A REASONABLE SET OF MEASURES, JOINTLY AGREED. THIS IS THE DIRECTION IN WHICH WE SHOULD ALL BE WORKING. MY OWN VIEW IS THAT THE MOST PROMISING BASIS FOR AGREEMENT WOULD BE AN ARRANGEMENT WHEREBY THE EUROPEAN ALLIES TOOK MEASURES COMPARABLE TO YOURS, BOTH IN THEIR EFFECTS ON THE SOVIET UNION AND IN THEIR DOMESTIC IMPLICATIONS, AND TOOK POSITIVE ACTION TO MEET THEIR COMMITMENTS NOT TO UNDERMINE YOUR MEASURES WITH RESPECT TO FUTURE CONTRACTS, WHILE EXISTING EUROPEAN CONTRACTS WOULD GO AHEAD. I REALISE THAT THIS LAST CONSIDERATION IS A DIFFICULT ONE FOR YOU. BUT THE FRENCH, GERMANS AND ITALIANS CANNOT AND WILL NOT GIVE UP THE GAS PIPELINE PROJECT, WHATEVER ONE MAY THINK OF ITS MERITS. WE TOO HAVE IMPORTANT CONTRACTS AT STAKE, NOTABLY ONE HELD BY JOHN BROWN ENGINEERING, THE CANCELLATION OF WHICH WOULD CAUSE ADDITIONAL UNEMPLOYMENT. AN ACCOMMODATION ON EXISTING CONTRACTS IS THEREFORE ESSENTIAL TO ALLIED UNITY OVER POLAND.

YOUR MEASURES OF 29 DECEMBER SENT A CLEAR SIGNAL TO THE SOVIET UNION WITHOUT SERIOUSLY COMPROMISING YOUR OWN INTERESTS. WE SHOULD ALL BE FOLLOWING SUIT. ALTHOUGH THE NATO DISCUSSIONS HAVE SO FAR BEEN FRUSTRATINGLY SLOW, IT SHOULD SURELY BE POSSIBLE, IF YOU COULD MOVE ON EXISTING CONTRACTS, FOR THE REST OF US, TO REACH AGREEMENT ON MEASURES COMPARABLE TO YOURS. WE SHOULD LOOK RESOLUTE AND UNITED: AND WE SHOULD STILL HAVE SOME SHOTS LEFT IN OUR LOCKERS.

I SUGGESTED TO AL HAIG THAT THE BEST APPROACH NOW WOULD BE FOR THE US TO ARRANGE SECRET CONSULTATIONS IN THE VERY NEAR FUTURE BETWEEN SENIOR OFFICIALS FROM THE ALLIED COUNTRIES MOST CLOSELY CONCERNED—YOU, US, THE FRENCH, THE GERMANS, AND I THINK IN THIS CASE THE ITALIANS. THIS SHOULD ENABLE US TO MAKE PROGRESS AT THE NATO MEETING ON 3 FEBRUARY. BUT I THINK THAT A FURTHER NATO MEETING MAY WELL BE NEEDED A FEW DAYS AFTER THAT.

YOUR MEASURES OF 20 DECEMBER SENT A CLEAR SIGNAL TO THE SOVIET UNION WITHOUT SERIOUSLY COMPROMISING YOUR OWN INTERESTS. WE SHOULD ALL BE FOLLOWING SUIT. ALTHOUGH THE NATO DISCUSSIONS HAVE SO FAR BEEN FRUSTRATINGLY SLOW, IT SHOULD SURELY BE POSSIBLE, IF YOU COULD MOVE ON EXISTING CONTRACTS, FOR THE REST OF US, TO REACH AGREEMENT ON MEASURES COMPARABLE TO YOURS. WE SHOULD LOOK RESOLUTE AND UNITED: AND WE SHOULD STILL HAVE SOME SHOTS LEFT IN OUR LOCKERS.

I SUGGESTED TO AL HAIG THAT THE BEST APPROACH NOW WOULD BE FOR THE US TO ARRANGE SECRET CONSULTATIONS IN THE VERY NEAR FUTURE BETWEEN SENIOR OFFICIALS FROM THE ALLIED COUNTRIES MOST CLOSELY CONCERNED—YOU, US, THE FRENCH, THE GERMANS, AND I THINK IN THIS CASE THE ITALIANS. THIS SHOULD ENABLE US TO MAKE PROGRESS AT THE NATO MEETING ON 3 FEBRUARY. BUT I THINK THAT A FURTHER NATO MEETING MAY WELL BE NEEDED A FEW DAYS AFTER THAT.

IT WILL ALSO BE IMPORTANT TO CARRY THE JAPANESE AND OTHERS IN OUR PLANS. IT WOULD NOT BE TOLERABLE TO ASK OUR OWN INDUSTRIES TO FORGO OPPORTUNITIES ONLY TO SEE THEM SEIZED BY JAPAN.

WE HAVE THE OPPORTUNITY TO SHOW THE SOVIET UNION A FIRM UNITED FRONT. WHAT WE CAN ACHIEVE TOGETHER IN THIS CAN GIVE US A LASTING BOOST TO ALLIED UNITY AND A SETBACK TO SOVIET AMBITIONS. WE HAVE EMBARKED ON THIS COURSE AND SHOULD MAKE EVERY POSSIBLE EFFORT TO CARRY IT THROUGH TO A SUCCESSFUL CONCLUSION. THE CRISIS IN POLAND LOOKS LIKE BEING A PROLONGED ONE. WE RISK LOSING THE PRIZE IF WE ACT HASTILY OR OUT OF STEP.

WITH WARM PERSONAL REGARDS,  
MARGARET.

NNNN

PART 7 ends:-

AW to MCS 2.6.02

PART 8 begins:-

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