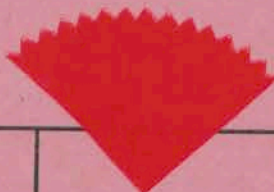


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FILE TITLE: LONDON ECONOMIC SUMMIT 9-10 JUNE 1984		SERIES ECONOMIC POLICY
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INDIA: visits of Mr LK Jha:
July 83.

cc Econ Pst: LES
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10 DOWNING STREET

THE PRIME MINISTER

30 May 1984

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. 189/84

Dear Prime Minister,

Thank you for your letter of 16 May. I am grateful to you for sending Mr. Jha to hand it to me personally and to explain the purpose of your message.

I am very conscious of your concerns and I shall bring your letter to the attention of the other participants at the London Economic Summit. We shall certainly wish to discuss the propositions which you have advanced.

As I told Mr. Jha, I should be glad to send an emissary to India after the Summit to give you an account of our discussions on these and other matters.

Warmest regards,

Yours sincerely
Rajiv Gandhi

Her Excellency Shrimati Indira Gandhi

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GRS 250

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FM OTTAWA 301630Z MAY 84
TO PRIORITY FCO
TELEGRAM NUMBER 320 OF 30 MAY

YOUR TELNO 974 TO WASHINGTON: LONDON ECONOMIC SUMMIT: MESSAGE
FROM MRS GANDHI

1. MR JHA VISITED OTTAWA ON 25 MAY. HE MET MR TRUDEAU AND LUNCHEDED WITH DE MONTIGNY MARCHAND.

2. JHA'S MESSAGE FROM MRS GANDHI WAS ESSENTIALLY THE SAME AS THAT DELIVERED IN LONDON. HE STRESSED THE NEED TO REESTABLISH MOMENTUM ON NORTH/SOUTH ISSUES AT LONDON SUMMIT. THE FOCUS SHOULD BE ON MONEY AND FINANCE BECAUSE THESE AREAS WERE CAUSING THE MOST SERIOUS PROBLEMS FOR LDCS AND WERE THE ONES IN WHICH THE INDUSTRIALISED NATIONS COULD GIVE A LEAD. SINCE THE NORTH AND SOUTH HAD RESERVATIONS ABOUT DISCUSSING THESE ISSUES WITHIN THE FRAMEWORK OF THE UN OR THE BRETTON WOODS INSTITUTIONS RESPECTIVELY, MRS GANDHI WAS PROPOSING A CANCUN-STYLE MEETING WITH LIMITED REPRESENTATION FROM NORTH AND SOUTH. JHA FURTHER SUGGESTED THAT THE TEXTS FOR SUCH A MEETING SHOULD BE THE HELLEINER REPORT, THE REPORT OF THE NAM EXPERTS GROUP AND THE G10 REPORT COMMISSIONED AT WILLIAMSBURG.

3. MR TRUDEAU SAID HE WOULD WELCOME ANY INITIATIVE THAT MOVED THE NORTH/SOUTH DIALOGUE 'OFF DEAD CENTRE' AND WOULD TAKE ACTIVE PART IN DISCUSSIONS OF THIS IDEA AT THE LONDON SUMMIT. HOWEVER HE SAID THAT THE BRETTON WOODS INSTITUTIONS HAD PLAYED A GOOD AND POSITIVE ROLE AND THAT ANY NEW INITIATIVE SHOULD BUILD UPON THEM, NOT SEEK TO REPLACE THEM.

4. IN MORE GENERAL DISCUSSION OF THIRD WORLD INDEBTEDNESS, MR TRUDEAU STRESSED THE NEED TO THINK ABOUT MEDIUM AND LONG TERM SOLUTIONS. HE ALSO RAISED THE QUESTION OF STRUCTURAL ADJUSTMENT AND THE NEED TO RECOGNISE THE REALITY OF INTERDEPENDENCE. HE SAID HE WOULD BE RAISING THESE POINTS AT THE SUMMIT.

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5. OVER LUNCH, MARCHAND AND HIS COLLEAGUES SOUGHT FURTHER CLARIFICATION OF THE CANCUN-STYLE MEETING. JHA SAID IT NEED NOT BE AT HEADS OF GOVERNMENT LEVEL. FINANCE MINISTERS MIGHT BE MORE APPROPRIATE. IT EMERGED IN DISCUSSION THAT MRS GANDHI SAW THIS MEETING AS PREPARATION FOR A FULL BLOWN INTERNATIONAL MONETARY CONFERENCE. CANADIANS MADE IT CLEAR THAT THEY WOULD HAVE DIFFICULTIES IN PARTICIPATING IF THIS WERE THE CASE. JHA REACTED NEGATIVELY TO CANADIAN SUGGESTION THAT NORTH/SOUTH MONEY AND FINANCE ISSUES MIGHT BEST BE PURSUED THROUGH THE DEVELOPMENT COMMITTEE OF THE IMF/IBRD.

MORAN

THIS TELEGRAM
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From the Private Secretary

MR. HATFIELD
CABINET OFFICE

Economic Summit

The Prime Minister said today that she would like to have by her at the Summit copies of all the communiques issued by previous Summits. I should be grateful if you could arrange for these to be made available in time for the briefing session on 1 June.

A. J. COLES

30 May 1984



cc P.C. 13

10 DOWNING STREET

From the Private Secretary

30 May 1984

ECONOMIC SUMMIT: MESSAGE FROM MRS. GANDHI

Thank you for your letter of 29 May.

The Prime Minister has approved the proposed reply to Mrs. Gandhi's letter of 16 May which you enclosed with your letter, subject to the amendment of the last paragraph to read: "As I told Mr. Jha, I should be glad to send an emissary to India after the Summit to give you an account of our discussions on these and other matters."

I should be grateful if you could arrange for the despatch of the Prime Minister's reply.

BT
final version
for
India: note of Mrs. Jha

A. J. COLES

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

NR

With the compliments of
Shridath S. Ramphal
Commonwealth Secretary-General

~~BT~~ Asc

This is further to Sir Peter Marshall's note to you, enclosing an unsigned copy of my letter to the Prime Minister.

~~BT~~

Marlborough House, Pall Mall, London
Telephone: 01-839 3411

I have asked the
F/C.O. for a draft
krs.
A.S.C. $\frac{29}{5}$

24 May, 1984

Walter Francis Kieser.

I have written you separately on the London Economic Summit in the context of the Commonwealth meeting at New Delhi and our follow-up work.

Last week, I suspect much influenced by our Commonwealth work, I was made Chairman of the United Nations Committee for Development Planning - one of the few bodies in the UN system functioning, not at an intergovernmental, but at an individual, level. We are presumed to be 'wise men'. I have the benefit of eminent Commonwealth colleagues as members of the Committee: Sir Kenneth Berrill, Gerry Helleiner, I G Patel, Bernard Chidzero; and from OECD countries: Robert McNamara, Jean Pierre Cot, Armin Gutowski and Gerasimos Arsenis. We were joined last week by Robert Neild of Cambridge and Bernard Wood of Canada, in addition, of course, to the other members.

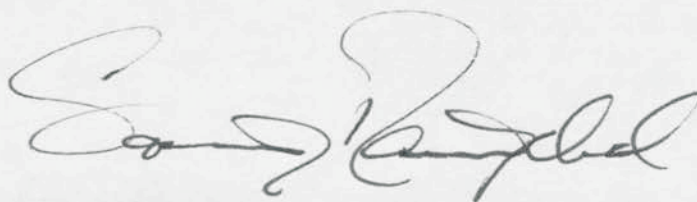
At the end of the meeting, in addition to our report, we agreed a Statement which I send to you, as Chairman of the London Summit, and will circulate to your colleagues; you may also receive a copy of this Statement from the UN Secretary-General, to whom we sent it formally.

The Rt Hon Margaret Thatcher MP
Prime Minister of Great Britain
and Northern Ireland
10 Downing Street
London S W 1

The Statement speaks for itself. I do assure you that it came from this wide-ranging Group out of a deep concern that unless we act quickly in the areas of monetary and financial reform, international debt and the plight of the poorest, especially in Sub-Saharan Africa, greater dangers may overwhelm the world economy and many countries.

I am glad to say that the thrust of all this international thinking is supportive of the Commonwealth's conclusions at New Delhi. I am, therefore, reinforced in the conviction with which I urge the Statement from the Committee for Development Planning on you as you prepare to chair the London Summit.

With deep respect,

A handwritten signature in dark ink, appearing to read 'Shridath S Ramphal', written in a cursive style. Below the signature is a short horizontal line.

Shridath S Ramphal

THE UNITED NATIONS COMMITTEE FOR DEVELOPMENT PLANNING

Statement at the Conclusion of the 20th Meeting

17 to 21 May 1984

The Committee for Development Planning is one of the few standing bodies within the United Nations system whose members serve not on an inter-governmental but on an individual basis. That membership is drawn from a great variety of countries, of North and South, of East and West. Through the Committee, we work and speak as members of the human family.

As the Committee concludes its 20th session, its members underline the deep concerns for international economic co-operation, and more especially for development, which have prevailed throughout their meeting. We do so with particular awareness of the urgent need for leadership in the international community on these matters that touch the lives of several hundreds of millions of the world's people.

We draw particular attention to three areas of need which the international community must urgently address and by its responses give hope of practical fulfillment. They are as follows:

- 1) There have been calls from many quarters for reform of the international monetary and financial system; but with the international community failing to respond in any significant way, that need has grown steadily more acute.

It is now 40 years since the 'Bretton Woods' system provided a framework for international economic relationships in the post-war world and nearly a decade since that framework ceased to function on the premises on which it was established. During that time nations have groped towards new approaches, but without success; and no self-correcting mechanisms offer solutions. Today, there is disorder verging on chaos in several areas critical to the economic life of all nations: in currency and capital markets, in international debt and international trade, in the funding of international institutions, in international financial flows. The effect is devastating for many economies but the heaviest burdens is falling on the weakest and poorest economies and therefore on the people within our human society least able to bear that burden. We do not believe that any country or group of countries is free from blame; but major industrialised countries have a special capacity to give a lead in initiating a process of change. We do not attempt to offer a blue-print; there are many paths to reform. But we do urge that there is now a quite desperate need to devise a process of

dialogue and negotiation along practical and manageable lines through which the interests of all concerned can be pursued and the necessary reforms agreed upon and initiated.

2) Longer term reforms will by their nature take time even if a beginning is made now on devising and negotiating them. However, some elements of the crisis demand immediate attention. The current situation with regard to international debt threatens the world economy and many elements within it at a level of gravity not experienced since the 1930's. We do not believe that ad hoc responses on a case-by-case basis will suffice for much longer. Prevailing high interest rates are clearly one of the factors contributing to the present crisis. We do not choose between the many proposals being put forward, but we urge international action which faces the generalised problem that now exists in the area of international debt and, with the involvement of all concerned, produces agreement upon equitable solutions.

3) It is within the poorest countries that human suffering is greatest. At a time of world-wide economic uncertainty and recession their plight is correspondingly, even disproportionately, enlarged. Sustained concessional flows to the poorest countries therefore assume an even greater importance than usual; it is little short of an international scandal that those flows have declined in real terms and now face special jeopardy. We urge the donor countries to agree upon arrangements, whether by way of supplementary funding or otherwise, for the effective replenishment of IDA VII at a level not below \$12 billion. We urge, as well, that despite economic stringencies everywhere official development assistance, particularly to the poorest countries, be not diminished but moved steadily towards the established targets. We are convinced that not only in the long run but in short, such assistance is not a mere act of charity but in the interest of the world community as a whole. We urge the major industrialised countries to give the lead in this matter which only the world's strongest economies can provide.

As members of the Committee for Development Planning, we believe that without action now in at least these key areas of international economic arrangements the present crisis will deepen rapidly and bring incalculable suffering in human and national terms. We believe also that these consequences will bring with them their quota of political instability and upheaval. The end cost, even in money terms, will far exceed what is now involved by way of enlightened response.

U.N. Headquarters,
New York.

21 May 1984

COMMONWEALTH CONSULTATIVE GROUP ON INTERNATIONAL ECONOMIC ISSUES
PROPOSAL ON WHICH CONSULTATIONS ARE TAKING PLACE

What we have been seeking is a formula for a Committee that can tackle the problems of the world's trade and payments systems, which is capable of representing the views of all the nations and groups that are concerned with these issues, yet at the same time small enough to discuss the issues and work effectively. The preferred option is the size, representation and constituency structure of the Development Committee or the Interim Committee - that is with 22 members, adjusted if necessary to reflect the financial and trading interests of the international community, and with a high level of representation, preferably Ministers, plus the UN Director-General for Development and International Economic Co-operation, the Managing Director of the IMF, the President of the World Bank, the Director-General of GATT and the Secretary-General of UNCTAD.

This Committee could establish a group of deputies to carry out detailed work on its behalf, with a small Secretariat supported by staff drawn from the international agencies. The Group would have no executive authority and would proceed strictly on the basis of consensus consultations. If, however, any cases emerged of agreement which permitted early action through existing institutional mechanisms, these would be actively pursued. While this work is continuing, negotiations could proceed in other forums. The Group would make a progress report within a year of being constituted. The process could be initiated through Resolutions adopted in parallel on an agreed basis by the General Assembly of the United Nations, the IMF, the World Bank and, to the extent that its responsibilities are involved, GATT. The report of the Group would be to these bodies.

An alternative, somewhat favoured by representatives of the G-77, would be a Group comprising the G-10 and a representative group from the G-77 constituted, for example, by widening the Group of 5 of the Non-Aligned States to say 15. Discussion in

such a joint Group could lead to negotiations which might in time be generalised in a wider negotiation between the OECD and the developing countries. Representatives of the UN Secretary-General and the specialised agencies could participate in the same way as proposed in the first option.

Two other options have been considered: the constitution of a Preparatory Group in an ad-hoc informal Ministerial meeting organised on a Cancun-style basis, with a few Commonwealth leaders playing catalytic roles; and a Preparatory Group set up by the UN Secretary-General after consultation with governments, as was proposed at the 38th Session of the UN General Assembly. Neither of these proposals gained much support.

The Commonwealth Group believes that the first option is the best practical proposal that has emerged for the process which more and more appears to be inevitable before too long. The broad agenda which we adopted for the Group to consider is headed "Areas for consideration in the framework of world recovery and development:

- The role of the IMF, including balance of payments support, adjustment, conditionality and surveillance, SDR's and international liquidity.
- The role and resource position of the multilateral development institutions, particularly the World Bank and IDA.
- Financial flows including ODA and commercial flows and problems of external debt.
- Trade liberalisation, protectionism and structural adjustment.
- Linkages between money and finance, trade and economic development."

The agenda is substantial without being all-embracing and it is recognised that the list of issues for eventual negotiation may be contracted.

The Group intends to meet again in September, immediately before the Commonwealth Finance Ministers' annual meeting which in turn immediately precedes the annual meeting of the Governors of the Fund and the Bank. This kind of timetable appears to be feasible for a Group which would use 1985 as the year in which to do its work.

PROVISIONAL LIST OF PARTICIPANTS

Members

- ABDALLA, Ismail-Sabri (Egypt). Chairman, Third World Forum and former Minister of Planning.
- ARSENIS, Gerasimos D. (Greece). Minister of the National Economy, Minister of Finance and former Governor of the Bank of Greece.
- CHIDZERO, Bernard (Zimbabwe). Minister of Finance, Economic Planning and Development.
- COT, Jean Pierre (France). Professor of International Law at the Sorbonne, Member of Parliament and Former Minister for Co-operation and Development.
- DE SOTO, Hernando (Peru). Chairman, Liberty and Democracy Institute, Peru.
- FURTADO, Celso (Brazil). Professor of Economic Development, Institut des Hautes Etudes, Université de Paris, and former Minister of Planning.
- GUTOWSKI, Armin (Federal Republic of Germany). President, Institute for Economic Research, Hamburg.
- HUAN, Xiang (China). Senior Adviser, Chinese Academy of Social Sciences and Professor of Political Economy, Beijing University.
- ICHIMURA, Shinichi (Japan). Professor of Economics, Kyoto University and Member, Committee for International Economic Co-operation, Office of the Prime Minister, Government of Japan.
- McNAMARA, Robert S. (USA). Chairman, Overseas Development Council and former President of the World Bank.
- NGAMPORO, Joseph Elenga (Congo). Minister for Commerce, Government of the Congo and former Dean, Department of Economics, University of Brazzaville.
- OHLIN, Goran (Sweden). Professor of Economics, University of Uppsala and Executive Secretary, Independent Commission on International Development Issues.
- PAJESTKA, Jozef (Poland). Member, Polish Academy of Social Sciences and Director, Institute of Economic Sciences, Government of Poland.
- RAMPHAL, Shridath S. (Guyana). Commonwealth Secretary-General and former Minister of Foreign Affairs and Justice and Attorney General.

ROJO, Luis (Spain). Director-General of Research at the Bank of Spain.

SADLI, Mohammad (Indonesia). Professor of Economics, University of Indonesia; and former Minister of Mines and of Manpower.

SOBHAN, Rehman (Bangladesh). Chairman, Bangladesh Institute of Development Studies.

STANOVNIC, Janez (Yugoslavia). Former Executive Secretary of the Economic Commission for Europe.

Invited experts

DELL, Sidney, Executive Secretary, Centre for Transnational Corporations

NEILD, Robert (United Kingdom). Professor of Economics, University of Cambridge and former Director of the United Kingdom Institute of Economics and Social Research

RAJ, K.N., Former member of the Committee for Development Planning

TELLO, Carlos (Mexico). Professor of Political Economy at the University of Mexico

WOOD, Bernard (Canada). Chairman of the North-South Institute

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ECONOMIC SUMMIT

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 MR ~~XXXXXXXXXX~~ LEWIS
 MR J THOMAS
 MR ~~XXXXXXXXXX~~

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 EXCHEQUER)
 MR LITTLER) TREASURY
 MR BOTTRILL)

SIR R ARMSTRONG } CABINET OFFICE
 MR COLVIN }

HD/ECONOMIC SUMMIT PRES UNIT
 MR BARRINGTON OAB SE/117

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PRESIDENT CLERK

IMMEDIATE

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 DESKBY 300800Z
 FM UKMIS NEW YORK 300029Z MAY 84
 TO IMMEDIATE FCO
 TEL NO 557 OF 29 MAY 1984

MS

MIPT: LONDON ECONOMIC SUMMIT.
 FOLLOWING IS TEXT OF SECRETARY GENERALS LETTER.

DEAR PRIME MINISTER,

I AM PROMPTED TO ADDRESS YOU JUST BEFORE THE LONDON SUMMIT BY THE FEELING THAT THE TENSE WORLD POLITICAL SITUATION IS MAKING THE SOLUTION OF ECONOMIC PROBLEMS MORE DIFFICULT. THE ACCUMULATION OF ECONOMIC DIFFICULTIES IS IN TURN ADDING TO TENSIONS.

THE ECONOMIC RECOVERY IN MOST OF THE COUNTRIES PARTICIPATING IN THE SUMMIT IS, NO DOUBT, A POSITIVE ELEMENT. THAT THIS RECOVERY IS FOR THE MOMENT UNATTENDED BY RESURGENT INFLATION IS AN ADDITIONAL TRIBUTE TO THE EFFORTS UNDERTAKEN BY YOU ON THE LINES ENVISAGED IN WILLIAMSBURG.

I KNOW THAT AT THE SUMMIT YOU WILL BE DEALING WITH A WIDE RANGE OF ISSUES OF DIRECT CONCERN TO YOUR ECONOMIES. BUT IN THE CONTEXT OF OUR INCREASINGLY INTERDEPENDENT WORLD I WANT TO RAISE ISSUES RELATING MAINLY, BUT NOT EXCLUSIVELY, TO THE SITUATION OF DEVELOPING COUNTRIES.

SITUATION OF DEVELOPING COUNTRIES.

AS FEARED, THE RECOVERY IN INDUSTRIAL ECONOMIES IS SO FAR HAVING A RELATIVELY MODEST IMPACT ON MOST DEVELOPING COUNTRIES. AFTER THREE CONSECUTIVE YEARS OF DECLINING OVERALL PER CAPITA INCOME, DEVELOPING COUNTRIES WILL IN 1984 EXPERIENCE ONLY MINOR GAINS. THE SAME IS LIKELY NEXT YEAR.

IT APPEARS TO ME THAT THREE ISSUES ARE IMPORTANT.

FIRST, INTERNATIONAL TRADE, IN PARALLEL WITH THE OVERALL RECOVERY, IS NOT EXPECTED FOR THE MOMENT TO BE THE DRIVING FORCE ^{WHICH} IT WAS PRIOR TO THE RECESSION. THAT WOULD BE UNFORTUNATE, FOR MANY DIFFICULTIES, BOTH IN THE NORTH AND IN THE SOUTH, INCLUDING THOSE RELATING TO STRUCTURAL ADJUSTMENT, COULD BE OVERCOME IF TRADE EXPANDED MORE VIGOROUSLY.

I NOTE THAT THE RECENT MINISTERIAL MEETING OF THE OECD TOOK AN IMPORTANT STEP TOWARDS A "NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS". SUCH A ROUND, TO BE SUCCESSFUL, WILL REQUIRE THOROUGH PREPARATIONS. HOWEVER, THESE PREPARATIONS NEED NOT DELAY IMMEDIATE DECISIONS BEING TAKEN TO REDUCE OR DO AWAY WITH PROTECTIONIST MEASURES, AS CALLED FOR BY SEVERAL PREVIOUS DECLARATIONS AND DECISIONS.

THE SECOND ISSUE IS THE DRAMATIC SITUATION IN AFRICA - A RESULT OF UNFAVOURABLE EXTERNAL CIRCUMSTANCES, ADDING TO ALREADY WEAK STRUCTURES, AND BOTH DRAMATICALLY EXACERBATED BY THE IMPACT OF SEVERE DROUGHT AND OTHER CALAMITIES. THESE FACTORS HAVE LED TO WIDESPREAD HUNGER AND STARVATION.

IN A YEAR WHEN THE GLOBAL FOOD SITUATION IS RELATIVELY SATISFACTORY, SUCH A STATE OF AFFAIRS IS DIFFICULT TO ACCEPT. DOMESTIC ADJUSTMENTS IN SOME AFRICAN COUNTRIES ARE NO DOUBT REQUIRED, AND SEVERAL COUNTRIES ARE IN FACT UNDERTAKING SUCH ADJUSTMENTS. THIS IS PRECISELY THE MOMENT WHEN INTERNATIONAL SUPPORT SHOULD NOT BE WEAKENED. IN THIS CONNECTION, I CANNOT BUT EXPRESS MY CONCERN AT THE RECENT DECISION ON THE SEVENTH REPLENISHMENT OF IDA WHICH WILL HAVE SERIOUS IMPLICATIONS FOR AFRICA, SINCE IDA FUNDS ARE ESSENTIAL FOR LOW INCOME COUNTRIES.

AT THE END OF LAST YEAR I LAUNCHED A PUBLIC APPEAL FOR ADDITIONAL SUPPORT TO AFRICAN COUNTRIES, AND I AM APPRECIATIVE OF THE RESPONSE THAT HAS BEEN FORTHCOMING, BUT MUCH MORE NEEDS TO BE DONE.

MY SUGGESTIONS ARE AS FOLLOWS:

- RESPOND URGENTLY TO THE NEED FOR ADDITIONAL EMERGENCY RESOURCES, INCLUDING FOOD AID AND ASSISTANCE TO THE AGRICULTURAL SECTOR,

AGRICULTURAL SECTOR,

- OFFSET THE NEGATIVE IMPACT OF THE DECISION ON 4DA WHICH
EITHER THROUGH THE PROPOSED SUPPLEMENTARY FUNDING ARRANGEMENT,
OR APPROPRIATE INCREASE IN OTHER FUNDINGS,

- EXPEDITE ACTION ON STABILISING AND STRENGTHENING
COMMODITY MARKETS AND EARNINGS, INCLUDING THROUGH AN EARLY
ACTIVATION OF THE COMMON FUND.

THE THIRD ISSUE RELATES TO THE DEBT PROBLEM.

I HAVE BEEN ACUTELY DISTRESSED BY THE EXTRAORDINARY HUMAN
SUFFERING CAUSED BY SEVERE AUSTERITY PROGRAMMES IN SEVERAL
DEVELOPING COUNTRIES VISITED BY ME RECENTLY IN AFRICA AND LATIN
AMERICA. IN MANY OF THE COUNTRIES AFFECTED, BOLD MOVES HAVE
BEEN TAKEN TOWARDS DEMOCRACY. MY CONCERN IS THAT THE EXTREME
SOCIAL AND ECONOMIC HARDSHIP THAT IS CURRENTLY BEING FELT CAN
ENDANGER THE IMPRESSIVE PROGRESS MADE TOWARDS POLITICAL
LIBERTY, AND DAMAGE THE INFRASTRUCTURE AND PRODUCTIVE CAPACITY.

I DO NOT WISH TO GO INTO SPECIFIC SOLUTIONS TO THE DEBT
PROBLEM, BUT I DO SHARE THE CONCERNS OF THOSE WHO WONDER IF THE
MEASURES PRESENTLY BEING ADOPTED ARE OF A LASTING VALUE. THE
TIME MAY HAVE COME FOR GOVERNMENTS, BANKS AND DEBTOR COUNTRIES
TO SEARCH FOR A MORE DURABLE WAY OUT. OF COURSE, TRADE
LIBERALISING MEASURES TO ACCOMPANY THE RECOVERY WOULD HELP
GREATLY, BUT IN THE IMMEDIATE FUTURE ANY STEPS THAT CAN BE
TAKEN TO MODERATE INTEREST RATES AND STRETCH RESCHEDULING OVER
LONGER PERIODS WOULD SEEM TO BE HIGHLY DESIRABLE. A LONGER
TIME PERIOD NEEDS TO BE ALLOWED TO THE DEBTOR COUNTRIES TO
ADJUST THEIR ECONOMIES. SUCH ADJUSTMENT WOULD BE GREATLY
FACILITATED BY ADDITIONAL LIQUIDITY (FOR INSTANCE, THROUGH AN
ISSUE OF SDRS), AND LONG TERM FINANCE - BOTH CONCESSIONAL AND
NON-CONCESSIONAL.

THE ISSUES I HAVE RAISED ARE PART OF A BROADER SET OF
PROBLEMS AFFECTING NORTH/SOUTH RELATIONS. FROM THAT POINT OF
VIEW IT IS UNFORTUNATE THAT GOVERNMENTS IN THE UNITED NATIONS
HAVE NOT YET SUCCEEDED IN LAUNCHING A PROCESS, ACCEPTABLE TO
ALL PARTIES, TO DISCUSS AND NEGOTIATE THE WIDE RANGE OF
OUTSTANDING ISSUES. I HOPE THE LONDON SUMMIT WILL BE ABLE TO
OVERCOME THE REMAINING OBSTACLES TO THE COMMENCEMENT OF SUCH A
PROCESS.

PLEASE ACCEPT, PRIME MINISTER, THE ASSURANCES OF MY
HIGHEST CONSIDERATION.

JAVIER PEREZ DE CUELLAR.

THOMSON

With Compliments
K. Durham
Chairman

Unilever PLC
Unilever House
Blackfriars
London EC4P 4BQ

Telephone 01-822 5252

R3115





·ICC UNITED KINGDOM ·CENTRE POINT ·103 NEW OXFORD STREET ·LONDON WC1A 1QB ·
·TELEPHONE: 01-240 5558 ·TELEX: 21332 ·

29 May, 1984

The Rt Hon Mrs Margaret Thatcher MP.,
10 Downing St.,
London, SW1A 2AL

Dear Prime Minister

London Summit

I attach a copy of the Executive Summary of the submission which the ICC is making to all the parties attending the London Summit at Lancaster House.

The ICC, of which Unilever is an active member worldwide, has members in over 100 countries of varying stages of development and is therefore in a unique position to represent the view of business in the whole of the non-communist world.

I am writing to you as Vice Chairman of ICC UNITED KINGDOM in the absence abroad of our Chairman, Sir Peter Macadam.

We here feel that 1984 is the time to obtain agreement in principle for specific action in 1984-86, when no leading governments expect elections. We feel it is a time when the EEC, with its unique experience of the Third World, can start a purposeful and considerate process of reinforcement and extension of agreed international rules governing trade. Clearly the British have a particular role to play in this and a strong national interest in doing so.

If recovery is to be sustained, we need to help other governments resist protectionist pressures and tackle the problems of indebtedness and budget deficits with new vigour.

Your Government has already shown the determination and leadership to tackle difficult problems and we look forward to hearing of further progress at the Summit and beyond.

Kenneth Durham
Yours

Kenneth Durham
Vice Chairman - ICC UNITED KINGDOM



International Chamber of Commerce
38 Cours Albert 1^{er}, 75008 Paris
Telephone: 261-85-97
Cables: Incomerc-Paris
Telex: 650770

Secretary General's Office

1984.05.15 MW

S T A T E M E N T

FOR SUBMISSION TO THE HEADS OF STATE AND GOVERNMENT
ATTENDING THE LONDON SUMMIT, 7-9 JUNE 1984

ICC STATEMENT TO THE HEADS OF STATE AND GOVERNMENT ATTENDING
THE LONDON SUMMIT, 7-9 JUNE 1984

Summary

The International Chamber of Commerce (ICC), representing private business throughout the world, appreciates the range and gravity of the economic problems which confront the heads of state and government who are meeting at the London Summit. It wishes, however, to emphasise its view that three issues are paramount and closely interconnected - namely, developing country indebtedness, protectionist restrictions on international trade flows, and high fiscal deficits (particularly in the USA) which are straining capital markets and raising the cost of new borrowing and outstanding debt. The ICC urges the Summit participants to develop a more comprehensive and integrated approach to these issues which recognises the important linkages between them. The prospects for a steady improvement in the external financial position of the indebted developing countries depend in large part on the sustainability of economic recovery in the industrialised world; protectionism and high real interest rates are posing a dangerous threat to both. The ICC calls upon the Summit governments to take urgent steps to roll back protectionism and curb large fiscal deficits which are a principal cause of high real interest rates.

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FM WASHINGTON 302050Z MAY 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 1669 OF 29 MAY
INFO IMMEDIATE PARIS, BONN.

FOLLOWING FROM PRIVATE SECRETARY
BERLIN LUNCH: ECONOMIC SUMMIT

1. THERE WAS A DISCUSSION TODAY OF ARRANGEMENTS FOR THE ECONOMIC SUMMIT AT THE BERLIN LUNCH OF FOREIGN MINISTERS FROM US, UK, FRANCE AND WEST GERMANY.
2. THE SECRETARY OF STATE WAS ASKED TO OUTLINE THE ARRANGEMENTS FOR THE FOREIGN MINISTERS' DISCUSSIONS AT THE ECONOMIC SUMMIT. THE SECRETARY OF STATE SAID THAT HIS AIM WAS TO MAKE MAXIMUM USE OF THE TIME FOR BUSINESSLIKE DISCUSSIONS BETWEEN FOREIGN MINISTERS. HEADS OF GOVERNMENT WOULD DISCUSS KEY FOREIGN POLICY ISSUES SUCH AS EAST-WEST RELATIONS, ARMS CONTROL AND POSSIBLY THE GULF. FOREIGN MINISTERS COULD DISCUSS A WIDER RANGE OF FOREIGN POLICY ISSUES, ESPECIALLY ONES WHICH WOULD ENGAGE THE JAPANESE. THE SECRETARY OF STATE WOULD SEND A MESSAGE TO HIS COLLEAGUES SHORTLY BEFORE THE SUMMIT SUGGESTING SUBJECTS FOR DISCUSSION ON THE FRIDAY EVENING. SHULTZ AGREED THAT IT WAS IMPORTANT TO CHOOSE SUBJECTS WHICH WOULD ENGAGE THE JAPANESE, THOUGH THE JAPANESE THEMSELVES WERE SHOWING MARKED INTEREST IN A WIDE RANGE OF ISSUES, INCLUDING ARMS CONTROL. THERE WERE NO OTHER COMMENTS.
3. ON TERRORISM, THE SECRETARY OF STATE ONCE AGAIN SAID THAT WE WERE AIMING FOR A SUBSTANTIVE DISCUSSION, BUT NO FORMAL DECLARATION. THE PRIME MINISTER WOULD MAKE A STATEMENT THAT TERRORISM HAD BEEN DISCUSSED AND THAT FOLLOW-UP ACTION WOULD BE TAKEN WITHOUT GOING INTO DETAIL. SHULTZ SAID THAT TERRORISM WAS VERY IMPORTANT, MUST BE DISCUSSED AND MUST BE MENTIONED AFTERWARDS AS HAVING BEEN DISCUSSED SUBSTANTIVELY. IN A LONG INTERJECTION, CHEYSSON SAID THAT THE MAIN THING WAS TO IMPROVE PRACTICAL CO-ORDINATION BETWEEN POLICE, SECURITY AUTHORITIES, ETC RATHER THAN TO ISSUE DECLARATION. THE HEADS OF STATE SHOULD ISSUE INSTRUCTIONS TO THEIR SECURITY ORGANISATIONS TO CO-OPERATE FULLY WITH THE OTHER SUMMIT COUNTRIES. IF SOME COUNTRIES THOUGHT THAT A NEW DECLARATION WAS ABSOLUTELY ESSENTIAL, EVEN THE FRENCH MIGHT NOT NECESSARILY OBJECT IN THE LAST RESORT. THE FRENCH ALSO THOUGHT IT IMPORTANT TO LOOK AT GAPS IN THE JUDICIAL SYSTEMS OF THE INDUSTRIALISED COUNTRIES WHICH TERRORISTS WERE ABLE TO EXPLOIT.
4. GENSCHER ASKED ABOUT DISCUSSIONS ON NORTH-SOUTH ISSUES. THE SECRETARY OF STATE EXPLAINED THAT THIS WOULD BE AN IMPORTANT THEME RUNNING THROUGH MOST OF THE SUBJECTS FOR DISCUSSION, INCLUDING TRADE,

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DEBT AND RECOVERY. GENSCHER SAID THAT THE GERMAN MISSION IN NEW YORK WAS REPORTING THAT THERE HAD BEEN A CHANGE IN THE ATTITUDE OF G77 COUNTRIES. THEY WERE ADOPTING A MORE AGGRESSIVE TONE, BUT PURSUING THEIR OWN REGIONAL INTERESTS MUCH MORE SINGLE-MINDEDLY. THIS WAS A POSITIVE DEVELOPMENT SINCE IT HELPED TO FOCUS MINDS ON THE REAL ISSUES. HE WONDERED WHETHER THERE WOULD BE DISCUSSION OF IDEAS ABOUT A SECOND CANCUN MEETING.

5. THE SECRETARY OF STATE SAID THAT ANOTHER CANCUN MIGHT REUNIFY THE G77 IN AN UNHELPFUL WAY AND FOCUS ATTENTION AWAY FROM PRACTICAL ISSUES. SHULTZ COMMENTED THAT CANCUN HAD BEEN A HEALTHY DEVELOPMENT. PRESIDENT REAGAN'S SPEECH HAD HELPED TO FOCUS ATTENTION ON THE NEED FOR INDIVIDUAL COUNTRIES TO CREATE SELF-GENERATING GROWTH. CHEYSSON SAID THAT IF THE DISCUSSIONS AT THE LONDON ECONOMIC SUMMIT SHOWED THAT THERE WERE GOOD PROSPECTS FOR A SOLUTION TO THE DEBT PROBLEM, AND HENCE SOMETHING USEFUL TO DISCUSS AT CANCUN, HE WOULD HAVE NO OBJECTIONS TO A SECOND CANCUN. BUT IF THE OUTCOME AT THE LONDON SUMMIT DID NOT SET THE RIGHT SCENE, THEN THE FRENCH WOULD NOT BE IN FAVOUR OF A SECOND CANCUN.

6. SHULTZ ONCE AGAIN SAID THAT HE FELT THERE WAS A GAP IN THE SYSTEM OF REGULAR MEETINGS OF FOREIGN MINISTERS. FINANCE MINISTERS HAD THEIR G5. HE WOULD BE IN FAVOUR OF EITHER A G5 OR A G7 FOREIGN MINISTERS. THERE WERE NOT OTHER COMMENTS.

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FM WASHINGTON 292000Z MAY 84

TO PRIORITY FCO

TELEGRAM NUMBER 1659 OF 29 MAY

SECRETARY OF STATE'S BILATERALS WITH REGAN AND LAROSIERE

SECRETARY REGAN

1. THE SECRETARY OF STATE'S BILATERAL WITH TREASURY SECRETARY REGAN PROVIDED AN OPPORTUNITY TO REVIEW THE PROSPECTS FOR THE LONDON SUMMIT, DISCUSS THE INTERNATIONAL DEBT SITUATION, RECEIVE AN ORAL REPORT ON US EFFORTS TO LIBERALISE JAPANESE CAPITAL MARKETS, DISCUSS THE PROSPECTS FOR INTEREST RATES AND THE US BUDGET DEFICIT AND TO DISCUSS UNITARY TAXATION. REGAN WAS SUPPORTED BY MCNAMAR, SPRINKEL AND MULFORD.

LONDON ECONOMIC SUMMIT

2. SECRETARY REGAN SAID THAT THE ADMINISTRATION WAS BASICALLY CONTENT WITH THE DRAFT COMMUNIQUE FOR THE LONDON ECONOMIC SUMMIT, BUT THAT HE THOUGHT A FEW CHANGES WERE DESIRABLE. IN PARTICULAR, HE WOULD WISH CHANGES TO BE MADE TO THE WORDING SUGGESTED BY THE FRENCH ON THE URGENCY OF THE FOLLOW-UP TO THE G10 STUDIES ON THE OPERATION OF THE INTERNATIONAL MONETARY SYSTEM AND TO THE QUOTE NORTH-SOUTH UNQUOTE REFERENCES IN THE COMMUNIQUE IN VIEW OF THE NEED NOT TO REVIVE INTEREST IN GLOBAL NEGOTIATIONS.

INTERNATIONAL DEBT

3. IN A DISCUSSION OF INTERNATIONAL DEBT, WHICH REGAN THOUGHT WOULD BE ONE OF THE MAIN THEMES OF THE SUMMIT, HE SAID HE DID NOT BELIEVE THAT THE FORMATION OF AN ACTIVE DEBTORS' CARTEL AND THE DECLARATION OF MORATORIA WAS AN IMMINENT THREAT, ALTHOUGH HE THOUGHT IT COULD BECOME ONE IF INTEREST RATES CONTINUED TO RISE. HE BELIEVED THAT SOME DEBTOR NATIONS WERE TALKING TOUGH AT PRESENT BECAUSE THEY THOUGHT THIS WOULD LEAD TO PRESSURE BEING PUT ON THE US AT THE LONDON SUMMIT TO GIVE THEM MORE FAVOURABLE TREATMENT, AND TO BRING DOWN US INTEREST RATES. SECRETARY REGAN POINTED OUT THAT A RISE IN THE PRICE OF OIL WOULD SERIOUSLY DAMAGE THE PROSPECTS OF MOST LDCS FOR REPAYING THEIR DEBTS.

INTEREST RATES

4. ON THE PROSPECTS FOR INTEREST RATES, SECRETARY REGAN SAID THAT THE STRONG RISE IN THE US ECONOMY HAD LED THE FED - WHICH FEARED A REVIVAL OF INFLATION - TO RESTRAIN THE GROWTH OF THE MONEY SUPPLY. THIS RESTRAINT WOULD NOW BE LESS THAN IT WOULD BE OTHERWISE BECAUSE OF THE DIFFICULTIES EXPERIENCED BY THE CONTINENTAL BANK OF ILLINOIS. HE DID NOT SHARE THE FED'S INFLATIONARY FEARS. THE PROSPECTS FOR DEALING WITH THE US BUDGET DEFICIT WERE GOOD. A DEFICIT

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OF DOLLARS 170 BN WAS THE MOST EXPECTED FOR FY84. BY FY85 THE DEFICIT COULD BE AS LOW AS DOLLARS 145 BN, WHICH WOULD ONLY AMOUNT TO 3 PER CENT OF GNP. THIS WAS ASSUMING THAT THE DOWN-PAYMENT PACKAGE WOULD CLEAR THE CONGRESS, WHICH NOW SEEMED VIRTUALLY CERTAIN. OVER AND ABOVE THIS, SECRETARY REGAN CLAIMED THAT THE PRESIDENT WAS COMMITTED TO TAKING FURTHER DEFICIT-REDUCING ACTION IN THE PERIOD BEYOND THE ELECTIONS.

UNITARY TAX

5. ON UNITARY TAX, SECRETARY REGAN SAID THAT THE INTENTION WAS TO GET THE REPORT OF HIS WORKING GROUP ON UNITARY TAXATION TO THE PRESIDENT THIS WEEK AND FOR THE PRESIDENT TO PUBLISH A STATEMENT ON 1 JUNE. HE SAID THAT ANY STATES THAT REFUSED TO SIGN THE REPORT WOULD BE THREATENED WITH PREEMPTIVE FEDERAL LEGISLATION IN 1985, AND THAT COMPANIES THAT TRY TO BLOCK WATER'S EDGE LEGISLATION AT STATE LEVEL WOULD ALSO BE THREATENED WITH SUCH LEGISLATION. HE WAS ANXIOUS THAT WE SHOULD COMMENT ON THE DRAFT FLORIDA LEGISLATION THAT GOVERNOR GRAHAM OF FLORIDA WOULD SEND TO THE EMBASSY, AND IMPLIED THAT PROGRESS ON UNITARY TAX WOULD COME FIRST IN FLORIDA RATHER THAN IN CALIFORNIA WHERE REVENUE CONSTRAINTS WERE VERY TIGHT BECAUSE OF PROPOSITION 13. SECRETARY REGAN WAS AMBIGUOUS ABOUT WHETHER A PRESIDENTIAL STATEMENT WOULD CONTAIN A REFERENCE TO THE THREAT OF PREEMPTIVE FEDERAL LEGISLATION IN 1985 IF NO PROGRESS WAS MADE AT STATE LEVEL, BUT NONETHELESS SUCH A THREAT SEEMED TO BE THE ADMINISTRATION'S MAIN MEANS OF SECURING THE IMPLEMENTATION OF A SATISFACTORY SOLUTION.

JAPANESE CAPITAL MARKETS

6. THE US TREASURY TEAM WAS CLEARLY VERY PLEASED ABOUT THE OUTCOME OF THE NEGOTIATIONS WITH THE JAPANESE ON OPENING UP JAPANESE CAPITAL MARKETS, AND LOOKED FORWARD TO THE FORMATION OF AN ACTIVE EURO-YEN MARKET. (THE DETAILS OF THIS WILL BE REPORTED IN A SEPARATE TELEGRAM.)

THE MANAGING DIRECTOR OF THE IMF

7. THE MD DID NOT BELIEVE THAT DEVELOPMENTS IN THE WORLD ECONOMY WERE AS BAD AS SOME DEPICTED. SO FAR THE LDC DEBTORS HAD BENEFITED MORE FROM A RECOVERY IN THEIR EXPORTS THAN THEY HAD LOST THROUGH HIGHER INTEREST RATES. FURTHER RISES IN INTEREST RATES COULD TILT THE BALANCE AGAINST THE LDCS. HE DID NOT FAVOUR INTEREST RATE CAPPING DEVICES. THE PRIORITY SHOULD BE TO SUPPORT, IN A PRACTICAL FASHION, THOSE DEBTORS WHICH WERE UNDERTAKING SUCCESSFUL ADJUSTMENT. MEXICO WAS THE CASE IN POINT. HIS PREFERRED COURSE WAS FOR THE CREDITORS TO REPLACE THE PRESENT UNSATISFACTORY ANNUAL RESCHEDULINGS WITH MULTI-YEAR RESCHEDULINGS, COVERING PERHAPS FOUR YEARS. THIS WOULD HELP DEAL WITH THE BUNCHING OF AMORTISATIONS. BRAZIL COULD BE THE SECOND CANDIDATE FOR SUCH TREATMENT. IF THE MEXICAN AND BRAZILIAN DEBT PROBLEMS COULD BE DEALT WITH IN THIS WAY, ANY DIFFICULTIES CAUSED BY ARGENTINA COULD BE CONTAINED EVEN IF THAT COUNTRY DID NOT AGREE TO A SATISFACTORY IMF PROGRAMME.

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8. THE MANAGING DIRECTOR HOPED THAT THE ECONOMIC SUMMIT COULD ACHIEVE THREE RESULTS. FIRST, IT SHOULD SET OUT A STRATEGY FOR OPENING UP TRADE BARRIERS AS QUICKLY AS POSSIBLE, PARTICULARLY IN A WAY WHICH BENEFITED THE LDCS. SECOND, IT SHOULD ESTABLISH A STRATEGY FOR MULTI-YEAR RESCHEDULING OF DEBT SO THAT THIS APPROACH COULD ASSIST MEXICO, BEFORE THE END OF THE SUMMER. FINALLY, THE SUMMIT SHOULD GIVE THE UNITED STATES ADMINISTRATION A STRONG WARNING THAT IT SHOULD QUICKLY CORRECT ITS BUDGET DEFICIT. THE WORLD COULD NOT EXPECT THE LDCS TO PUT THEIR OWN ECONOMIES IN ORDER WHEN THE US ECONOMY WAS NOT.

9. FCO PLEASE PASS TO PS/CHANCELLOR, LITTLER AND BOTTRILL (HM TREASURY) AND TO TAIT (ERD).

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FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE'S DINNER WITH SHULTZ: ECONOMIC SUMMIT

TERRORISM

1. THE SECRETARY OF STATE RECALLED THE DISCUSSION ON TERRORISM AT THE LAST MEETING OF PERSONAL REPRESENTATIVES. THE INTENTION STILL WAS TO HAVE A SUBSTANTIAL DISCUSSION OF TERRORISM BUT NOT TO ISSUE A DECLARATION. INSTEAD THE PRIME MINISTER WOULD MAKE A CHAIRMAN'S STATEMENT RECORDING THAT THERE HAD BEEN A FULL DISCUSSION AND THAT THERE WOULD BE FOLLOW-UP ACTION.

2. SHULTZ SAID THAT HE THOUGHT THIS WAS A VERY SENSIBLE PLAN. THE MAIN THING WAS TO ENSURE THAT THE STATEMENT COVERED SUBSTANCE. THERE WERE A LOT OF PROBLEMS IN DEALING WITH TERRORISM WHICH HAD NOT ALL BEEN THOUGHT THROUGH.

LONDON CHARTER

3. THE SECRETARY OF STATE SUMMARISED THE BACKGROUND TO THE PRESENT DRAFT AND GERMAN CONCERNS THAT THE SUMMIT SHOULD EMPHASISE THE SHARED VALUES OF THE SUMMIT COUNTRIES SINCE IT CAME TWO DAYS AFTER THE NORMANDY CELEBRATIONS.

4. SHULTZ COMMENTED THAT THE DRAFT WAS FINE BUT IT OUGHT TO CONTAIN SOME REFERENCES WHICH COULD BE CONNECTED TO CURRENT ISSUES, THOUGH HE REALISED THAT THIS MIGHT PUT TOO MUCH OF STRAIN ON IT. SHULTZ DID NOT ELABORATE ON WHICH CURRENT ISSUES HE MEANT, THOUGH U S OFFICIALS SAID PRIVATELY THAT THEY HAD IN MIND WORDING WHICH COULD LINK THE STATEMENT TO THE GULF AND CENTRAL AMERICA. THE SECRETARY OF STATE REPLIED THAT IT WOULD BE VERY DIFFICULT INDEED TO INCLUDE WORDING REFERRING TO CURRENT ISSUES SINCE THE CHARTER WAS INTENDED TO BE TIMELESS.

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FOREIGN MINISTERS' MEETING

5. THE SECRETARY OF STATE SAID THAT HE WANTED TO MAKE MAXIMUM USE OF THE FOREIGN MINISTERS' MEETING TO COVER FOREIGN POLICY ISSUES NOT DISCUSSED BY HEADS OF GOVERNMENT. THIS PRINCIPALLY MEANT REGIONAL ISSUES, ESPECIALLY THOSE OF INTEREST TO JAPAN (E.G. SOUTH-EAST ASIA, KOREA, CHINA, THE GULF). SHULTZ AGREED AND REQUESTED ADVANCE NOTICE ABOUT THE TOPICS TO BE COVERED AT EACH MEETING. THE SECRETARY OF STATE REFERRED TO FRENCH RESERVATIONS ABOUT A FORMAL AGENDA, BUT SAID HE THOUGHT IT WOULD BE POSSIBLE TO GIVE THE U S NOTICE ABOUT THE TOPICS BILATERALLY BEFOREHAND.

6. SHULTZ SAID HE WAS VERY MUCH IN FAVOUR OF THE IDEA OF MEETINGS OF FOREIGN MINISTERS OF THE SUMMIT COUNTRIES AFTER THE SUMMIT. HIS IMPRESSION WAS THAT ALL THE COUNTRIES WERE IN FAVOUR EXCEPT FRANCE. THE SECRETARY OF STATE SUGGESTED THAT PRESIDENT REAGAN MIGHT DISCUSS THIS BILATERALLY FIRST WITH PRESIDENT MITTERRAND AND THEN RAISE IT AT THE END OF THE SUMMIT.

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Prime Minister.
 Agree attached message Foreign and Commonwealth Office
 to Mrs. Gandhi?
 London SW1A 2AH

*Ad 29.
5*

29 May 1984

Dear John,

Yes not

London Economic Summit: Message from Mrs Gandhi

Thank you for your letter of 18 May giving a record of Mr L K Jha's call on the Prime Minister.

We consider that it would be tactically better for the Prime Minister to reply to Mrs Gandhi before the Summit. She can thereby reasonably avoid having to take up the issues of substance raised by the Indian Prime Minister. To reply afterwards would risk a prolonged exchange of correspondence. We should leave Sir Crispin Tickell to report the outcome of the Summit when he visits New Delhi as Mrs Thatcher's personal emissary.

I enclose the text of a suggested short reply to Mrs Gandhi. If the Prime Minister is content, we suggest that the High Commission in New Delhi should be asked to deliver the text in advance of receipt of the signed original.

*Yes ever,
Peter Ricketts*

(P F Ricketts)
 Private Secretary

A J Coles Esq
 No 10 Downing Street

India 7183 Mr Jha.

Foreign and Commonwealth Office
London SW1A 2AH





DRAFT: ~~xxxx~~ letter ~~xxxxxxxxxxxxxxx~~

TYPE: Draft/Final 1+

FROM

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret

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Shrimati Indira Gandhi
Prime Minister of India

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SUBJECT:

.....In Confidence

Dear Prime Minister

CAVEAT.....

Thank you for your letter of 16 May. I am grateful to you for sending Mr Jha to hand it to me personally and to explain the purpose of your message.

I am very conscious of your concerns and I shall bring your letter to the attention of the other participants at the London Economic Summit. We shall certainly wish to discuss the propositions which you have advanced.

As I told Mr Jha, I ^{should be glad to} ~~shall~~ send an emissary to India after the Summit to give you an account of our discussions on these and other matters.

Warmest regards

Margaret Thatcher

Enclosures—flag(s).....

OUT TELEGRAM

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9	INFO WASHINGTON, OTTAWA, PARIS, BONN, ROME, TOKYO
10	MY TELNO 974 TO WASHINGTON: MESSAGE FROM MRS GANDHI
11	1. Please deliver the following text of the Prime Minister's
12	reply (dated May) to Mrs Gandhi's letter of 16 May:
13	BEGINS
14	Dear Prime Minister
15	Thank you for your letter of 16 May. I am grateful to you
16	for sending Mr Jha to hand it to me personally and to explain
17	the purpose of your message.
18	I am very conscious of your concerns and I shall bring your
19	letter to the attention of the other participants at the London
20	Economic Summit. We shall certainly wish to discuss the
21	propositions which you have advanced.
22	As I told Mr Jha, I ^{had to glad to} shall send an emissary to India after
23	the Summit to give you an account of our discussions on these
24	and other matters.
25	Warmest regards

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NNNN ends telegram	BLANK	Catchword Margaret Thatcher
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Telephone number 233 5220		
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OUT TELEGRAM (CONT)

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MR COLES *MR 27/5.*

International TUC Delegation

Thank you for your minute of 24 May.

2. I now attach the Prime Minister's copy of the TUAC Statement to the OECD Ministerial Council and a covering letter from the TUC General Secretary which were handed over by Mr David Lea at a meeting with Sir Robert Armstrong last week.

3. I have asked the TUC to make contact with No 10 directly (I have given David Barclay's name to Mary Barber) to liaise on practical details. Mr Lea said that they had not (as of last Thursday night) finalised composition of the delegation but it would consist of 16 principals, 5 TUC officials, and an absolute maximum of 11 advisers/aides; ie 32 as a top limit. Four of the principals will require interpretation. The languages concerned are French, German, Italian and Japanese. I understand, however, that the speaking contribution of these representatives is likely to be limited to a token of two to five minutes each.

4. The names of the four interpreters are: Mr A Lawrence, Mrs Y Mori, Mrs Eicke Crowley, and Mr Leo Cherman. The interpreters are proposing to arrive at No 10 Downing Street at 10 o'clock on Thursday.



R P HATFIELD

29 May 1984

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TRADES UNION CONGRESS

CONGRESS HOUSE · GREAT RUSSELL STREET · LONDON WC1B 3LS

Telephone 01-636 4030

Telegram: TRADUNIC LONDON WC1

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

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DEPARTMENT Secretary's

May 24 1984

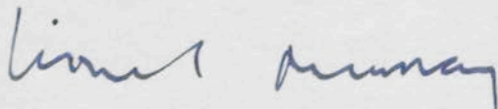
Dear Prime Minister

The World Economic Summit

I am enclosing a copy of the statement which we look forward to discussing with you on May 31.

May I take the opportunity to express our appreciation for the cooperation which has been shown in the administrative arrangements for this meeting.

Yours sincerely



General Secretary

Enc



Réf.

Statement to the OECD's Ministerial Council and the
London Summit, May - June, 1984

Adapted by the 72nd Plenary Session of TUAC,
26 - 27 April, 1984

C O N T E N T S

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TUAC

Statement to the OECD's Ministerial Council and the London Summit

Adopted by the 72nd Plenary Session of TUAC, 26 - 27 April, 1984

INTRODUCTION AND SUMMARY

1. Despite some recent encouraging signs of an upturn, unemployment remains very high throughout the OECD area and continues to grow in many countries. Economic growth - let alone a recovery - is by no means guaranteed, and on present policies, the forecast is for growth slowing down and not spreading. The prospects of structural change have come to mean additional insecurity of present and future employment and income for an ever growing number of people. Such growth as has taken place has not been equitably distributed. Differences between groups in our societies, and between countries, have been growing and this has increased tensions both within and between countries, developed and developing alike.
2. Problems caused by unbalanced growth, continued high unemployment and uncertainties due to structural change are seriously aggravated by the international monetary chaos, world debt problems, and austerity programmes which are imposed on a growing number of countries. Joint deflationary policies have strongly contributed to the recession in the OECD area. When the same kind of policies are prescribed for developing countries, the effect is nothing short of devastating. The oil price shocks and the recession have hit harder most of the developing countries than the OECD area. The least developed countries are in an especially dramatic situation, and many of them need emergency food and other aid simply to assure the survival of their populations.
3. The poverty and the need for real economic and social development of hundreds of millions of people in the developing countries can - and must - be attacked by policies which also provide for accelerated economic and employment growth in the industrialised countries. The world economy has become so interdependent that there will be no durable solution to economic and employment problems in the OECD area unless the issues of underdevelopment and poverty in the whole world are tackled.

Policies for economic and employment growth and for world development, have to be coordinated as much as possible, in order to maximise their positive effects. The more there is delay and hesitation, the greater is the risk that even the best individual countries' policies yield only little or partial results. Growth which amounts to a recovery has to be the outcome of policies negotiated and implemented jointly by all countries.

4. The world economy will not be pulled out of the recession by simple exhortations or by a "trickling down" of growth from North America. Recovery will not be achieved by passive government policies and interventions which are based on the belief that market forces have to be "liberated" from regulations and institutions which have evolved throughout modern history - and which have contributed to social progress and economic efficiency as well. The governments have the responsibility to provide a framework for economic and employment growth, and the most realistic way to achieve this is through cooperation which involves the trade unions and the business community. The first step should be for the governments to clearly demonstrate their political will to seek solutions together, and use and develop national and international economic policy tools for a robust recovery.
5. Real adaptation and desirable change in the OECD countries will not be promoted through intensified competition, deregulation and privatisation, accompanied by a weakening of social safeguards, or if wage levels are depressed and problems of low pay and poverty continue to spread. It is imperative to avoid a development towards a dual society, with an escalating polarisation between the better off and those who lose out from structural change. Sustainable growth can not be fostered through measures which in reality make it a divisive factor in our societies. The cost of change must not be borne by those who lose from it. Governments have the duty to devise their policies so that the benefits of economic growth and structural change will be shared by all.
6. To cope with structural change, opportunities are needed on a large scale. There is no room for adaptation without a better growth path. Opportunities are not

provided by an incentives-based policy which increase inequalities between groups and individuals. Real adaptation will not be sustainable unless there is active consent and willing participation of all groups in society. The automatic solutions offered up to now to the OECD countries and the world economy have not worked. Falling inflation did not by itself lead into a recovery and more jobs. Cuts in social expenditure have further weakened the social fabric and have not generated private investment. It is equally misleading to assume that now recovery can be conjured by increasing wage and labour market flexibility; this will only create further obstacles to a healthy recovery which would be fair for all.

7. A number of elements are indispensable in order to ensure that there will be economic and employment growth in the OECD area and the whole world economy, in a way which does not lead into an upsurge of inflation. The OECD's Ministerial Council and the London Summit should discuss, and agree upon, a growth strategy based on the following items :

- (i) Jointly negotiated and coordinated monetary and fiscal policies, to back up the stuttering growth which has taken place and to ensure it is spread throughout the OECD area and the world economy. Given the international economic linkages, the coordination of measures individual governments take to stimulate growth will serve to maximise the joint positive impact of these measures on economic growth and employment creation.
- (ii) An underpinning of an OECD-wide recovery programme by fair and workable policies in each of the countries, which aim at increasing productive and job-generating investment. Such policies must be devised and implemented by governments in consultation and through negotiations with trade unions and the business community.
- (iii) A significant increase of both public and private infrastructure investments. There is broad agreement between trade unions and employers on the need for such investments. When they are carried out in an internationally coordinated way, the effect on employment and investment will be optimised without detrimental results on government expenditure and trade balances.

- (iv) government policies to facilitate structural change by creating opportunities and promoting a situation in which collective bargaining between trade unions and employers can have an important constructive role, so that change can take place with a reasonable degree of security of employment and income.
- (v) A shortening of working time, through negotiations between trade unions and employers which also aim at making full use of the employment creation potential of this measure. Governments should facilitate and certainly not hinder the climate in which such negotiations are conducted.
- (vi) Balanced growth in world trade, which is possible only hand in hand with economic and employment growth in all countries and the expansion of domestic markets. Policies which restrict domestic demand distort trade flows and increase trade conflicts, and make any "roll back" of protectionism more difficult.
- (vii) Measures to counteract the international monetary chaos, to increase stability of the exchange rate markets, to reduce real interest rates world wide, and to solve the world debt problem in ways which do not undermine but support the democratic process and strengthen the economic and social potential of indebted nations.
- (viii) A review of the conditionality framework of the International Monetary Fund, so that the conditions for countries in difficulty do not mean a halt to growth and development but are constructive and promote the necessary structural adjustments.
- (ix) An increase in resources for development, in particular Official Development Assistance, and the adoption of policy measures targeting these resources to attack blatant inequalities and to help to create and strengthen viable economy and society in each recipient country.

8. The decade of recession and mounting uncertainty must be overcome. Change is inevitable, due to technological progress, shifts in world trade patterns, and the growing interdependence between different parts of the world. But this change has to be managed. Mechanisms for building a workable understanding on the management of change have to be developed and used. This requires an atmosphere of mutual respect and confidence within the societies

that a search for solutions to our common problems will be serious and constructive. The key issue for the OECD's Ministerial Council and the London Summit is to create the framework in which people can meet change with reasonable security, and in which the policies pursued both in the OECD area and the developing countries are fair for all.

I - THE FRAMEWORK FOR ECONOMIC AND EMPLOYMENT GROWTH

1. Growth and unemployment

9. Confidence in the effectiveness and the fairness of the OECD government's policies is seriously eroded by continued high and rising unemployment. Already now one fifth of the young cannot find an entrance into working life. Lower inflation, from 12.8% in 1980 to 5.8% today, did not automatically bring about the increase in economic activity and job-generating investment which it was supposed to. Unemployment in some of the low-inflation countries is among the highest in the OECD area. In the United States, where unemployment has fallen from 10.3% in 1982 to 7.8% now, the upturn did not start in 1982/83 by itself but was brought about by increasing domestic demand and consumption through a relaxation of monetary and fiscal policies. It should by now be clear that the recent North American growth will not be automatically carried over to other OECD countries and the rest of the world by the market mechanism without governments taking measures to spread and sustain it. Instead, there are rapidly growing worries over the sustainability of growth in the United States and the ability of the still high unemployment there to fall any further.

10. Economic growth so far is only a rebound from the deep recession and it is weaker than in previous up-swings. Industrial production has only now reached the 1979 level. The prospects, based on present policies, are for a continuation of growth at levels between 2-3% which are too low to even start reducing unemployment. The OECD Conference on Employment Growth in the Context of Structural Change, in February, 1984, did conclude that the principal battle against unemployment must be fought at the macro-economic level. It requested that the subsequent Conference of Finance Ministers would assign a high priority to employment creation, in "ensuring virile but sustainable economic growth". Judging by all accounts, this appeal was not heard by the Finance Ministers, who did not adequately recognize that there must be sufficient domestic demand growth in all OECD countries in order to achieve a better functioning of the economy and tackle structural problems.

11. A basic constraint faced by governments, by the industry, and trade unions, is the instability and volatility of the present economic situation. The insecurity of the international economic environment cannot justify the OECD government's being

frightened into inaction or confining joint decisions to negative, deflationary measures alone. Those who no longer believe in the possibility of internationally agreed policies for recovery are fatally attracted by beggar-thy-neighbour policies. In an extremely unstable environment, even the best of national policies, based on broadest possible agreement, will face severe difficulties and may well not succeed. It is distressing that the recession has increased economic nationalism. The economic linkages between OECD countries are often seen only as constraints on national policies; in fact they offer an opportunity for joint action to overcome the recession.

12. A more secure framework will be created if all governments negotiate and adopt coordinated growth and employment policies consisting of diversified measures adapted to the specific problems in each country, and taking advantage of whatever multiplier effects can be obtained by coordination. Expansionary measures, when coordinated and targeted, will build inflation out of the system in a more lasting way than trying to squeeze it out with depressed expectations. The hitherto prevailing hesitant attitude towards spreading economic growth has to be overcome. Growth, albeit still very unbalanced, could not be sustained if monetary and fiscal policies were to be further tightened. Yet this danger is clearly implied wherever the efforts to contain and cut budget deficits concentrate mainly upon cuts in public expenditure. Nor is there evidence that a reduction of public expenditure would induce the market forces to make use of the room for growth they may thus be offered; they, too, need a clear public policy, a policy which among other things involves public expenditure.
13. The hoped-for automatic ways of achieving employment-generating growth have not worked. Unemployment has not been reduced by simply bringing inflation down, and now the benefits of lower inflation are being eroded by continued recessionary policies. The incentives to growth which have resulted from falling inflation, from a change in the proportion of income consumed or saved, from restocking and from exports to North America cannot be repeated. Investments are still unlikely to lead a

strong recovery because of high real interest rates, uncertain demand prospects and capacity which remains unutilised. Those investments which are taking place are not primarily of a job creating type.

14. More recently, there has been a growing emphasis on reducing unemployment through lower wages, greater wage differentials, cuts in social benefits, and various devices to weaken the bargaining power of trade unions. All this may have marginal effects on the profitability of enterprises, but it will have no effect on their job creation performance. The fortunes of enterprises depend on several other and usually more important elements, such as lower interest rates, reasonably balanced and regular international trade, a more stable monetary system, management expertise, technological innovation, taxation and sufficient levels of domestic demand. The magnitude of the unemployment problem in the OECD countries is such that without vigorous job-creating investments, no amount of tampering with wages/profits shares will provide a solution.

15. Governments have to work out a proper industrial and trade policy framework for economic and employment growth. New jobs will have to be created in activities which offer a sufficiently secure perspective for the future. They must be viable jobs in the sense that they contribute to an improvement of working and living conditions throughout the economy. The context in which they are created has to be one of confidence. The workers must have the confidence which can only be brought about by security of future employment and income. Employers also need a confidence in future prospects, if they are to proceed with the kind of investments which will make their labour force grow and not diminish. Investments have to be promoted by policies whose basic criterion is their employment effect. The way to achieve the necessary confidence is through discussions and negotiations involving all the parties concerned.

2. Infrastructure investments

16. Investment in physical infrastructure is a logical avenue for increasing economic activity and employ-

ment. It is needed to rehabilitate and upgrade existing facilities which have been neglected over a long period of time, and to construct new ones in areas where economic expansion and the development of new industries is to take place. The weakness of infrastructure must not become a constraint on recovery. Measures have to be taken now, as substantial investment programmes demand time for implementation, and in particular as on present policies, growth is foreseen to slacken towards the middle of 1985. In addition to the direct investment and employment advantages, such investment has a substantial multiplier effect due to backward and forward linkages throughout the economy. This helps to spread any growth that may be achieved in leading sectors of the economy towards a more broadly-based recovery.

17. This type of investment can be achieved through a combination of public and private expenditure and initiative, but the governments have a pivotal role to play. At a time when the problem for our economies is how to generate productive investments to sustain recovery and create new jobs, there needs to be a framework of policies to bring together all available resources. Public investment in the infrastructure also induces large amounts of private investment. Indeed, no sharp distinction can be drawn between "public" and "private" investment: activities such as construction for new housing, or urban renewal, or the strengthening of transport facilities, typically involve both public and private resources.

18. The financing of these investments does not have to be the problem it is often presented to be. Firstly the increase in employment, both direct and indirect, reduces the expenditures on subsidising unemployment. Secondly, the increased economic activity which such investments stimulate increases government revenues. Thirdly, innovative funding schemes which inject private capital at various stages without impairing public accountability can ensure that there is an adequate rate of return. All of these benefits will be magnified if the expenditure on infrastructure of each country are made as part of a coordinated programme which makes positive use of the interdependence of the OECD

economies. Studies by the OECD on international economic linkages show that the government budget consequences of such investments will be positive within a few years.

19. Trade unions in a number of OECD countries have made, and participated in, studies which look into the type of infrastructure investments and forms of financing which would strengthen the economy and create jobs. For example, a joint study by a high-level group of trade unionists and industry leaders in the United States has recently proposed investments in highways, bridges, urban water supply systems, and wastewater treatment facilities, involving both increased user fees and greater access to capital markets. A study by the Nordic and German trade unions has indicated how a common investment initiative by all OECD countries would have a beneficial international multiplier effect, induce private investment, and reduce unemployment. Proposals from business and industry circles for solving the present crisis also include increased investment in infrastructure such as transport and communications, with the participation of private capital.

20. Infrastructure investments are more than a starter for recovery by stimulating private investment. They also have an important role in improving the efficiency of our economies and their capability to carry out structural change. A well functioning and modern infrastructure enhances the productivity of the economies. Thus, infrastructure investments can and should be targeted to the most pressing constraints. Some areas where investments can be undertaken by governments, and where public policies to stimulate investments can be promoted, are :

- Communications and transport facilities, such as railways, roads, bridges and ports, and the information technology network which is necessary for their functioning ; due to its nature, much of this investment requires intergovernmental cooperation ;
- The renewal of both urban and rural housing and other facilities where they have fallen into decay ; in many of the urban conglomerates in the OECD countries this has to amount to an extensive rehabilitation of inner cities and/or urban areas ;

- New housing and the construction of educational, health, child and old-age facilities ;
- Waste disposal and treatment, including the possibilities for recycling and the use of waste for energy generation ;
- Investments in a more efficient use of energy and energy conservation (in households, by the community, and by industry) ; and
- Protection of the environment, for instance through sufficiently large-scale investments in equipment and facilities which reduce the threat to the environment.

21. The aim of public policy should also be improved social infrastructural services in a number of vital areas. These include the provision of health care, which is made all the more important by demographic developments. Child care facilities have to be expanded, in particular where a lack of them creates an unwarranted obstacle to the full participation of both parents in economic life. Much investment is needed in education, starting with basic education and continuing with vocational education and training, including adult and recurrent education, to cope with technological developments and structural change. Any comprehensive plan for restoring economic growth must have as an integral part an effective and well financed system of public education. These activities are far from being passive from the viewpoint of a national economy. They improve the ability of the economy to create employment and contribute to its productive potential. These are activities which by nature should be in the public field, and where the private sector is involved in them, it has to accept the necessary discipline (equal access to social services) and to maintain high standards of employment.

3. Negotiating structural change

22. The fear of change can be removed only through bona-fide discussions and negotiations with, and within, the existing institutions to ensure that the needed safeguards are in place and that all opportunities are made use of. High and rising unemployment,

insecurity over conditions of work and incomes, and the lack of meaningful vocational education and training and retraining facilities are heavy constraints to necessary adaptation ; these constraints cannot be removed without coherent and effective government policies. Negotiations on how to manage structural change have to be carried out at different levels. They call for decisions by governments on industrial, technological, investment, regional and labour market policy. Discussions between governments, trade unions and employers are essential for ensuring that the cost of change will be borne equitably and not only by those who are worst hit by it.

23. Confidence is not increased if the governments' message is that there will be more closures and dislocation of work and less social provision. Redistributive taxation, public programmes and the social wage system are partial compensations within an economy, from the groups which gain from technology and trade-induced change to those who lose out from it ; as such, they should be developed further. The provision of vocational education, training and retraining is an indispensable element ; there is much scope for cooperation between governments, trade unions and the employers in this field. Information to, and consultation with, the workers by enterprises, and particularly multinational enterprises, on future prospects and planned changes allows for a whole series of workable procedures to cope with, or offset, negative effects of restructuring decisions. In the final analysis, the effectiveness of the measures taken either by governments or enterprises to manage the effects of technology and trade depends on vigorous employment growth and the creation of new opportunities. Without this, income support or training arrangements for an unemployed worker do not amount to much more than first aid.

24. Insecurity can be substantially reduced through negotiations between trade unions and management over changes at the workplace. This will help in moving towards "industries of the future" in a manner which is socially desirable. Technology agreements (either directly between trade unions and employers or tripartite framework agreements) are designed to ensure that the process of change at the workplace is achieved in a way which is

recognized to be fair and equitable. This is particularly necessary when changes are fundamental due to a new generation of production and communications technology.

25. The increasing complexity of company structures and management systems diminishes the transparency of ownership and control of enterprises, while decentralisation assisted by new technology leads into geographical dispersion of activities and breaks up existing employment structures. It is increasingly difficult for the employees of a given entity to be aware of the way in which the company as a whole is faring. Industrial relations systems and practices must be such as to ensure that in these circumstances, too, meaningful negotiations on wages and working conditions will cover all workplaces, irrespective of their size and location. There has to be (by agreement, or by legislation if need be) information to, and consultation with, the employees on planned changes in the activities of the enterprises. This is important because restructuring on a world-wide scale can lead into substantial change for reasons which are directly attributable to the performance of a specific enterprise or the economic position of the host country.
26. Real adaptation to economic change has to take place through negotiations and agreement. It cannot be achieved by a policy based on incentives which increase inequalities between groups and individuals and which do not guarantee a place in society for all. Cuts in social expenditure, shifts towards indirect taxation, and the widening of income differentials weaken the social fabric and make it more difficult for society to adapt to economic change. The recession has undermined the workers' confidence in future access to secure incomes and thus generated fear of change. The governments have up to now offered solutions which have failed one after the other. Disinflation did not produce jobs. Cutting public expenditure has not brought forth private investment. The latest vogue panacea, "wage flexibility", could turn out to be counterproductive to real adaptation.

4. Wage and labour market flexibility

27. Flexibility of wages, and of the labour market more generally, cannot be unilaterally imposed by the governments' policies. The concept of flexibility has to be properly defined before it

can be used as a key element in the OECD's economic strategy. It must not be forgotten that wage levels and differentials have a social basis, and changes in them can only be brought in the collective bargaining process. This process does allow for real adaptation without the negative effects that fragmentation of the labour market produces. This is why it is dangerous to make political assumptions for instance on the basis of a superficial reading of trends in growth and employment creation in different parts of the OECD area.

28. Mass unemployment is by far the biggest obstacle to flexibility, especially regarding occupational mobility and the achievement of structural change. The most efficient way to achieve change is to make sure that opportunities are created and that the necessary adaptations take place through negotiations and a strengthening of confidence between all parties, and without demolishing labour legislation and social protection. In so different economies as the United States, Belgium and Japan, neither declining real wages nor higher profits have engendered employment-creating investment. Increased demand has been crucial to recent growth where it has taken place. Attempts to reduce demand by depressing over-all income levels will not solve the problem of 35 million unemployed in the OECD area; they will make it worse. Every single OECD country already has a low-wage problem, a problem of segmentation of the labour force where women are frequently locked into low-paid and involuntary part-time jobs, and most of them have a new problem of poverty.
29. A downward pressure on wages in all countries, for reasons of competition, will only serve to add to these problems, instead of promoting investment in better equipment. A high-productivity and high-employment society with decent wages will not be achieved by flexibility which entails low-paid and insecure jobs in informal sectors with insufficient social safeguards. Artificially low wages increase pressures on social security and welfare benefits which have to be provided by society. They can also become an unwarranted subsidy to ailing firms, thus prolonging their life well beyond a time when efficient measures for restructuring could and should have been taken. Finally, the remedies proposed for unemployment should in no circumstances promote a situation where groups and individuals compete with each other to have a place in the labour market.

30. Reducing social protection, in the name of flexibility, only increases the incentive to seek protection against change and not through change. Making redundancies easier without providing for new opportunities will shift costs from the private sector to the whole of society. As economies are confronted by large-scale change, the notion of flexibility must not amount to revising the foundations on which economic growth and social progress in the period following World War II have been built. Social expenditure and the existence of a social wage are by no means charity: they must continue to be a central means of achieving adaptation, transferring compensation from those who gain from change to those who lose from it. If this comprehensive system which is based on universality of access is undermined, the scope for social cohesion could irremediably be damaged. Workers will be prevented from accepting, and involving themselves in, change and adjustment if their standards of living and work are being attacked. Productivity improvements will not be seen as desirable, if they increase unemployment and inequality in the societies.
31. Free collective bargaining is by nature a flexible system which had developed, and also undergone change, in the light of changing economic and social conditions. Governments should once and for all discard the notion that certain forms of wage bargaining are inherently inflationary or hamper job creation. Differences in the ways in which wage levels are set among OECD countries do not correspond to differences in economic performance or the inflation rates. Instead of prescribing interference with collective bargaining structures and practices, governments should join in exploring the possibilities free collective bargaining offers for looking for real ways to bring about and sustain a recovery.
5. Working time
32. A variety of negotiations between trade unions and employers on the shortening of working time are going on in different countries. Growth alone - even with considerably higher rates than now forecast - will not provide work for all those who need it. Consequently, it is imperative to maximise whatever employment potential there is in a negotia-

ted shortening of working time (a 35-hours week, a shorter working year, paid educational leave, reduced life-long working time etc.). Even though the main way of implementing a shortening of working time is through negotiations between trade unions and the employers, governments can and should, both individually and collectively, promote the environment in which this take place and they should certainly not hamper this process. Legislation and administrative measures may be needed and governments are also directly involved through education, training, pension provision and other social security measures; and they are employers themselves.

33. Reduced working time should not be conceived as only "sharing unemployment". It must be recognised to be a benefit for the employees and a benefit for society as well. It should not be seen as simply a cost to the employer or the society. This "cost" is a social benefit, directly insofar as it increases per hour productivity and employment, and indirectly as it greatly improves the quality of life for people who no longer have to work long hours to earn a decent wage.
34. The reduction of working time must not be separated from the issue of overtime, or else there may be little or no effect on actual working time or employment. A worker should be able to make a living without overtime pay being a necessary supplement to an inadequate basic wage. Special corrective measures will be necessary in those industries and enterprises where strong reliance on overtime pay has become part of the wage pattern. The recession has aggravated the practice of combining compulsory overtime with short-time working. Flexible working time arrangements and overtime should not be methods for employers to keep employment levels down. All working time arrangements should be voluntary and negotiated, and not at the employers' discretion. They should not become a daily feature of working life which increases uncertainty of income.
35. Governments should recognise and deal with the distorting effects of maintaining or increasing differences in labour standards between countries which have achieved a comparable level of economic development and strength. Competitive advantages should

not be forced by a refusal to translate productivity gains into improved working and living conditions. Sustained and targeted measures should be taken to reduce and harmonise working hours, which can differ by as much as 20% between countries of similar economic development and strength, as well as to improve the standards of social security, health and safety, and the working environment between these countries. The governments have increasingly discussed the shortening of working time in the OECD. It is a forum which governments can use for international cooperation on these issues, drawing as appropriate on the specialised knowledge and facilities of the ILO and the GATT.

II - TRADE, MONETARY POLICIES AND DEVELOPMENT

1. Trade policies

36. Trade is not an engine of growth because all countries are pursuing policies which aim at increasing exports and restricting imports. No healthy industrial policy can be built upon this basis either. Successful development of export industries needs an increase in domestic activity and demand, and employment growth. Instead the search for competitive advantage has deteriorated into cut-throat competition between countries for one another's markets. Such competition can occur not only when markets are shrinking but also when they are growing at different, unbalanced rates. In looking for ways to further liberalise international trade, and "roll back" protectionism, governments should realise that policies which restrict domestic demand are themselves protectionist because they distort trade flows and increase trade conflicts.

37. For years now, the benefits of trade have been argued in terms of exports only. The assumption on the beneficial effects of imports have always presupposed the existence of full employment, a situation which does not exist today. Under present conditions, in the absence of balanced economic growth among the trading partners, trade tends to threaten entire sectors of national economies and the jobs in them, as import penetration surges destroy otherwise competitive enterprises. Since the collapse of the Bretton Woods system, trade flows have been excessively affected by erratic exchange rate movements rather than by real comparative advantage, and through the ebb and flow of capital transactions based on interest rate differentials, expectations, uncertainties and sheer speculation. Competitive trade itself is diminishing because countertrade is expanding, and because a significant and growing share of trade takes place within and through multinational enterprises. The volume and direction of intra-firm trade changes without warning, as multinational enterprises carry out their restructuring world-wide.

38. Each country needs a sufficiently diversified and solid economic structure. These structures have already been badly shaken by upheavals which the economy has been undergoing over the past decade. With extraordinarily rapid change it is in danger

of disintegrating further without the actors involved, and the decision makers, even fully realising the gravity of the process, let alone devising consistent policies to counteract it. Over-adjustment, or panic adjustment, to temporary pressures should be avoided. Moreover, the survival of a viable economic structure requires the maintenance and modernisation of essential industries and services which may not appear to be internationally competitive. There are also social pressures to maintain industries which no longer are internationally competitive and which should be assisted in returning to competitiveness or in restructuring into other product lines. These pressures can be overcome only if there is an economic and industrial policy creating new opportunities for enterprises and workers, and if there are social and employment policies which are designed to cope with trade adjustment needs.

39. Persistent instability of the trading system requires anticipatory and built-in adjustment provisions. Their scope must be broad enough to underpin any liberalisation agreements which would further expose the service sector, where most new jobs have been created, to international competition. There has to be confidence in the governments' will and capacity to manage the effects of trade, both nationally and through international cooperation. The workers' ability to adapt to change also depends on the effectiveness and coverage of social guarantees in different OECD countries, as well as on the timing, speed and methods of industrial restructuring. In particular the various forms of subsidies, which are necessary to cushion the effects of change or to promote change, must be clearly identified and subject to international agreement. Such international agreement is needed on the temporary use of these and other measures, such as voluntary export restraints. If and when trade interventions and subsidies to ailing industries are discontinued, governments must take anticipatory measures so that change is manageable and constructive rather than simply disruptive.
40. The Havana Charter of 1948, which made the link between trade and employment, recognised that low labour standards in one country can erode labour standards in its trading partners. Operative conclusions were not drawn because the projected International Trade Organisation was not established. Trade tensions and unfair trade arise out of

situations where the working population is deprived of trade union rights and, more generally, prevented from receiving its share of the benefits accruing from exports. Social clauses, such as fair labour standards clauses included in some existing commodity arrangements, should be negotiated in trade agreements, and implemented. This will remove the distortions caused by violations of internationally agreed minimum labour standards and will in no way jeopardise the economic progress of countries concerned. On the contrary, it will foster more balanced economic and social development, and it will also ensure that in countries which have achieved higher labour standards, trade adjustment is not forced by exploitation of workers elsewhere.

41. Differences in labour standards among increasingly interdependent countries at a comparable level of economic development and strength distort trade. Large differences in working time, wages, pensions, eligibility and levels of unemployment and other benefits (with consequences for non-wage labour costs) and in the level of social provision exist among the main trading groups within the OECD area. This jeopardises the open trading system in two different but complementary ways; the maintenance of such differences is a powerful, though concealed, protectionist device; at the same time, it is a hidden export subsidy because it makes workers assume a disproportionate cost of making exports competitive. The failure to translate past productivity gains into improved labour standards, enhanced social progress and higher living standards boosts unfairly the competitive position of countries. For the sake of stability in the international trading system, growth must rely upon the expansion of both export and domestic demand. A harmonisation which leads into an overall improvement of labour standards among these countries would facilitate the expansion of trade in both directions.

2. International monetary issues

42. The existing international monetary chaos constitutes one of the major obstacles to general, sustained and non-inflationary recovery and orderly structural change. The links between the value of currency and the state of the country's economy

have been largely severed, wild fluctuations have become the general rule of exchange rate behaviour, the influence of interest rates on the direction and scope of international flows of capital has become excessive, and international indebtedness has reached very dangerous proportions. The debt crisis of the past two years is far from being over, especially if monetary policies remain tight, and in the foreseeable future, even some of the major industrial countries may experience difficulties in meeting their international debt service obligations. Due to the declining inflows of money in the developing countries and to their increasing debt service, the net transfer of resources has been reversed : the developing countries are now exporting more capital to the industrial countries than they are receiving from them.

43. This chaos cannot easily be overcome : it has proved difficult even to reach agreement on the minimum objectives of necessary reform. There should at least be general recognition that it is necessary to ensure a greater stability of exchange rates; to keep the interest rates under control; to limit the amount and impact of the so-called hot money, which makes foreign currency speculation more profitable than productive investment; to counteract major overvaluations or undervaluations of single currencies which seriously affect the pattern of international trade; and to prevent speculative devaluations and other methods of exchange rate warfare from being used as strategic weapons of trade warfare. There is a tremendous need for greater stability in the exchange rate markets, and initiatives to broaden monetary stability should be pursued.
44. To cope with the disruptive effects of excessive debts, governments must both individually and collectively go well beyond mere crisis management. Governments and central banks must fully resume their responsibility for surveillance and control of international lending and cooperate among themselves, and with the International Monetary Fund, to ensure the surveillance of the exchange rates and of the conditions in the exchange rate markets. The banks, after having been rescued by the emergency measures adopted by the governments and the IMF to keep the global financial system afloat, must be brought to go beyond the rescheduling process which increases the interest payments of the

countries in difficulty and merely increases the burden of repayment in the future. Rather than getting increased profits out of the publicly financed rescue measures, banks must accept reasonable losses in the years to come, and thus recycle to the debtor countries part of the profits drawn from irresponsible lending.

45. The conditions attached to IMF assistance should be based in each specific case on a comprehensive analysis of the economy and social realities of the country in difficulty, to define the constructive policy changes which could help to develop viable economic and social structures. The tendency of the IMF to prescribe drastic remedies for balance of payments and budgetary deficits can jeopardise social development and the democratic process, and it must not be allowed to prevail. The developing countries continued access to international liquidities is clearly inadequate, pushing them to function at levels far below their optimum and to resort to the most expensive forms of private lending. OECD governments cannot afford to deny the International Development Association the resources it needs, in view of the vital role of the World Bank and the IDA in furthering the development process and in shielding the developing countries from the instability and devastating effects of private lending.

46. A major endeavour to restore the function of the international financial institutions can be initiated without waiting until agreement about a comprehensive and more orderly monetary system is reached. Governments and central banks should give greater consideration to the likely or actual effects their domestic monetary policies have on exchange rates. They should cooperate to bring about a coordinated reduction of real interest rates. Governments should also agree to discuss with the IMF, and within it, as well as with and within the OECD, the aspects of their individual economic policy choices (whether international or domestic) which have or can have an adverse impact on other countries. The dividing line between domestic and international economic issues is blurred. For instance, insufficient domestic demand in surplus countries is not a purely internal affair inasmuch as it produces strains on other economies. Actual knowledge and understanding of the interrelationships between balance of payments deficits, budgetary

policies, interest rates and exchange rates remains inadequate. Therefore, IMF action and the joint action of the member governments has to be based on discussions and agreement rather than on questionable theories.

47. Beyond the initial steps, the discussions on international monetary reform should aim at resolving a number of fundamental problems. These are, in particular, the existing asymmetry in the treatment of deficit and surplus countries, development assistance as part of the international financial system, and the respective roles of the IMF, the World Bank, the Bank for International Settlements and the OECD in handling the balance of payments crises.
48. Although the IMF has the authority to make its assistance to countries in balance of payments deficit conditional on their accepting certain policy recommendations, the Bretton Woods system failed to provide any mechanism whereby countries in persistent surplus would be induced to bring their balance of payments into, or closer to, librium. This paralyzing asymmetry has contributed a great deal to the stringency of the IMF conditionality.
49. Development assistance has arisen only after the adoption of the Bretton Woods agreements, and it has never been fully integrated in the international monetary and financial system. Consequently, its size and modalities are largely exempt from generally accepted and binding rules. Development assistance provided by single donor countries is measured solely on the basis of a uniform target set in terms of the GNP and has so far been treated mainly as a matter of generosity. Additional incentives for governments to ensure the regular flow of resources to developing countries are needed. For example, the external position (balance of payments, balance of trade etc.) of a country exerts a considerable influence on the ability to provide assistance, especially where the surplus is of a persistent nature. Furthermore, development assistance creates export markets for the industrial countries' manufactures (especially investment goods), yet the assistance performance of single donor countries is not being assessed in relation to the balance of their trade in manufactures with developing countries.

50. It is necessary to review and to redefine the relationships between the World Bank's, the IMF's and the OECD's respective activities and their relative weight in international monetary policies. Short-term measures can be fully effective only if they do not undermine longer term development prospects. Therefore, the World Bank should efficiently participate in devising the policy recommendations to the countries seeking international assistance to overcome their balance of payments difficulties. Since the recommendations go far beyond strictly financial issues, and indeed pertain to the whole range of economic policies, the OECD should have its share of responsibility in their formulation. The policy advice given, and measures introduced, by these institutions have far-reaching economic and social consequences. Therefore, when policies are formulated and implemented there should be a full discussion with trade unions and employers, in order to arrive at workable and socially acceptable measures.

3. Development cooperation

51. Even a full-fledged recovery in the industrialised part of the world will not by itself solve the fundamental problems facing the developing countries, and low growth prospects make their solution immeasurably more difficult. It is futile to claim that economic trends which increase inequalities and imbalances in the OECD area can somehow have a beneficial "trickle-down" effect on the developing countries, if only the market mechanism is set free. Private capital flows go only to some sectors and some countries. They seldom aim at improving the economic and social structure, and more often than not remain insulated within the recipient countries' economies. In the absence of other measures, they are quite likely to increase the inequalities within and between countries. A broad range of essential investments in the developing countries will only take place through official assistance channels. The key issue is the improvement of the position of the developing countries through a development of their socio-economic infrastructure. Self-sustaining development cannot be achieved in countries where the social structure is obsolete and rapidly disintegrating.

52. The situation of some countries has become so bad that it is imperative for the OECD countries to immediately step up food and other emergency aid. People in a growing number of the least developed countries, especially in Africa, are facing starvation. An immediate increase in basic aid is a concrete matter on which the OECD's Ministerial Council and the London Summit should agree upon. Emergency measures should be followed up by assistance to develop the rural sector, in order to reverse the trend which has made many previously self-sufficient producers into net food importers. This sector must be helped so that it can be revived and properly organised, to decisively improve its productivity.
53. The economic interdependence of today's world has meant unprecedented hardships for the non-oil producing developing countries which have been hard hit by escalation of energy prices to levels which are prohibitive to them, and by the continuation of deflationary policies in the OECD area. Continuing high interest rates and energy prices, and stagnating credits, loans, assistance and direct investment have forced developing countries to restrict their imports and put their development efforts into reverse. Commodity prices, though rising, are still depressed, and the markets for most other exports of these countries remain largely stagnant. Growth in the industrialised countries is indispensable for the future of the developing countries. But the concomitant expansion of markets has to be accompanied by policies which ensure that the benefits will fuel genuine development. In particular, the benefits must be shared by the entire population of the developing countries instead of being reserved to the privileged few who have been faring well throughout the recession while poverty has been growing.
54. There can be no real economic progress on the global scale unless it goes hand in hand with the improvement of the social conditions of the working people everywhere. The poverty of hundreds of millions of people in the developing countries can, and must, be attacked by policies which at the same time help to reduce unemployment in the industrialised world. The long-term economic and employment problems in the industrialised countries can

only be solved if the issues of underdevelopment and poverty in the world are tackled. The interdependence is illustrated for instance by a recent study carried out by the Nordic and German trade unions, showing that the coordinated fulfilment of the United Nations' target of 0.7 per cent of GNP for development assistance would create a considerable number of new jobs in the OECD countries within a few years.

55. Private investment is no substitute to Official Development Assistance. Official Development Assistance must be considerably increased, and much better targeted and monitored than in the past. This assistance is vital for the development of a sound economic structure and a viable society (which includes the existence of wage structures, orderly industrial relations, social security, health and safety regulations, unemployment benefits, pensions schemes and so on). Indeed, an improvement in the economic and social structure of the developing countries will also facilitate private investment flows, and minimise their often disruptive side-effects. Any encouragement of private investment flows to developing countries should go hand in hand with greater compliance with the ILO Declaration on Multinational Enterprises and Social Policy, in which the special responsibilities of these enterprises for employment and job security have been recognised.
56. While the development process requires a much bigger quantity and variety of imports by the developing countries they have been forced, especially by the IMF austerity programmes, to drastically limit them, even imports of goods which are essential for their basic needs and their export industries. This IMF-administered cure has led into a further drop in living standards, higher food prices, power shortages, disruptions in public transport, and the postponement of development projects. Austerity programmes, quickly and rigidly imposed upon a debtor countries by the IMF, even undermine the necessary structural adjustment, and are thus self-defeating. The suspension of financial flows delays new investments, and when austerity programmes are imposed on many debtor countries at the same time, there is a cumulative downward effect on markets for goods exported by both industrialised and other developing countries.

Some of the countries facing rigid austerity programmes may have come late to the IMF, but this only demonstrates the gap between long-term development policies and the short-term need to survive. It also illustrates the speed with which the recession in the industrialised countries spread its effects to the developing part of the world and the inadequacy of the existing financial arrangements and institutions. Given that major rescue operations cannot be undertaken unconditionally, the conditions involved must be constructive. They must not put a stop to growth. It is wrong to call for cost-cutting and for the concentration of the limited resources available on one or two export sectors only; considerably more emphasis must be put on agriculture, energy, an efficient public sector, sanitation and health, tax reform, basic and adult education, and vocational education and training. It is evident that there is now a strong case for reviewing the conditionality framework of the IMF.

CONFIDENTIAL

Ref. A084/1578

MR COLES

International TUC Delegation

Thank you for your minute of 24 May.

2. I now attach the Prime Minister's copy of the TUAC Statement to the OECD Ministerial Council and a covering letter from the TUC General Secretary which were handed over by Mr David Lea at a meeting with Sir Robert Armstrong last week.

3. I have asked the TUC to make contact with No 10 directly (I have given David Barclay's name to Mary Barber) to liaise on practical details. Mr Lea said that they had not (as of last Thursday night) finalised composition of the delegation but it would consist of 16 principals, 5 TUC officials, and an absolute maximum of 11 advisers/aides; ie 32 as a top limit. Four of the principals will require interpretation. The languages concerned are French, German, Italian and Japanese. I understand, however, that the speaking contribution of these representatives is likely to be limited to a token of two to five minutes each.

4. The names of the four interpreters are: Mr A Lawrence, Mrs Y Mori, Mrs Eicke Crowley, and Mr Leo Cherman. The interpreters are proposing to arrive at No 10 Downing Street at 10 o'clock on Thursday.

R P HATFIELD

29 May 1984

CONFIDENTIAL

CONFIDENTIAL

MR 17/5

Ref. A084/1579

MR INGHAM

file with AJC

Thank you for your minute of 25 May to Sir Robert Armstrong about the TUAC delegation. I am sure that Sir Robert Armstrong would be content with what you propose and I should be grateful if you would proceed accordingly. I should also be grateful if you would co-ordinate the revision and resubmission of the draft press release.

2. I am sending a copy of this minute to Mr Coles.

R HATFIELD

R P HATFIELD

29 May 1984

CONFIDENTIAL

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R. HATHFIELD

CONFIDENTIAL



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 3972
SWITCHBOARD 01-215 7877

Sir Brian Hayes KCB
Joint Permanent Secretary

29 May 1984

W J Adams Esq
Foreign & Commonwealth Office
Downing Street
LONDON SW1

DBS / 2570

Dear Adams,

LONDON ECONOMIC SUMMIT INITIATIVE ON THE ENVIRONMENT

Sir Brian Hayes has seen a copy of the letter of 17 May which you sent to Richard Hatfield at the Cabinet Office.

We have noted that the draft Speaking Note was cleared on the telephone at official level with a number of Departments but not the DTI. We have no quarrel with the draft but Sir Brian has asked me to emphasise the close interest of the DTI in environmental protection. As you know, my Secretary of State did intervene in the correspondence when this particular initiative was first canvassed. We should be grateful, therefore, if you would ensure that the DTI is regularly consulted along with other Departments on any future occasion. The official responsible at Assistant Secretary level is Dr Martin Howe in our General Policy Division.

I am sending copies of this letter to those who received copies of your letter.

Yours sincerely,
Peter Smith

P J SMITH
Private Secretary

with DB ?



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10 DOWNING STREET

From the Private Secretary

29 May 1984

I write to thank you for your letter of 29 May enclosing the original of Mr. Hawke's letter of 18 May to Mrs. Thatcher about the Economic Summit.

A. J. COLES

Miss Patricia Paton.

JP



THE HIGH COMMISSIONER

AUSTRALIAN HIGH COMMISSION

AUSTRALIA HOUSE
STRAND
LONDON WC2B 4LA
01-438 8000

29 May 1984

Dear Mr Coles,

The attached envelope contains the original letter from Mr Hawke to Mrs Thatcher on the subject of the forthcoming Western Economic Summit, the text of which was conveyed in a letter from the High Commissioner on 18 May 1984.

Yours sincerely,

(Patricia Paton)

Mr A.J. Coles
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1



FILE
de

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG
CABINET OFFICE

London Economic Summit

The Prime Minister has seen your minute of 24 May about the draft Economic Declaration, the draft Declaration on Democratic Values and the Order of Discussion.

A. J. COLES

29 May 1984

Co



THE SECRETARY-GENERAL

29 May 1984

Dear Prime Minister,

I am prompted to address you just before the London summit by the feeling that the tense world political situation is making the solution of economic problems more difficult. The accumulation of economic difficulties is in turn adding to tensions.

The economic recovery in most of the countries participating in the summit is, no doubt, a positive element. That this recovery is for the moment unattended by resurgent inflation is an additional tribute to the efforts undertaken by you on the lines envisaged in Williamsburg.

I know that at the summit you will be dealing with a wide range of issues of direct concern to your economies. But in the context of our increasingly interdependent world I want to raise issues relating mainly, but not exclusively, to the situation of developing countries.

As feared, the recovery in industrial economies is so far having a relatively modest impact on most developing countries. After three consecutive years of declining overall per capita income, developing countries will in 1984 experience only minor gains. The same is likely next year.

It appears to me that three issues are important.

First, international trade, in parallel with the overall recovery, is not expected for the moment to be the driving force which it was prior to the recession. That would be unfortunate, for many difficulties, both in the North and in the South, including those relating to structural adjustment, could be overcome if trade expanded more vigorously.

The Right Honourable
Margaret Thatcher, M.P.
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland
London

I note that the recent ministerial meeting of the OECD took an important step towards a "new round of multilateral trade negotiations". Such a round, to be successful, will require thorough preparations. However, these preparations need not delay immediate decisions being taken to reduce or do away with protectionist measures, as called for by several previous declarations and decisions.

The second issue is the dramatic situation in Africa - a result of unfavourable external circumstances, adding to already weak structures, and both dramatically exacerbated by the impact of severe drought and other calamities. These factors have led to widespread hunger and starvation.

In a year when the global food situation is relatively satisfactory, such a state of affairs is difficult to accept. Domestic adjustments in some African countries are no doubt required, and several countries are in fact undertaking such adjustments. This is precisely the moment when international support should not be weakened. In this connexion, I cannot but express my concern at the recent decision on the seventh replenishment of IDA which will have serious implications for Africa, since IDA funds are essential for low-income countries.

At the end of last year I launched a public appeal for additional support to African countries, and I am appreciative of the response that has been forthcoming. But much more needs to be done.

My suggestions are as follows:

- respond urgently to the need for additional emergency resources, including food aid and assistance to the agricultural sector,
- offset the negative impact of the decision on IDA VII- either through the proposed Supplementary Funding Arrangement, or appropriate increase in other fundings,
- expedite action on stabilizing and strengthening commodity markets and earnings, including through an early activation of the Common Fund.

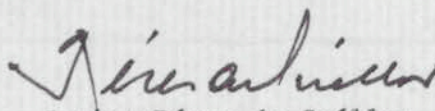
The third issue relates to the debt problem.

I have been acutely distressed by the extraordinary human suffering caused by severe austerity programmes in several developing countries visited by me recently in Africa and Latin America. In many of the countries affected, bold moves have been taken towards democracy. My concern is that the extreme social and economic hardship that is currently being felt can endanger the impressive progress made towards political liberty, and damage the infrastructure and productive capacity.

I do not wish to go into specific solutions to the debt problem, but I do share the concerns of those who wonder if the measures presently being adopted are of a lasting value. The time may have come for governments, banks and debtor countries to search for a more durable way out. Of course, trade liberalizing measures to accompany the recovery would help greatly, but in the immediate future any steps that can be taken to moderate interest rates and stretch reschedulings over longer periods would seem to be highly desirable. A longer time period needs to be allowed to the debtor countries to adjust their economies. Such adjustment would be greatly facilitated by additional liquidity (for instance, through an issue of SDRs), and long term finance - both concessional and non-concessional.

The issues I have raised are part of a broader set of problems affecting North/South relations. From that point of view it is unfortunate that governments in the United Nations have not yet succeeded in launching a process, acceptable to all parties, to discuss and negotiate the wide range of outstanding issues. I hope the London summit will be able to overcome the remaining obstacles to the commencement of such a process.

Please accept, Prime Minister, the assurances of my highest consideration.


Javier Pérez de Cuéllar

file ECL

PRIME MINISTER

Your Bilateral Meeting with President Reagan

Over the weekend you approved a recommendation that there should be only Private Secretaries present at your various bilaterals during the Summit.

Could I just be clear about the meeting with President Reagan on Tuesday, 5 June. You have an hour for talks and then a working dinner. I think it is useful if there is a record of your talks with the President (as was the case with your last call at The White House) but would of course quite understand if you wished to be alone with him.

Do you want me to be present?

A. J. COLES

29 May 1984

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.VIENNA (UNDP)28/5 1812
FOREIGN AND COMMONWEALTH OFFICE
DOWNING STREET

LONDON S.W.1 (ENGLAND)

37244 PLEASE FORWARD THE FOLLOWING MESSAGE TO:

THE RIGHT HONOURABLE
MARGARET THATCHER, MP
PRIME MINISTER
EXCELLENCY,

WE ARE SURE YOU MUST BE VERY CONCERNED AT OCCURRENCES IN THE FINANCIAL MARKETS SINCE THE RECENT NEWS REGARDING THE INTERNATIONAL COMMERCIAL BANKING SYSTEM.

WE, TOGETHER WITH OTHER MEMBERS OF THE INTERACTION COUNCIL INTEND TO COMMUNICATE WITH YOU AND YOUR COLLEAGUES IN THE ECONOMIC SUMMIT MORE FULLY SHORTLY BUT MEANWHILE WE STRESS THAT THE MOST URGENT ACTION IS REQUIRED TO SHORE UP CONFIDENCE IN THE INTERNATIONAL FINANCIAL SYSTEM. IT IS OUR VIEW THAT THIS WILL NOT BE ADEQUATELY AND EFFECTIVELY ACHIEVED UNLESS THE UNDERLYING PROBLEMS ARE ADDRESSED. INsofar AS THE INTERNATIONAL BANKING SYSTEM IS CONCERNED, THIS WILL INVOLVE A COMPREHENSIVE APPROACH TO THE PROBLEM OF INTERNATIONAL DEBT IN A MANNER THAT TAKES INTO ACCOUNT THE CAPACITY OF COUNTRIES TO PAY WITHOUT FURTHER REDUCTIONS IN ALREADY DEPRESSED LIVING STANDARDS. THERE WOULD NEED TO BE A COMPLETE UNDERSTANDING THAT GOVERNMENTS AND THEIR INSTRUMENTALITIES WOULD PROVIDE THE LIQUIDITY NEEDED FOR THAT PURPOSE.

IT WILL ALSO INVOLVE A LOWERING OF INTEREST RATES THROUGH REALISTIC FISCAL POLICIES WHICH STEADILY AND SUBSTANTIALLY REDUCE THE DEFICITS OF ADVANCED INDUSTRIAL COUNTRIES.

WE STRESS THAT IF TIMELY AND EFFECTIVE ACTION IS NOT TAKEN A LACK OF CONFIDENCE IN THE FINANCIAL SYSTEM COULD LEAD TO A CRISIS AS SEVERE AS THAT WHICH OCCURED IN THE 1930S.

WE URGE CONSIDERATION OF A STATEMENT NOW INDICATING THAT THESE MATTERS ARE HIGH ON THE AGENDA FOR THE ECONOMIC SUMMIT AND THAT THE PARTICIPANTS WILL COLLECTIVELY TAKE EFFECTIVE ACTION.

BRIONI, 25 MAY 1984

(MALCOLM FRASER)

1718
Mr Fraser
Action or not?
k- 29/5
ADVANCE COPY

Lead ERTS.

NO DISTRIBUTION

[PS]
WES.



File

10 DOWNING STREET

THE PRIME MINISTER

27th May 1984

Dear Harold,

A note to let you know that I have received, read and digested your paper on the issues of the London summit. It is a marvellously lucid exposition of the worrying problems we face.

In haste

Yours ever

Raymond K10

London, 26th May, 1984

**PRIME MINISTER'S
PERSONAL MESSAGE**
SERIAL No. T 87/84

f.a. M 29/5.

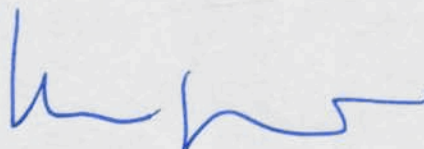
CC MASTER
OPS

To Her Prime Minister,

I have the honour to transmit to you the enclosed letter from Herr Helmut Kohl, Chancellor of the Federal Republic of Germany.

A courtesy translation is also attached.

Yours sincerely,



Rüdiger Baron von Wechmar

Her Excellency
The Rt.Hon. Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury
L o n d o n

B r i e f

von

Herrn Helmut Kohl, Bundeskanzler der Bundesrepublik
Deutschland

an

Her Excellency The Rt.Hon. Margaret Thatcher,
Her Majesty's Prime Minister and First Lord of
the Treasury

Sehr geehrte Frau Premierministerin,

Für Ihre Nachricht vom 15. Mai wegen der Teilnahme des Bundeswirtschaftsministers am Londoner Wirtschaftsgipfel danke ich Ihnen. Ihr Vorschlag hat mich allerdings tief enttäuscht. Ich finde es sehr bedauerlich, daß es Ihnen in einer für die wirtschaftspolitische Zusammenarbeit so wichtigen Konferenz nicht möglich erscheint, der spezifischen Partnerfunktion des deutschen Finanzministers und des Wirtschaftsministers angemessener Rechnung zu tragen.

In allen internationalen Institutionen wird gerade von ihrem Zusammenwirken außerordentliche Mithilfe bei der Erhaltung der freiheitlichen Weltwirtschaftsordnung, der Überwindung der weltwirtschaftlichen Probleme und der Zusammenarbeit zwischen den Regierungen erwartet. Ich hätte es daher dankbar begrüßt, wenn den beiden Ministern gerade bei dem Londoner Wirtschaftsgipfel ihre gemeinsame verantwortungsvolle Aufgabe erleichtert worden wäre.

Im übrigen habe ich einen Hinweis erhalten, daß unser japanischer Kollege ein Entgegenkommen gegenüber dem deutschen Wirtschaftsminister nicht unbedingt als ein Präjudiz betrachten würde.

Ich habe die Bundesminister Stoltenberg und Graf Lambsdorff gebeten, ihrem persönlichen Beauftragten für den Wirtschaftsgipfel rechtzeitig mitteilen zu lassen, in welcher Weise sie einander während der Konferenz unterstützen wollen.

Mit freundlichen Grüßen

Ihr

Helmut Kohl

Bundeskanzler der Bundesrepublik Deutschland

L e t t e r

from

Herr Helmut Kohl, Federal Chancellor of the Federal
Republic of Germany

to

Her Excellency The Rt.Hon. Margaret Thatcher,
Her Majesty's Prime Minister and First Lord of
the Treasury

Dear Prime Minister,

Thank you for your communication of 15 May regarding the participation of the Federal Minister of Economics in the London Economic Summit. Your proposal, however, greatly disappointed me. I consider it regrettable that you do not deem it possible to take adequate account of the specific complementary function of the German Ministers of Finance and Economics in preparing a conference of such importance to economic co-operation.

It is precisely the joint action by the two ministers on which international institutions rely in their efforts to preserve the liberal economic order in the world, overcome international economic problems and promote intergovernmental co-operation. I should therefore have appreciated their responsible joint task being facilitated, especially at the London Summit. Incidentally, I have received an indication that our Japanese counterpart would not necessarily regard a concession to the German Minister of Economics as setting a precedent.

I have asked Federal Ministers Stoltenberg and Graf Lambsdorff to inform your personal representative for the Economic Summit in good time of the way in which they intend to assist each other during the conference.

Yours sincerely,
(sgd.) Helmut Kohl

86 Eaton Square, London, S.W.1.

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25th May, 1984.

Dear Prime Minister,

Earlier this month Eric Roll sent you a memorandum on the issues of the London Economic Summit. Unfortunately this was inevitably the lowest common denominator of one of the most brilliant discussions I have attended. I was unable to get my profound and urgent anxieties on the debt question accepted by the US delegation.

We, however, reserved the right to express our views separately in any manner we thought fit. I am now enclosing for you the near-final draft of an article I have just written for The New York Review of Books. I am sorry it is in such an appalling rough state but I wanted to get it to you in case you had a chance to glance at it this weekend.

It presents my firm views on the banking crisis and the alarming structural weaknesses which under-lie it.

Yours,
Hans

Encl.

Lord Leven



Inland Revenue
POLICY DIVISION
 Somerset House
 London
 WC2R 1LB

A.F.C. $\frac{29}{5}$

cc: ECON POL
 Unitary Taxation

July 1983

Telephone Enquiries 01-438 6497

M Tate Esq ERD
 Foreign and Commonwealth Office
 King Charles Street
 LONDON
 SW1A 2AH

Your reference

Our reference

Date

25 May 1984

Dear Michael

UNITARY TAX - HANDLING AT THE SUMMIT

This is to summarise our working assumption of how unitary tax will be handled at the summit. It follows discussions with a number of copy recipients, culminating in my discussion with you yesterday and a subsequent discussion with Judith Simpson in the Chancellor's office.

- a. unitary taxation is not a subject for plenary session discussion between heads of Government. Nor is it apt for the communique;
- b. it should usefully be raised at the Prime Ministers bilateral with President Regan (I have now seen the letter from Bone to Coles commissioning briefing on this, and I will provide it).
- c. Unitary should be raised both at the Finance Ministers satellite meeting and the Foreign Ministers satellite meeting. This is on the assumption - which the proceedings at the OECD Ministerial seem to have confirmed - that we will get enough support from Finance Ministers and from Foreign Ministers for our line to make it worth raising the issue at these meetings (Japan, France and Canada at least are likely to support us strongly). As far as the Foreign Ministers session is concerned, it would be valuable to focus the State Department on the issue, since they are the most sympathetic part of the Administration as far as we are concerned.

Putting out markers with other governments

The Chancellor will include unitary tax on the list of subjects for discussion he will be circulating to summit Finance Ministers. You in the Foreign Office will make similar arrangements for the Foreign Ministers session. As far as the Prime Minister's bilateral with Secretary Regan is concerned, the options seem to be:-

- a. for the Cabinet Office to inform the White House that the Prime Minister will want to discuss unitary tax at her bilateral with President Reagan; or
- b. for the Prime Minister to reply to President Reagan's 14 May letter about unitary tax, putting up the marker.

The need for the Prime Minister herself to write to President Reagan arises only if there is still felt to be a danger that President Reagan will go public on his reaction to the Report Secretary Regan's Working Group before the summit, thus pre-empting the summit discussions. The Chancellor's Private Secretary will be getting the Chancellor's view on this, in the light of his discussions with Secretary Regan at the OECD Ministerial.

Circulation list attached. Can I leave it to you, Tony Bottrill (Treasury) and to John Healey (DTI) to circulate further within your Departments if you think this necessary.

Very ever

I R Spence

I R SPENCE

Circulation list: A J Coles - Prime Minister's Office

R Hatfield)
D H Colvin) - Cabinet Office
Miss J Simpson (PS/Chancellor)
Mr Littler)
Mr Bottrill } Treasury
Mr R I G Allen)

J Healey - DTI

J M Green)
J D Taylor Thompson) Inland Revenue

Harry Walsh - British Embassy, Washington

Summit file

PARAGRAPH FOR INCLUSION IN REPLY TO MR. EDWARD McMILLAN-SCOTT

I can assure you that the Heads of State and Government represented at the Summit are fully aware of the impact of high interest rates, in both real and nominal terms, on the world recovery. They recognise the need to create conditions conducive to lower inflation and lower interest rates. This will involve the pursuit, not just in the United States, but in all Summit countries, of firm monetary policies and strict control of public expenditure and fiscal deficits.

AS



SUBJECT



PRIME MINISTER

Date

Dnr

May 25, 1984

rec'd intro 8/6/84

41

*Mr. Tai/roster
The Swedish Ambassador
sent this round to the F.C.O.
by hand today, 8 June. Pl. pass
to No 10 and circ. as nec.
JL 8/6*

Her Excellency
Mrs. Margaret Thatcher
Prime Minister of the United
Kingdom
LONDON

PRIME MINISTER'S
PERSONAL MESSAGE

Serial No. T86E/84

M. Thatcher

Dear Prime Minister

At a meeting on 23 May in Visby, Sweden, Heads of Governments of the EFTA countries adopted a Declaration on EFTA cooperation with particular reference to the international economic situation and to the relations of their countries with the European Community. I have the honour to enclose a copy of the Declaration for your information and hope that you may also find it relevant in the context of the forthcoming economic summit meeting to be held in London.

Yours sincerely

Olof Palme

Olof Palme



Bulletin de presse de l'AELE paraissant plusieurs fois par an

9-11 RUE DE VAREMBE - 1211 GENEVA 20 - SWITZERLAND - TELEPHONE 34 90 00

23 May 1984

8/84/P

Meeting of Heads of EFTA Governments and Ministers

Visby, 23 May 1984

Declaration

Objectives

1. Heads of EFTA Governments and Ministers meeting in Visby on 23 May 1984 underline the continuing importance of EFTA in European and global economic co-operation, pursuing the objectives laid down in the Stockholm Convention - sustained expansion of economic activity, full employment, increased productivity and rational use of resources, financial stability and continuous improvement in living standards, and the expansion of world trade and the progressive removal of barriers to it. They are determined to pursue these objectives, individually and collectively, in their internal EFTA co-operation, in their co-operation with the European Community and in the global context. In so doing they will build on the positive achievements of two decades of EFTA co-operation. They stress the need to intensify their co-operation in the present situation of increasing protectionist pressures.

Co-operation on global and international matters

2. Internationally, unemployment has assumed very serious dimensions. The EFTA Governments stress the need to strengthen and broaden the current international economic recovery, to make it lead to a reduction of unemployment. Against the background of increased international economic interdependence, the EFTA Governments attach great importance to intensifying international co-operation aimed at stronger and sustained economic growth without rekindling inflation, moderating

exchange rate fluctuations, a speedier adjustment to new technologies and market conditions and a reduction of protectionist pressures. With this objective, the EFTA Governments support the work in the OECD aimed at a concertation of economic policies, recalling that even small but concerted steps can lead to substantial results.

3. The EFTA Governments give priority to the proper functioning and further development of the open multilateral trading system with GATT as its cornerstone. Protectionism in all its forms must be fought at all levels. No new protectionist measures should be introduced. The authority of GATT must be strengthened and the trend towards trade bilateralization reversed. GATT obligations must be fully respected. The EFTA Governments commit themselves to taking no restrictive trade measures outside GATT and expect their main trading partners to apply similar policies. They support the idea of a new round of multilateral trade negotiations in the framework of GATT but stress the need for thorough preparations. Substantive progress with regard to the GATT Work Programme should provide the appropriate basis for comprehensive new negotiations.
4. The EFTA Governments strongly support the efforts to achieve a roll-back of existing protectionist measures and commit themselves to working forcefully with their trading partners for an early dismantling of such measures, in particular those introduced outside GATT. They agree to accelerate the implementation of their remaining Tokyo Round tariff reductions beyond the measures announced at the recent OECD Ministerial Meeting by also making the last tariff cut scheduled for 1 January 1987 one year ahead of time, expecting their main trading partners to do the same.
5. The EFTA Governments appeal for the maintenance of international tourism without restrictions, bearing in mind its importance for national economies as well as for human relations.
6. The EFTA Governments support a revitalization and strengthening of the North-South dialogue based on partnership. The problem of international indebtedness must be solved in an orderly way so that, with due regard to their development objectives, the developing countries concerned can gradually stabilize their economies, expand foreign trade and meet their international obligations. In this context the IMF and the World Bank institutions should take fully into consideration the importance of safeguarding and strengthening the open multilateral trading system. The EFTA Governments are determined to maintain and, wherever possible, improve market access for imports from developing countries, especially as regards the least developed countries. The individual schemes under the Generalized System of Preferences should be continued and improved. The EFTA Governments stress the need for developing countries to become better integrated into the open multilateral trading system.

7. The EFTA Governments will continue to implement the Declaration signed by their countries and Yugoslavia in June 1983 in order to expand economic co-operation with Yugoslavia.

8. The EFTA Governments support stable development of trade and other economic relations with East European countries and recognize the importance of the work of the Economic Commission for Europe in this regard.

Co-operation with the European Community

9. The EFTA Governments note with satisfaction that with the abolition, early in 1984, of the last remaining tariff barriers and quantitative restrictions affecting trade in industrial products, the goals set out more than ten years ago in the Free Trade Agreements have been attained. These Agreements have functioned well. The total foreign trade of the EFTA countries and the Community, which are each other's biggest trading partner, amounts to about 40 per cent of world trade. The objectives of the Vienna Declaration of May 1977 to expand trade and economic co-operation have also been pursued beyond the framework of the Free Trade Agreements.

10. The EFTA Governments underline the importance of the Joint Declaration adopted in Luxembourg on 9 April 1984 at the Ministerial meeting between the European Community and its Member States and the EFTA countries. Recalling that all parties were convinced of the necessity of prompt action to consolidate and strengthen co-operation, they will explore, together with the Community, practical arrangements for the follow-up of the Declaration to achieve its objectives.

11. The EFTA Governments regard the common determination expressed at the Luxembourg meeting to eliminate remaining hindrances to free trade between the EFTA countries and the Community and the Community's efforts to strengthen its internal market as important contributions to the progress towards a genuine West European home market for industrial goods. The EFTA Governments strongly welcome this determination and expect that together with the Community ways and means will be found to improve the free circulation of industrial products.

12. In this context, the EFTA Governments recall the common determination expressed in the Luxembourg Declaration to simplify the rules of origin and invite the Community to find with them solutions in order to remove the present deficiencies. Moreover, border formalities and trade documentation should be simplified. Technical standards and regulations should be harmonized and European standards should be elaborated jointly. Reciprocal recognition of tests and certification should have broader application. Initiatives in all these fields should be taken promptly.

13. Other important objectives are the identification and elimination of government aids which are incompatible with the proper functioning of the Free Trade Agreements, access to government procurement, elimination of unfair trading practices, co-operation on patents and trade mark law, and dismantling of other non-tariff barriers to trade. Furthermore, the EFTA Governments are prepared to explore with the Community the possibility of agreeing on the elimination of export credit subsidies within the European free trade system.

14. The EFTA Governments stress the importance of continued pragmatic and flexible co-operation with the Community beyond the framework of the Free Trade Agreements and are interested in broadening and deepening such co-operation.

15. The EFTA Governments declare their interest in expanding with the Community consultations and co-operation, as appropriate, in areas such as economic and monetary matters, transport policy, trade in fish and agricultural products, energy, trade in services, environmental policies, working conditions, consumer protection, and North-South issues.

16. The EFTA Governments are prepared to intensify co-operation with the Community on efforts to improve the competitiveness of European industry within the open multilateral trading system. In this context, an area of substantial mutual interest is research and development, where special attention should be given to industrial and technological fields with particular potential for future development.

17. The EFTA Governments support increasing consultations and exchanges of information with the Community on trade policy matters with the aim of strengthening the open multilateral trading system.

18. Portugal's EFTA partners express understanding and sympathy for the reasons and objectives which have led Portugal to apply for Community membership. The EFTA Governments stress the need for a smooth transition and will continue to contribute to it. They also welcome the inclusion of Spain in the European free trade system as a Member of the European Community, this inclusion having been facilitated, inter alia, by the Agreement between the EFTA countries and Spain. In the transitional period non-discriminatory treatment must be secured.

19. The EFTA Governments underline the importance of EFTA and the Community taking into account, in the future as in the past, the special structure of the exports of Iceland.

Internal EFTA co-operation

20. The EFTA Governments stress the importance of the European Free Trade Association to them both for its beneficial effect on the functioning of their economies and for its rôle in wider international co-operation. They are resolved to strengthen and improve their co-operation on the basis of the Stockholm Convention.

21. In particular, they will continue to work for the abolition and prevention of trade-distorting non-tariff barriers to trade which may not be in accordance with the Convention, committing themselves to creating no new such barriers. They will work towards the reduction of trade bureaucracy.

22. The EFTA Governments will make increased use of EFTA as a forum for exchange of information, consultation and, when appropriate, co-ordination in trade and economic matters of common interest. In the perspective of increased activities on global and international matters and in co-operation with the Community, the EFTA Governments intend to expand their co-operation as required.

23. The EFTA Governments underline the importance of the contribution being given by the advisory bodies, the Committee of Members of Parliament and the Consultative Committee.

24. The EFTA Governments note with satisfaction the approval by the EFTA Councils of an EFTA Work Programme as guidelines for the future work of the Association. They underline the importance of its implementation for the pursuance by the Association of the objectives outlined in this Declaration.

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18 May 1984

SUMMIT MEETING

Visby, 23 May 1984

LIST OF PARTICIPANTS

CHAIRMAN

Mr. Olof Palme
Prime Minister of
Sweden

AUSTRIA

Mr. Fred SINOWATZ
Federal Chancellor
Head of Delegation

Mr. Erwin LANC
Federal Minister
for Foreign Affairs

Mr. Georg SEYFFERTITZ
Ambassador
Director General for
Economic Affairs
Federal Ministry for
Foreign Affairs

Mr. Georg REISCH
Ambassador
Permanent
Representative of
Austria to EFTA

Mr. Hugo MICHITSCH
Director
Federal Ministry for
Commerce, Trade and
Industry

Mr. Michael FITZ
Envoy extraordinary
and Minister
plenipotentiary
Federal Ministry for
Foreign Affairs

Mr. Herbert RAABER
Director
Federal Ministry for
Commerce, Trade and
Industry

Mr. Ernst PALISEK

Director
Federal Ministry for
Finance

Mr. Alfred KOMAZ

Minister Counsellor
Deputy Permanent
Representative of
Austria to EFTA

- - - - -

Mr. Ferdinand STOLBERG

Ambassador of Austria
to Sweden, Stockholm

Mr. Manfred SCHEICH

Ambassador
Head of the Austrian
Permanent Mission to
the European
Community, Brussels

Mrs. Eva NOWOTNY

Counsellor
Office of the Federal
Chancellor

Mr. Johannes KYRLE

Counsellor
Office of the Federal
Minister for Foreign
Affairs

Mr. Erich HAAS

Office of the Federal
Chancellor

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FINLAND

Mr. Kalevi SORSA	Prime Minister of Finland
Mr. Jermu LAINE	Minister for Foreign Trade
Mr. Åke WIHTOL	Under-Secretary of State for Foreign Trade Affairs
Mr. Paavo RANTANEN	Ambassador Permanent Representative of Finland to EFTA
Mr. Erkki MÄENTAKANEN	Director Ministry for Foreign Affairs
Mr. Eero TUOMAINEN	Director Economic Planning Center of Finland
Mr. Christian ANDERSSON	Special Adviser Ministry of Trade and Industry
Mr. Leif BLOMQVIST	Deputy Director Ministry for Foreign Affairs
Mr. Veli SUNDBÄCK	Minister Counsellor Deputy Permanent Representative of Finland to EFTA
Mr. Antero VIERTIÖ	Assistant Director a.i. Ministry for Foreign Affairs
Ms. Kirsti LINTONEN	Assistant to the Prime Minister
Mr. Per-Mikael ENGBERG	Second Secretary Ministry for Foreign Affairs

Observers:

Mr. Björn-Olof ALHOLM

Ambassador
Embassy of Finland
Stockholm

Mr. Paavo KAARLEHTO

Ambassador
Mission of Finland to
the European
Communities
Brussels

Mr. Jorma VILHUNEN

Political Assistant to
the Prime Minister

Ms. Sicken PARK

Press Officer

ICELAND

Mr. Steingrímur HERMANNSSON	Prime Minister of Iceland
Mr. Matthías A. MATHIESEN	Minister of Commerce
Mr. Thórhallur ASGEIRSSON	Secretary General Ministry of Commerce
Mr. Hannes HAFSTEIN	Ambassador Permanent Representative of Iceland to EFTA
- - - - -	
Mr. Guðmundur BENEDIKTSSON	Secretary General Prime Minister's Office
Mr. Benedikt GRÖNDAL	Ambassador Embassy of Iceland Stockholm

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NORWAY

Mr. Sverre STRAY	Minister of Foreign Affairs Acting Prime Minister of Norway
Mr. Asbjørn HAUGSTVEDT	Minister of Trade and Shipping
Mr. Erik SELMER	Secretary General Ministry of Trade and Shipping
Mr. Martin HUSLID	Ambassador Permanent Representative of Norway to EFTA
Mr. Øystein JOSEFSEN	Director General Prime Minister's Office
Mr. Jens OTTERBECH	Director General Ministry of Trade and Shipping
Mr. Nils O. DIETZ	Deputy Director General Ministry of Foreign Affairs
Mr. Per MANNES	Head of Division Ministry of Trade and Shipping
Mr. Arve THORVIK	Head of Division Ministry of Foreign Affairs
Mr. Egil ANDHØY	First Secretary Deputy Permanent Representative to EFTA
Mr. Lars-Henrik KNUTRUD	Executive Officer Ministry of Trade and Shipping
Ms. Kristine HAUER JENSEN	Secretary to the Minister of Trade and Shipping

Observers:

Mr. Oscar VAERNØ

Ambassador of Norway
to Sweden

Mr. Christian BERG-NIELSEN

Ambassador of Norway
to the European
Communities, Brussels

Mr. Thorbjørn FRØYSNES

Personal Adviser to
the Minister of
Foreign Affairs

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PORTUGAL

Mr. Mário SOARES	Prime Minister of Portugal
Mr. Alvaro BARRETO	Minister for Trade and Tourism
Mr. António MARTHA	President of the Commission for European Integration
Mr. Joao DE MATOS PROENCA	Ambassador Director-General for Political Affairs Ministry for Foreign Affairs
Mr. Fernando DA SILVA MARQUES	Ambassador Director-General for Economic Affairs Ministry for Foreign Affairs
Miss Ana BARATA	Diplomatic Assistant to the Prime Minister's Office
Mr. Carlos VENTURA MARTINS	Press Assistant to the Prime Minister's Office
Mr. Joao SIMOES DE ALMEIDA	Chef de cabinet of the Minister for Trade and Tourism
Mr. José GUERREIRO JOAQUIM	Under Director-General Ministry of Trade and Tourism
Mrs. Teresa MOURA	Director Secretariat for European Integration
- - - - -	
Mr. Fernando REINO	Ambassador Head of the Portuguese Permanent Delegation to EFTA
Mr. Joao NIZA PINHEIRO	Second Secretary Portuguese Permanent Delegation to EFTA

SWEDEN

Mr. Olof PALME	Prime Minister of Sweden
Mr. Ulf HJERTONSSON	Assistant Under- Secretary Prime Minister's Office
- - - - -	
Mr. Mats HELLSTRÖM	Minister for Foreign Trade
Mr. Carl Johan ÅBERG	Under-Secretary of State for Foreign Trade
Mr. Magnus VAHLQUIST	Assistant Under- Secretary Ministry for Foreign Trade Trade Department
Mr. Lennart ALVIN	Director Ministry for Foreign Trade Trade Department
Mr. Lars-Olof LINDGREN	Political Adviser Ministry for Foreign Trade Trade Department
Mr. Wilhelm VON WARNSTEDT	Head of Section Ministry for Foreign Trade Trade Department
Mr. Bengt Gunnar HERRSTRÖM	First Secretary Ministry for Foreign Trade Trade Department
Mr. Eskil RENSTRÖM	First Secretary Ministry for Foreign Trade Trade Department
- - - - -	
Mr. Hans V. EWERLÖF	Ambassador Swedish permanent representative to EFTA

Mr. Christer MANHUSEN	Counsellor Swedish Delegation Geneva
Mr. Stig BRATTSTRÖM	Ambassador Swedish permanent representative to the European Community Brussels
Mr. Karl-Wilhelm WÖHLER	Minister Swedish Delegation Brussels
- - - - -	
Mr. Sven Fredrik HEDIN	Ambassador Swedish Embassy Lisbon
- - - - -	
Mr. Gunnar LUND	Assistant Under- Secretary Ministry of Finance
- - - - -	
Mr. Gunnar SÖDER	Director General Board of Trade
Mr. Staffan SOHLMAN	Deputy Director General Board of Trade
Mr. Fritz ANDERSSON	Head of Section Board of Trade
- - - - -	

SWITZERLAND

Dr. Kurt FURGLER	Vice-President of the Federal Council and Head of the Delegation
Mr. Cornelio SOMMARUGA	Secretary of State Director of the Federal Office for Foreign Economic Affairs
Mr. Philippe LÉVY	Ambassador Delegate of the Federal Council for Trade Agreements
Mr. Francis PIANCA	Ambassador Head of the Political Division I of the Federal Department for Foreign Affairs
Mr. Pierre-Louis GIRARD	Minister Head of the Integration Office
Mr. Jacques FAILLETAZ	Minister Head of the Economic and Financial Service Federal Department for Foreign Affairs
Mr. Walter FUST	Integration Office
- - - - -	
Mr. Fritz BOHNERT	Ambassador of Switzerland to Sweden
Mr. Carlo JAGMETTI	Ambassador Head of the Swiss Mission to the European Communities Brussels

LIECHTENSTEIN

Mr. Hans BRUNHARD	Head of Government
Mr. Hilmar OSPELT	Deputy Head of Government
Mr. Benno BECK	Head of the Office for Public Economy
Mr. Roland MARXER	Head of the Office for International Relations

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SECRETARIAT

Mr. Per KLEPPE

Secretary-General

Mr. Norbert FAUSTENHAMMER

Deputy Secretary-
General

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Speech at the EFTA Summit Meeting in Visby
on 23 May 1984 by Prime Minister Olof Palme,
Chairman of the Summit Meeting

When Sweden invited the EFTA countries to a new meeting at summit level we did so for several reasons.

Seven years have passed since the last meeting of this kind was held in Vienna. The Declaration adopted at that meeting has proved to be of considerable importance. It gave an impetus to broader co-operation, not only with regard to internal EFTA issues, but also to relations with the European Communities. And it was the Vienna meeting which gave the signal for the negotiations which led to the EFTA countries' free-trade agreement with Spain. Another important achievement of the Vienna meeting was to demonstrate to the rest of the world how important the EFTA countries are as a trading group. We have seen how the European Communities' Council has cited the Vienna Declaration over the years when it has addressed co-operation in the broader West-European context.

There is no denying that our economic and trade environment has changed dramatically since 1977. One of the main features of economic developments

during most of this period has been stagnating growth. And despite a certain economic recovery recently, unemployment in Europe has continued to rise to alarmingly high levels.

Stagnation and unemployment constitute a grave threat to the free-trade system. For we have seen how in the wake of the economic crisis, governments have been subjected to growing pressure to take, and in some cases given in to, protectionist measures in order to safeguard short-term national interests. We have also had to watch a growing tendency for settlements to be made between countries and interest groups outside the open multilateral trade system. These are trends which we small, and very export-dependent, EFTA countries must regard with great concern.

But this picture has a brighter side: our relations with the European Communities have continued to develop favourably even in times when signs of crisis have been predominant. At the beginning of this year, the last transitional arrangements in the free-trade agreements between the EFTA countries and the European Communities were abolished. Thus everything has gone according to plan as regards the agreements we signed twelve years ago. We consider the first Meeting of Ministers

of both EFTA and Community countries at the beginning of April this year to be a milestone in the history of relations between the two trade groupings. Thus, we can now enter a new phase in our cooperation.

This was one of the reasons why we considered that a new meeting between the EFTA countries at summit level was essential.

Before I present my views on how we can further develop co-operation between our countries, I should like to give you an account of the meeting I have had today with representatives of two important EFTA institutions: the Committee of Parliamentarians and the Consultative Committee.

It was a most constructive gathering which demonstrated the interest and importance with which our Meeting is regarded in our parliaments and among our partners on the labour market. We can be quite sure that all we advocate in the Declaration to be adopted here has the wholehearted support of both committees. The central theme in their message to us is also the Leitmotiv of our Meeting: the fight against unemployment and protectionism.

Sweden attaches great importance to the part of the Declaration dealing with matters of economic policy.

This is only natural considering the close ties there are between the economic and trade policies, between economic problems in the world and growing protectionism.

One can certainly conclude that free trade in Western Europe has essentially stood the test of the economic difficulties of recent years. Proof of the intrinsic strength of our system is the fact that we have been able to continue to develop free trade in spite of economic strains.

One can also wonder where Western Europe would be today if we had not had co-operation within and between the European Communities and EFTA. I am convinced that the economic problems - no matter how great they may seem today - would have been much more serious. Who knows - there may even have been the risk of a trade war between our countries. There is no doubt at all that it would have primarily been the small countries of Western Europe who would have had to bear the burden of such a crisis.

Today, unemployment in Western Europe has reached the almost inconceivable figure of 20 million jobless. This is a terrible waste of resources and conceals countless human tragedies.

Unemployment has recently been on the agenda of a special conference in Strasbourg to which the European Trade Union Confederation invited representatives of governments and employer organizations in Europe.

A delegation of prominent trade union leaders from the ETUC has since come to see me and urgently pleaded that we shall give the fight against unemployment a prominent place in the deliberations of this Meeting. The ETUC delegation gave me an account of the extensive and constructive results of the Strasbourg meeting.

Briefly described, they can be said to reflect a conviction on the part of the delegates to the Strasbourg conference that the one way out of unemployment and stagnation goes via co-ordinated policies of economic expansion in Western Europe.

One of the proposals put forward at the Strasbourg meeting - I believe coming originally from Finland - was to set up a European High-Level Commission charged to work out a programme for the creation of 10 million new jobs in Western Europe. The Swedish Government would be prepared to consider that proposal seriously.

The main reason for advocating a co-ordinated policy of economic expansion in Western Europe is that co-ordination in itself can have substantial effects on economies and employment levels, although the measures taken by each country are fairly limited. Taken on their own, these measures would have little impact, but were they to be integrated into a co-ordinated policy their cumulative effect could contribute towards a substantial increase in both production and employment.

In recent years we have observed an increasing number of violations of the international rules in the field of trade. In times of crisis, all governments are under pressure from different groups in society to take protective measures. But measures of this kind are only short-term solutions.

For the EFTA countries, which have only 1 per cent of the world's population but 7 per cent of world trade, the preservation of free trade throughout Western Europe - and in the final analysis at the global level within the framework of GATT - is a matter of absolute necessity.

Clear and firm rules governing the measures which are permitted and a system for dealing with actions which violate those rules are to our advantage. GATT is a corner-stone in the open multilateral trade system.

Our Declaration gives a clear and unequivocal expression of our involvement in efforts to defend and to develop the GATT system. The EFTA countries as a group have an important role to play. We are not among the largest in the world. But together we can more easily defend our interests. Together we shall be in a better position to promote the discussion of trade-policy problems in the appropriate multilateral organizations rather than in meetings limited to the major trading nations.

When it comes to relations with the Third World, there have been only limited discussions of its problems previously within EFTA. But relations between Western Europe and the Third World are very much a question of mutual interest and interdependence. We are all aware that economic growth in the Third World is a most important prerequisite for an economic recovery in the industrialized world.

We, industrialized countries, have also a moral responsibility to help the countries of the Third World to make progress in their struggle against under-development. We must, therefore, never forget that economic problems are increasingly assuming a global dimension, and the way in which we act, or fail to act, affects our ability to promote a more just economic order in the world as a whole.

We should, therefore, take every opportunity to discuss also in our organization relations with the Third World.

However, the focus of our interest here today is how we EFTA countries - on the basis of the largest free trade system in the world we have created together with the European Communities - can contribute towards developing European co-operation and making it more effective.

Sweden, for its part, has taken an active part in convening the meeting between the European Communities and EFTA which took place in Luxembourg at the beginning of April. This was the first time a meeting of this kind was held at ministerial level. The declaration from Luxembourg and from our meeting here today indicate a number of areas which are suitable for deepened and broadened co-operation.

The most important - and one in which EFTA, with a small but very efficient secretariat, can make the greatest contribution - is the creation of a genuine European home market. But before I discuss this main task of our organization, I should like to point to two other fields where it is important - in fact essential - that co-operation between the EFTA countries and the European Communities is intensified.

I want to start with the need for co-operation in protecting our European environment.

The protection of the environment in which our people live and work has become a task which can only be solved through trans-boundary co-operation. Every country must impose upon itself obligations and limitations in the fields of agriculture and industry. If we know that the other countries are imbued with the same political will to take action, it is easier to implement the measures which are now necessary if we are to avoid leaving to our children and grandchildren an inheritance of a despoiled environment.

And, just as important, some of the pollutants emitted from industry are carried across borders, and perhaps cause greater damage in countries other than where they originate. Acidification is today an imminent threat to our lakes and forests.

Here national interests and the demands of international solidarity converge in a way which must result in prompt and energetic countermeasures decided upon and implemented in a spirit of mutual understanding between many countries.

Another area, where increased co-operation on a European basis is absolutely necessary, is research.

In my view, practical and specific research co-operation must be given greater scope in relations between the Communities and the EFTA countries. No one European country possesses the insights and resources that are necessary here. But I am firmly convinced that through concerted efforts in the field of research, the Communities and the EFTA countries can lay the foundation for the industrial renewal necessary to get the wheels spinning in our economies and to hold our own in competition with the United States and Japan. Together, we can achieve results which will bring to nought all the prophecies that Western Europe has had its day. This places a heavy responsibility on the shoulders of governments as well as on trade and industry, to ensure that these great and valuable resources are used to the full so that Western Europe can once again play a leading role in research, technology and industrial renewal.

It is gratifying that during the French chairmanship of the European Communities, President Mitterrand has stressed the importance of research co-operation for industrial renewal in Europe.

I also would like to compliment the European Commission, which has long been aware of this aspect, and appears increasingly prepared to draw the

practical consequences of the growing urgency of research co-operation in Western Europe.

And finally, the question of the creation of a genuine European home market which I earlier indicated as something of a main task for our organization.

The European Communities and EFTA constitute the world's largest free-trade system. The West European market, with 300 million people living in eighteen countries, is larger than the combined market of the United States and Canada. Here we have a very large but, as yet, far from fully exploited market potential for European industry. The reason why this potential has not been fully utilized, in spite of the dismantling of customs barriers, is that we are still burdened with so much bureaucracy, red tape and technical trade barriers that we cannot give our industry the same advantages as those enjoyed by companies in the United States and Japan in their national markets. There are estimates which indicate that administrative regulations and bureaucracy burden companies - and consequently also the consumers in Western Europe - with costs of roughly the same dimensions as average customs duties - or in other words, between 6 and 8 per cent of the value of a product.

A genuine European home market presupposes, for instance simplified customs controls, the harmonization of various standards and regulations and simplification and improvement of the rules of origin. The dismantling of such technical trade barriers is an arduous task.

However, it is extremely gratifying that both in the Luxembourg Declaration and in our declaration here today, we clearly express our political will to really get to grips with this problem. Our meetings in Visby this week have in deed focussed on how to translate this political will into concrete action. The programme of action adopted by the ministers of trade yesterday in Visby lays down specific ways and means for our organization to tackle this task. We should now transmit our ideas to the Community with a view to starting as soon as possible the practical implementation of cooperation in the important new areas to which we have given priority.

By giving our companies a greatly increased market potential, a European home market of this kind will make a very significant contribution to our efforts to revitalize European industry.

I believe that all we EFTA countries are optimistic about the prospects of developing co-operation - both unilaterally and multilaterally - with the European Communities in these fields.

The years that have elapsed since we concluded our free-trade agreements have shown that membership of

the Communities has not developed into an insurmountable barrier between the Community nations and non-members in Western Europe - a disadvantage which was feared in some quarters in our countries at the beginning of the Seventies. The Communities have not developed into an introvert and homogeneous mammoth.

Today we are observing with great attention the southward expansion of the Communities. This process is going on at the same time as democracy is being consolidated in Portugal, Greece and Spain. These are countries which are not only in need of increased economic exchanges with the rest of Western Europe. They are all undergoing a delicate process of ridding themselves of the shackles of fascism and dictatorship. When the European Communities open their doors to them, this helps to underpin their democratic structures. May I take this opportunity of stressing that we EFTA countries wholeheartedly support Portugal's decision to gain membership of the European Communities. To Mario Soares, I want to say that we shall miss the close co-operation with Portugal in EFTA, but what we have achieved in EFTA will endure and develop - albeit on another foundation.

We have, of course, no reason to interpret the interest of the European Communities in countries of Southern Europe as lack of interest in us. Eloquent proof of this is the Luxembourg Meeting which was held at a time when the Communities' agenda is not only full of negotiations on enlargement, but also when the Community are tackling some major problems in their internal co-operation.

In this context I would like to state quite definitely that it is obviously in our interest that solutions are found within the Community so that the work of integration can be set in motion again.

For our part we have every reason to be satisfied with the development of our relations with the European Communities. Conditions for gaining a hearing for our ideas for co-operation outside the framework of the free-trade agreements have proved to be better than we dared hope when the agreements were concluded.

Nevertheless, there is a need for this Summit Meeting to underline the great importance of EFTA on the world trade map, to increase the awareness that Europe is something more than the European Communities.

And Europe is, of course, also something more than Western Europe. We in Western Europe are united by historical and cultural ties with the peoples of Eastern Europe.

Economic exchanges between Eastern and Western Europe are of essential importance to the economies of both regions, and obviously of mutual benefit. There is no doubt that these exchanges can be expanded. We should prepare ourselves for such an expansion, both governments and companies. Nor should we preclude the Eastern European states - together, or one or some of them - at some future date accepting parts of the GATT rules system, and thus possibly finding it of interest to increase their contacts with both GATT and the OECD. At the same time, we should bear in mind that the systems are so different that development of this kind can only proceed very slowly. We know that trade between East and West Europe is greatly dependent on political decisions - on both sides in fact.

Therefore, it is obvious that headway of this kind hinges on an improvement of the general political climate. Correspondingly, it is clear that if the improvement is to be durable it must be given stability through broader and firmer economic co-operation.

The co-operation which has been developed over the years between EFTA and Yugoslavia has proved valuable. In the Bergen Declaration, the EFTA countries have undertaken to work for the further development of co-operation with that country and in that framework try to promote the growth and diversification of trade.

At the beginning of my address I spoke of the dramatic change in the economic environment in our part of the world since our Summit Meeting 1977.

I want to close by ringing a peal of bells with a more hopeful message. And this I do by looking further back into the past. Since the end of the war the living standards of our peoples have risen and social services have been expanded at a rate which would have been regarded as Utopian during the years immediately after the war. Today, as we hear the prophets of disaster croaking about the future of Europe, we must bear in mind that in the extensive reconstruction of Europe after the war - symbolized by the Marshall Plan and the OECD's predecessor, the OEEC - one essential element was a growing freedom of movement for goods, manpower and capital across national borders. The conditions necessary for repeating this miracle are there and today as at that time it has to be achieved through concerted efforts.

But in order to do this, we must support efforts for economic integration, in the conviction that together we can promote economic recovery and bring ourselves out of the crisis, in the conviction that the adjustment to new industrial conditions can take place more easily and more smoothly within the framework of European co-operation, than in an atmosphere of "every man for himself".

To conclude, we must always strive to give economic co-operation a clearly social dimension, direct it along a course that leads to the best possible conditions for employment and well-being in all countries taking part in the co-operation.

We must make concerted efforts to dispel the sense of insecurity about the future which is widespread because unemployment has been allowed to assume dimensions which pose a threat to the very social fabric of our societies. It is people's confidence in the ability of democracy to improve the conditions of their lives which in the long run determines the strength of democracy. It is this confidence in the power of democracy and in peaceful cooperation, which we, as Europeans and democrats, must fight to preserve.

Ref. A084/1561

MR COLES

Mr Butler

You mentioned this morning that you would like to include in the Communiqué references to the subjects you were discussing with Ministers this morning. I think they are there in paras. 6 and 8(2), but you will want to look at these.

London Economic Summit

The declaration on human

Thank you for your minute of 23 May. values has been improved: I have noted a comment on the last sentence of para. 4.

Draft Economic Declaration

2. I have sent the text of the draft Economic Declaration to other Personal Representatives as instructed. In doing so I have strengthened the wording in paragraph 14.10 of the draft, as suggested in paragraph 2 of your minute. The draft contains no reference to the so-called North-South dialogue.

FERB
25.5.Draft Declaration on Democratic Values

3. I have revised the text of the draft Declaration as agreed at the meeting. The Chancellor of the Exchequer agreed the revision of paragraph 4. I have sent the text out to Personal Representatives, with a request for agreement or any further comments before the Summit itself.

Thompson

Amul
MoOrder of Discussion

4. I have also given Personal Representatives an indication of the proposed order of discussion.

5. I am sending copies of this minute and of the revised drafts to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Trade and Industry, for the Environment and for Transport.

RCA

ROBERT ARMSTRONG

24 May 1984

25 MAY 1984



CONDINGLOE



CONFIDENTIAL

(Draft of 24 May 1984)

THE LONDON ECONOMIC DECLARATION

We, the Heads of State or Government of seven major industrialised countries and the President of the Commission of the European Communities, have gathered in London from 7 to 9 June 1984 at the invitation of the Rt Hon Margaret Thatcher FRS MP, the Prime Minister of the United Kingdom, for the tenth annual Economic Summit.

2. The primary purpose of these meetings is to enable Heads of State or Government to come together to discuss economic problems, prospects and opportunities for our countries and for the world. We have been able to achieve not only closer understanding of each other's positions and views but also a large measure of agreement on our objectives and on the policies to be followed in pursuing them.

3. At our last meeting, in Williamsburg in 1983, we were already able to detect clear signs of recovery from world recession. That recovery can now be seen to be established in many of the industrialised countries. It is the reward for the firm efforts made in the Summit countries and elsewhere over recent years to reduce levels of inflation and of interest rates, to control and where possible bring down fiscal deficits, and to control monetary growth.

4. But its continuation cannot be taken for granted; it requires unremitting efforts. We have to make the most of the opportunities with which we are now presented to reinforce the basis for enduring growth. We need to spread its benefits widely, both within our own countries and also to other countries, including the poorer countries who stand to gain as much as any from a sustainable growth of the world economy. Failure to reduce inflation further and damp down inflationary expectations could put recovery at risk. Prudent monetary and budgetary policies of the kind that have brought us so far will have to be sustained and where necessary strengthened. We reaffirm the commitment of our Governments to those objectives and policies. We welcome the "down payment" measures of the United States Government as an important step in the process of reducing the budget deficit of the United States.

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5. Not the least of our concerns is the growing strain on public expenditure from social insurance provisions in many of the industrialised countries. Those provisions have to be kept within the limits of what our national economies can afford. We welcome the increasing attention being given to these problems by national governments and in international fora such as the Organisation for Economic Co-operation and Development (OECD).

6. To achieve sustained growth, we must make sure that the industrial economies adapt and develop in response to market needs and technological change. We must encourage flexibility in the use and remuneration of labour, and bring about the conditions in which more new jobs will be created on a lasting basis, especially for the young. We need to foster and expand the international trading system and liberalise capital markets.

7. At Williamsburg we defined a strategy for dealing with the debt burdens of many developing countries. In the pursuit of this strategy a key role has been played by the International Monetary Fund, whose resources have been strengthened for the purpose. Debtor countries have been increasingly ready to accept the need to adjust their economic policies. In a climate of world recovery and growing world trade, this strategy should continue to enable the international financial system to manage the problems that may still arise. But a significant rise in levels of international interest rates would both exacerbate the problems of the debtor countries and make it more difficult to sustain the strategy. This underlines the importance of continuing to follow policies which will be conducive to lower interest rates and which take account of the impact of our policies upon other countries.

8. We have therefore agreed -

(1) to continue with and where necessary strengthen policies to reduce inflation and interest rates, and to control budgetary deficits and monetary growth;

(2) to seek to reduce obstacles to the creation of new jobs:

- by encouraging the efficient working of the market;
- by encouraging industrial development in response to market needs and technological change, including in innovative small businesses;
- by encouraging the improvement and extension of job training;
- by discouraging measures to prop up declining industries;
- and by reducing or phasing out subsidies and other assistance which distorts markets;

(3) to study with the appropriate international organisations policies to improve economic efficiency and promote growth, in particular by harmonising standards, encouraging innovation and working for a more widespread acceptance of technological change, and facilitating the mobility of labour and capital;

(4) to invite Finance Ministers to carry forward, as a matter of urgency, their current work on ways to improve the operation of the international monetary system, including exchange rates, surveillance, the creation, control and distribution of international liquidity and the role of the IMF; and by early 1985 to complete the present phase of their work and to make recommendations for next steps, including further international discussion;

(5) to carry forward the procedures agreed at Versailles and at Williamsburg for multilateral monitoring and surveillance;

(6) to seek to improve the operation and stability of the international financial system, by means of prudent and convergent policies among the major countries, by providing an adequate flow of funding to the international financial institutions, and by improving international access to capital markets in industrialised countries;

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(7) to confirm the strategy on debt and to continue to implement it flexibly, helping debtor countries to make the necessary economic and financial policy changes, taking due account of political and social difficulties;

(8) to maintain and wherever possible increase flows of resources, including official development assistance, to the developing countries, to find ways of increasing the flow of private investment, and to encourage practical measures in those countries to conserve resources and enhance indigenous food and energy production;

(9) to urge all trading countries to resist continuing protectionist pressures and to reduce barriers to trade and to make renewed efforts to liberalise and expand international trade in services (including shipping) as well as in manufactures and commodities;

(10) to accelerate the completion of current trade liberalisation programmes, in co-operation with other trading partners; to press forward with the work on trade in services in the international fora; to reaffirm the agreement reached at the OECD Ministerial Meeting in May 1984 on the importance of a new round of multilateral trade negotiations to strengthen the open liberal trading system; and to consult partners in the GATT on the possible objectives for, participation in and timing of a new negotiating round so as to permit decisions to be taken by Governments in 1985 on the arrangements for a new round.

9. We note with approval the continuing consensus on the security and other implications of economic relations with Eastern countries, and on the need to continue work on this subject in the appropriate organisations.

10. We welcome the second report of the Working Group on Technology Growth and Employment created by the Versailles Economic Summit, and the progress made in the eighteen areas of co-operation, and invite the Group to pursue further work on technology and the environment, education and employment, adaptation to technological change, trade in technology and the products of technology, and the sharing of major scientific facilities, and to report to Personal Representatives in time for the next Economic Summit.

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11. We recognise the international dimension of environmental problems and the role of environmental factors in economic development. We have therefore decided to invite the Working Group on Technology, Growth and Employment to consider what has been done so far and to identify specific areas for research on the causes, effects and means of limiting environmental pollution of air, water and ground where existing knowledge is inadequate, and to identify possible projects for industrial co-operation to develop cost-effective techniques to reduce environmental damage. The Group is invited to report by 31 December 1984 on these matters. We also welcome the invitation from the Government of the Federal Republic of Germany to other Summit countries to a multilateral conference on the environment in Munich on 24-27 June 1984.

12. We thank the Prime Minister of Japan for his report on the Hakone Conference of Life Sciences and Mankind, organised by the Japan Foundation in March 1984, and welcome the intention of the French Government to sponsor a second Conference in 1985.

13. We welcome the invitation from the United States Administration to other Summit countries to participate in the development of an international manned space station, noting that a space station would be an example of the kind of programme that provides a stimulus for technological development leading to strengthened economies and improved quality of life. Other Summit countries will actively examine the possibility of accepting the invitation, having regard to their own space programmes. We welcome the intention of the United States Administration to report at the next Summit on international participation in the programme.

[14. We have agreed to meet again next year and have accepted the Federal Chancellor's invitation to meet in the Federal Republic of Germany.]

London

9 June 1984

CONFIDENTIAL

DRAFT OF 24 MAY 1984

THE LONDON CHARTER

We, the Heads of State and Government of Seven major industrial countries with the President of the Commission of the European Communities, assembled in London for the Tenth Economic Summit meeting, affirm our commitment to the values which sustain and bring together our societies.

2. We believe in a rule of law which respects and protects without fear or favour the human and civil rights and liberties of every citizen, including the right to private property, and provides the setting in which the human spirit can develop in freedom and diversity.

3. We believe in a system of democracy which ensures genuine choice in elections freely held, free expression of opinion with full respect for dissent, and capacity to respond and adapt to change in all its aspects.

4. We believe that there can be no political freedom without economic freedom. It is for Governments to set the conditions in which there can be confidence in the soundness of the currency, in which enterprise and employment can flourish, in which there can be the greatest possible range and freedom of choice, in which standards of living

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mixed metaphor!

can rise and society can provide care and support for those in need, and in which the lives of all can be enriched by [the fruits of] innovation, imagination and scientific discovery.

5. We believe in close partnership with each other in the conviction that this will reinforce political and economic stability in the world as a whole. We look for co-operation with all countries on the basis of respect for their independence and territorial integrity, regardless of differences between political, economic and social systems. We acknowledge the moral responsibilities that go with economic success, and reaffirm our keen concern about the problems of hunger and poverty in the world and our determination to help those who most need it.

6. We believe in the need for peace with freedom and justice. Each of us rejects the use of force as a means of settling disputes: each of us will maintain only the military strength necessary to deter aggression and to meet our national and international obligations for effective defence. We reaffirm the statement made at Williamsburg in May 1983. Our dedication to the rule of law, democracy and individual freedom is a guarantee of our commitment to closer and more open international relationships.

7. Strong in these beliefs, our countries are endowed with unrivalled diversity and creative vigour. With such a heritage we look forward to the future with confidence.



10 DOWNING STREET

From the Private Secretary

MR. HATFIELD

ECONOMIC SUMMIT

BF | I attach copies of two letters which the Prime Minister has received from the Commonwealth Secretary General, setting out Commonwealth views on certain issues which may be discussed at the Economic Summit. I should be grateful if you could let me have a draft reply.

As you know, the Prime Minister has received a number of letters urging action on particular points at the Summit. I would rather not ask her to read all these. I should be grateful if the briefs could draw attention to the most important communications and suggest to what extent the Prime Minister should attempt to bring them to the attention of Summit participants.

I am copying this minute and its two enclosures to Mr. Ricketts (FCO) and Mr. Peretz (HM Treasury).

A. J. COLES

24 May 1984

24 May 1984

Thank you for your letter of
24 May enclosing copies of letters
to the Prime Minister from the
Commonwealth Secretary General.
I will place these before the
Prime Minister and a reply will
be sent as soon as possible.

Sir Peter Marshall, KCMG.

5/10

COMMONWEALTH SECRETARIAT

CABLES: COMSEGEN LONDON SW1
TELEX: 27678
TELEPHONE: 01-839 3411 Ext:

MARLBOROUGH HOUSE,
PALL MALL,
LONDON, SW1Y 5HX

Your ref:
Our ref:

From: Sir Peter Marshall, KCMG
Deputy Commonwealth Secretary-
General (Economic)

24 May, 1984

Dear Sir,

The Secretary-General, who at the moment is in Vienna, has asked me to send you the enclosed letters to the Prime Minister. Signed copies will follow on his return to London next week.

*Yours
Peter*

Peter Marshall

Mr. A.J. Coles,
Private Secretary to the Prime Minister,
Prime Minister's Office,
10 Downing Street,
London, S.W.1.

24 May, 1984

Dear Pierre Quispel,

The London Economic Summit

I can well believe that you have been assailed on all sides by expressions of concern and anxious advice in advance of the Summit Meeting of the industrialised countries which you are to Chair in London next month. I would hope, nonetheless, that you would welcome an expression of Commonwealth views, particularly in the light of the outcome of the Commonwealth Heads of Government Meeting in New Delhi and what has transpired since.

The New Delhi Statement on Economic Action was noteworthy in three main respects: first, it was - and still is - the most succinct statement at Heads of Government level, and embracing both developed and developing countries, of the problems of the world economy both as regards substance and as regards the processes for dealing with them. Secondly, Heads of Government broke new ground in setting up an intergovernmental group to follow through the issues covered by the Statement. And thirdly, everyone was conscious at New Delhi that you would host the next Summit of industrialised countries and there was a corresponding expectation that the Commonwealth point of view would be fully reflected in the leadership which your long experience and familiarity with the issues would give to the meeting - and the support you can expect to receive from Pierre Trudeau in the context of the New Delhi Statement.

Developments since New Delhi underline the relevance of the Statement's message. The Commonwealth has taken note with appreciation of the lead which the UK Government has continued to take on IDA and related World Bank issues. We have also noted the outcome of the recent OECD Ministerial meeting. Yet the indebtedness of developing countries remains a most serious preoccupation.

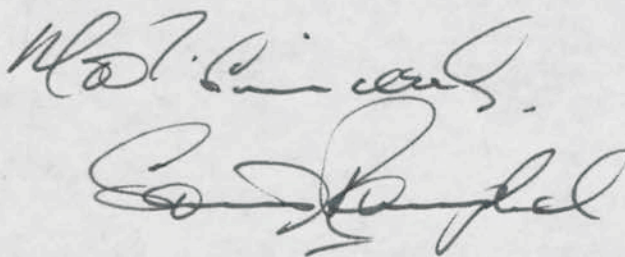
The Rt. Hon. Margaret Thatcher, MP,
Prime Minister of Great Britain and
Northern Ireland,
10 Downing Street,
London, S.W.1.

2/

The Expert Group which Heads of Government asked me to set up has started work under the Chairmanship of Lord Lever and will, I hope, produce for Finance Ministers in Toronto a report to rank with the high-level experts' reports which Heads of Government considered in New Delhi. It is my earnest hope that at Toronto Commonwealth Finance Ministers will be able to agree on urgent action to recommend to the international community, not least when they meet at the annual Bank/Fund meetings immediately afterward. Nothing would be of more help than an authoritative statement from the London Economic Summit.

There remains the need for what Commonwealth Heads of Government described as "a comprehensive review of the international monetary, financial and relevant trade issues". The intergovernmental group, which recently met at Ministerial level under the Chairmanship of the New Zealand Prime Minister, has examined possible ways of achieving consensus on the process for such a review. I have been asked by the Ministers to undertake wider consultations. We believe that some variant of the Committee of 20 (or of its successors, the Interim Committee and the Development Committee), would be the most realistic way of carrying forward the review process which Commonwealth Heads of Government desire. We shall discuss this further when the Group reports to Commonwealth Finance Ministers at their meeting in Toronto in September, in the light of the soundings which we have taken meanwhile. The attitude of the United States and of the other leading industrial countries is crucial. Once again nothing would give the process more authority than an endorsement of its general thrust by the London Economic Summit. I attach an Aide Memoire on the proposal which Robert Muldoon has already discussed with Donald Regan.

In summary, Prime Minister, my hope is that next month's Summit will be able to provide top level, political leadership in the two areas on which Commonwealth Heads of Government laid such emphasis at New Delhi: finding the way ahead for the comprehensive review of international economic arrangements and grasping the shorter term problems, particularly on aid to the poorest and international debt. Important though continuing technical work and, indeed, intergovernmental contact at Ministerial and high official level may be, there is no substitute for a real impulse from the top.



Shridath S. Ramphal



10 DOWNING STREET

From the Private Secretary

MR HATFIELD

Economic Summit: International TUC Delegation

It was decided at the Prime Minister's meeting on the Economic Summit yesterday that the International TUC Delegation will be received in the State Dining Room at No.10.

We now need to know quickly the precise composition of the delegation with a clear indication as to which members need interpreters in which languages - and who you propose to nominate as interpreters. Could you kindly let me have this information by 29 May at the latest.

AJC

24 May 1984

Econ Summit: Meeting With
International TUC Delegation

Please ~~let~~ let me see all
papers about this meeting.

ML 23/5.

Please see papers at flags
marked 'TUC'.

composit of delgrat
which need integrat - e of
which list .

R.B.

1) Mr Coles

2) PRIME MINISTER

ECONOMIC SUMMIT: MEETING WITH INTERNATIONAL TUC DELEGATION

On Thursday, 31 May you will be meeting an International TUC Delegation in connection with the Economic Summit. We need to decide where this meeting should take place.

The choice lies between Lancaster House and No.10. The advantage of Lancaster House is that facilities are available there for simultaneous translation (members of the delegation will speak French, German, Italian and Japanese as well as English).

If the meeting were to take place at No.10, we could use "whispering translation". But with so many languages the effect could be rather confusing.

Agree that the meeting should be held at Lancaster House?

Yes
done
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Vig.

Dub

23 May, 1984



OK
Please keep 1/2 hr

done
OK

Inc
24/5

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213...6400.....

Switchboard 01-213 3000

Caroline Ryder
10 Downing Street
London SW1

23 May 1984

Dear Caroline

DTS
A is more
as right to be over?
OK

Prime Minister's meeting with the International
Trade Union Delegation, 10.30 on Thursday 31 May.

Further to my letter of 11 May, the Secretary
of State's press conference at Central Office
has now been moved to 29 May. He could therefore
attend a briefing meeting prior to 10.30 am
on 31 May if required.

Yours sincerely

Christine Van Schagen

C M VAN SCHAGEN
Private Secretary

CC MASTER SET



10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

Economic Summit

The Prime Minister held a meeting today to consider preparations for the Summit. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, Mr. Kenneth Baker, you yourself, Sir Julian Bullard, Sir Crispin Tickell, Mr. Littler and Mr. Partridge attended.

Thematic Paper

2. The Foreign and Commonwealth Secretary and the Chancellor of the Exchequer observed that the phrase in paragraph 14.9 of the final version - "to explore with other GATT parties as quickly as possible the objectives for, the participation in and the timing of a new negotiating round" - was weaker than the corresponding phrase in the Williamsburg communique. We should therefore work for stronger wording in the London communique.

3. It was agreed that we should also aim to ensure that the communique avoided unwelcome commitment with regard to the so-called North-South dialogue (c.f. para 15 of the thematic paper).

Draft Economic Declaration

The draft of 22 May was discussed. The Chancellor of the Exchequer said that it was hoped that, as a result of recent exchanges, the US would agree to a stronger reference to the US budget deficit in paragraph 4.

The Foreign and Commonwealth Secretary observed that the language of paragraph 7 on the international debt problem was rather complacent. It was agreed that this wording would be considered further in the light of discussion at the Summit.

There was also some discussion of the various references to the problem of inflation and doubt was

/whether

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expressed as to whether the changes of inflation were sufficiently emphasised.

The Chancellor of the Exchequer said that it was desirable to refer in the Declaration to the concept of a medium term financial strategy.

The Prime Minister said that she wished to avoid, to the maximum extent possible, serious differences of view on the Declaration emerging at the Summit. It was agreed that, in sending this text to other personal representatives you would ask them to inform you as soon as possible - and before the Summit - of any difficulties they saw in the text.

Order of discussion of agenda items

Following a discussion of the order in which the various items would be taken, the Prime Minister said that:-

- (a) the Summit should aim to agree, on Thursday evening, the text of the London Charter (on democratic values). This suggested that in effect Summit participants should have given their agreement to the text before their arrival in London. The Charter would be issued to the press at the end of Friday morning.
- (b) Heads of State and Government would also discuss East/West relations and Arms Control and Disarmament on the Thursday evening. It might also be necessary for them to discuss the Iran/Iraq war that evening and, perhaps, to commence their discussion of international terrorism.
- (c) On Friday morning Heads of State and Government would make their opening statements on economic questions. Towards the end of that morning they might need to return to the question of international terrorism which Foreign Ministers would have discussed separately earlier. It was desirable to issue a statement to the press on international terrorism on Friday evening. Over lunch discussion of political questions would be framed.
- (d) Economic discussion would continue on Friday afternoon. In reporting the Finance Ministers' conclusions to the Summit the Chancellor of the Exchequer would suggest three or four broad subjects for further consideration. These

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might be interest rates, international debt, economic recovery and the policies necessary to sustain this, and trade and protectionism.

Draft Declaration on Democratic Values (the London Charter)

It was agreed that paragraph 4 of the present text was unsatisfactory and that you would revise it, in consultation with the Chancellor of the Exchequer.

The word "overriding" should be deleted from paragraph 6. The opening sentence of that paragraph might read instead: "We believe in peace with freedom and justice".

We should aim to insert a reference to the Williamsburg Declaration on defence matters.

You agreed to revise the text in the light of the above points and submit the revision to the Prime Minister.

Draft Declaration on Terrorism

It was agreed that the idea of a Declaration should be abandoned. Instead the aim should be that the Summit would discuss the problem of international terrorism and that a statement would then be issued to the press. You agreed to submit a draft of a possible statement.

Prime Minister's Keynote Speech

This was not discussed at the meeting. I shall arrange for the Prime Minister to consider this separately.

I am copying this minute to Mr. Ricketts, Mr. Peretz, Mr. Taylor and Mr. McMillan.

23 May 1984

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PRIME MINISTER

ECONOMIC SUMMIT: MEETING WITH INTERNATIONAL TUC DELEGATION

On Thursday, 31 May you will be meeting an International TUC Delegation in connection with the Economic Summit. We need to decide where this meeting should take place.

The choice lies between Lancaster House and No.10. The advantage of Lancaster House is that facilities are available there for simultaneous translation (members of the delegation will speak French, German, Italian and Japanese as well as English).

If the meeting were to take place at No.10, we could use "whispering translation". But with so many languages the effect could be rather confusing.

Agree that the meeting should be held at Lancaster House?

MR. D. BARCLAY

23 May, 1984

*Gen. Introduction**I. R.**Int. Rel.**Recovery State**Trade Protection*

LIST OF POLITICAL SUBJECTS

- (1) Common Democratic Values
- (2) Terrorism
- (3) East/West Relations:
 - (a) Position and attitudes of the Soviet leadership:
 - (b) Policies of States participating in the Summit towards the USSR and its allies.
- (4) Arms control and disarmament:
 - (a) Nuclear issues:
 - (b) Non-nuclear issues
- (5) Non-proliferation
- (6) Regional and Third World issues:
 - (a) General questions, eg: relations with neutral and non-aligned countries; political aspects of North/South relations; handling of regional crises
 - (b) Specific regional situations, eg:
 - Iran/Iraq
 - Middle East
 - Afghanistan
 - Central America
 - Southern Africa
 - South East Asia
 - Far East (including China, Korean Peninsula)

NOTES:

- (I) This is a list of political themes identified during a meeting of officials from participating countries at the British Embassy, Paris on 18 May 1984 for possible discussion at the London Economic Summit
- (II) It is ad referendum to Heads of Delegations and to their Personal Representatives
- (III) It is subject to revision in the light of developments, and the order has no overriding significance
- (IV) The preparation of this list in no way limits the total freedom of Heads of Delegation at the London Summit to discuss whatever subjects they wish, or the freedom of Foreign Ministers under their direction to do likewise.
- (V) The question of whether to issue any public statements/declarations, and if so on what subjects and in what form, is for Heads of Delegation at the Summit to decide.

2.05
Ref. A084/1528

MR COLES

As you know, on 31 May an international trade delegation is to meet the Prime Minister, in her capacity as Chairman of the London Economic Summit, to present a submission on the views of the international trade union movement on the issues facing the world economy.

2. This is a standard feature of pre-Summit activity; and such delegations have been received by the Chairman of the year before each recent Summit.

--- 3. I attach a copy of the statement to which they will be speaking. There is a good deal in it, particularly as to assumptions and recommendations for action, with which the Prime Minister and most of her colleagues at the London Economic Summit will disagree. But there is a rather special domestic significance about this meeting, which means that both the Treasury and the TUC are extremely anxious that the meeting should be, and be seen to be, a friendly affair and a success.

4. The delegation will be led by Mr Basnett; and both the Treasury and the TUC believe that, if the meeting can be seen to be constructive and friendly, that will strengthen the hands of those in the TUC who want to bring the TUC back into the National Economic Development Council (NEDC) in September. The Chancellor of the Exchequer takes the view that it is in the Government's interest that those views should prevail, and that the TUC should return to the fold.

5. Clearly what is said in the statement issued to the press after this meeting will be important in this connection. The Assistant Secretary General of the TUC has told me that in his presentation Mr Basnett will stress that the objectives of the trade union movement are to create jobs, and to achieve technological and structural change "in a way which enhances rather than degrades the lives of our people". Though there are differences about other objectives, and about the way of achieving these particular objectives, it should be possible to register agreement on these objectives.

6. With this in mind, I have prepared a draft of the sort of press release that might be issued. The TUC have stressed to me that they will wish the press release to contain some account of their views as presented; and Mr Ingham has in mind that he would like to have some on-the-record remarks by the Prime Minister which he could relay in his briefing. I attach a copy of a draft press release herewith.

7. I am sending copies of this minute and the attachments to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, and to Mr Ingham.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

22 May 1984

DRAFT PRESS RELEASE

On 31 May 1984 the Prime Minister, the Rt Hon Mrs Margaret Thatcher FRS MP, received an international delegation of members of the Trade Unions Advisory Committee (TUAC). The delegation, which was led by Mr David Basnett, presented a submission by the TUAC to the London Economic Summit on the main issues facing the international economy. Other members of the delegation were:

2. The Prime Minister, opening the discussion, welcomed the delegation to 10 Downing Street. As Chairman of the London Economic Summit she valued the opportunity of hearing the views of the international trade union movement on the issues facing the world economy, and particularly the industrialised countries. The Summit came at a crucial juncture: the economic recovery foreseen at Williamsburg could not be seen to be under way. What was important now was to establish it as a basis for sustainable growth and to spread its benefits widely not only in the industrialised countries but in the rest of the free world. That would be the best possible basis for creating new and lasting jobs and reducing the levels of unemployment about which she and other Heads of State or Government were no less concerned

than the trade unions. But the achievement of sustainable growth would entail unremitting efforts to bring inflation down still further and to reduce the levels of interest rates, which were too high.

3. Mr Basnett, introducing the TUAC submission, said that it was based on the main objectives of creating jobs, and achieving technological and structural change in a way which enhances rather than degrades people's lives. The trade unions remained deeply concerned about the high levels of unemployment. They agreed that recovery and growth were essential conditions for reducing unemployment; they were not convinced that they were sufficient conditions, or that market forces alone would bring about the fall in unemployment which all desired to see. They emphasised the need for an internationally co-ordinated approach, with particular reference to investment in infrastructure, and the need to avoid cuts in wages or undermining of workers' rights in the name of labour market flexibility. They also stressed the need for co-operation with and support for the developing countries, so that those countries too could enjoy the benefits of economic recovery and growth.

4. Mr Basnett emphasised that the trade unions were the supporters, not the opponents, of change. They recognised that growth, employment and living standards depended on technological and structural change; they stressed that change could be successful only if it was based on understanding and at least some degree of consensus.

5. After other members of the delegation had spoken, the Prime Minister, summing up the discussion, once again thanked the delegation for coming and for the clear expression of their views. The delegation would not be surprised if she said that she would herself part company with them on some aspects of their diagnosis and prescription; but on the main objectives, as defined by Mr Basnett, there was a large measure of agreement. It was necessary to secure and establish the recovery, and to achieve sustainable growth. This was a necessary condition of bringing down levels of unemployment. The Prime Minister very much endorsed what had been said about the importance of technological and structural change in the creation of new jobs, and about the need to increase public understanding and acceptance of technological change: this had been a theme which she herself had stressed at the Versailles and Williamsburg Summits, and would stress again in London.

6. She also endorsed what had been said about the need to spread the benefits of growth to the developing countries. They stood to gain just as much as industrialised countries from economic recovery, since a growth in world trade associated with economic recovery would enable them to increase their exports to the industrialised countries, (in the case of the debtor countries) would help them to meet the cost of servicing the debts which they had incurred. In this connection it was much to be hoped that the benefits of increasing exports would not be eroded by increasing debt service costs as a result of rises in interest rates: another reason why it should be an object of policy in the industrialised countries to create the conditions in which interest rates would fall rather than rise.

7. The Prime Minister concluded the meeting by repeating her thanks to the delegation for their visit, and her assurance that she would convey their views to her colleagues at the London Economic Summit.

TUAC

Statement to the OECD's Ministerial Council and the London Summit

Adopted by the 72nd Plenary Session of TUAC, 26 - 27 April, 1984

INTRODUCTION AND SUMMARY

1. Despite some recent encouraging signs of an upturn, unemployment remains very high throughout the OECD area and continues to grow in many countries. Economic growth - let alone a recovery - is by no means guaranteed, and on present policies, the forecast is for growth slowing down and not spreading. The prospects of structural change have come to mean additional insecurity of present and future employment and income for an ever growing number of people. Such growth as has taken place has not been equitably distributed. Differences between groups in our societies, and between countries, have been growing and this has increased tensions both within and between countries, developed and developing alike.
2. Problems caused by unbalanced growth, continued high unemployment and uncertainties due to structural change are seriously aggravated by the international monetary chaos, world debt problems, and austerity programmes which are imposed on a growing number of countries. Joint deflationary policies have strongly contributed to the recession in the OECD area. When the same kind of policies are prescribed for developing countries, the effect is nothing short of devastating. The oil price shocks and the recession have hit harder most of the developing countries than the OECD area. The least developed countries are in an especially dramatic situation, and many of them need emergency food and other aid simply to assure the survival of their populations.
3. The poverty and the need for real economic and social development of hundreds of millions of people in the developing countries can - and must - be attacked by policies which also provide for accelerated economic and employment growth in the industrialised countries. The world economy has become so interdependent that there will be no durable solution to economic and employment problems in the OECD area unless the issues of underdevelopment and poverty in the whole world are tackled.

Policies for economic and employment growth and for world development, have to be coordinated as much as possible, in order to maximise their positive effects. The more there is delay and hesitation, the greater is the risk that even the best individual countries' policies yield only little or partial results. Growth which amounts to a recovery has to be the outcome of policies negotiated and implemented jointly by all countries.

4. The world economy will not be pulled out of the recession by simple exhortations or by a "trickling down" of growth from North America. Recovery will not be achieved by passive government policies and interventions which are based on the belief that market forces have to be "liberated" from regulations and institutions which have evolved throughout modern history - and which have contributed to social progress and economic efficiency as well. The governments have the responsibility to provide a framework for economic and employment growth, and the most realistic way to achieve this is through cooperation which involves the trade unions and the business community. The first step should be for the governments to clearly demonstrate their political will to seek solutions together, and use and develop national and international economic policy tools for a robust recovery.

5. Real adaptation and desirable change in the OECD countries will not be promoted through intensified competition, deregulation and privatisation, accompanied by a weakening of social safeguards, or if wage levels are depressed and problems of low pay and poverty continue to spread. It is imperative to avoid a development towards a dual society, with an escalating polarisation between the better off and those who lose out from structural change. Sustainable growth can not be fostered through measures which in reality make it a divisive factor in our societies. The cost of change must not be borne by those who lose from it. Governments have the duty to devise their policies so that the benefits of economic growth and structural change will be shared by all.

6. To cope with structural change, opportunities are needed on a large scale. There is no room for adaptation without a better growth path. Opportunities are not

provided by an incentives-based policy which increase inequalities between groups and individuals. Real adaptation will not be sustainable unless there is active consent and willing participation of all groups in society. The automatic solutions offered up to now to the OECD countries and the world economy have not worked. Falling inflation did not by itself lead into a recovery and more jobs. Cuts in social expenditure have further weakened the social fabric and have not generated private investment. It is equally misleading to assume that now recovery can be conjured by increasing wage and labour market flexibility; this will only create further obstacles to a healthy recovery which would be fair for all.

7. A number of elements are indispensable in order to ensure that there will be economic and employment growth in the OECD area and the whole world economy, in a way which does not lead into an upsurge of inflation. The OECD's Ministerial Council and the London Summit should discuss, and agree upon, a growth strategy based on the following items :

- (i) Jointly negotiated and coordinated monetary and fiscal policies, to back up the stuttering growth which has taken place and to ensure it is spread throughout the OECD area and the world economy. Given the international economic linkages, the coordination of measures individual governments take to stimulate growth will serve to maximise the joint positive impact of these measures on economic growth and employment creation.
- (ii) An underpinning of an OECD-wide recovery programme by fair and workable policies in each of the countries, which aim at increasing productive and job-generating investment. Such policies must be devised and implemented by governments in consultation and through negotiations with trade unions and the business community.
- (iii) A significant increase of both public and private infrastructure investments. There is broad agreement between trade unions and employers on the need for such investments. When they are carried out in an internationally coordinated way, the effect on employment and investment will be optimised without detrimental results on government expenditure and trade balances.

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- (iv) government policies to facilitate structural change by creating opportunities and promoting a situation in which collective bargaining between trade unions and employers can have an important constructive role, so that change can take place with a reasonable degree of security of employment and income.
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- (v) A shortening of working time, through negotiations between trade unions and employers which also aim at making full use of the employment creation potential of this measure. Governments should facilitate and certainly not hinder the climate in which such negotiations are conducted.
- (vi) Balanced growth in world trade, which is possible only hand in hand with economic and employment growth in all countries and the expansion of domestic markets. Policies which restrict domestic demand distort trade flows and increase trade conflicts, and make any "roll back" of protectionism more difficult.
- (vii) Measures to counteract the international monetary chaos, to increase stability of the exchange rate markets, to reduce real interest rates world wide, and to solve the world debt problem in ways which do not undermine but support the democratic process and strengthen the economic and social potential of indebted nations.
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- (viii) A review of the conditionality framework of the International Monetary Fund, so that the conditions for countries in difficulty do not mean a halt to growth and development but are constructive and promote the necessary structural adjustments.
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- (ix) An increase in resources for development, in particular Official Development Assistance, and the adoption of policy measures targeting these resources to attack blatant inequalities and to help to create and strengthen viable economy and society in each recipient country.

8. The decade of recession and mounting uncertainty must be overcome. Change is inevitable, due to technological progress, shifts in world trade patterns, and the growing interdependence between different parts of the world. But this change has to be managed. Mechanisms for building a workable understanding on the management of change have to be developed and used. This requires an atmosphere of mutual respect and confidence within the societies

that a search for solutions to our common problems will be serious and constructive. The key issue for the OECD's Ministerial Council and the London Summit is to create the framework in which people can meet change with reasonable security, and in which the policies pursued both in the OECD area and the developing countries are fair for all.

I - THE FRAMEWORK FOR ECONOMIC AND EMPLOYMENT GROWTH

1. Growth and unemployment

9. Confidence in the effectiveness and the fairness of the OECD government's policies is seriously eroded by continued high and rising unemployment. Already now one fifth of the young cannot find an entrance into working life. Lower inflation, from 12.8% in 1980 to 5.8% today, did not automatically bring about the increase in economic activity and job-generating investment which it was supposed to. Unemployment in some of the low-inflation countries is among the highest in the OECD area. In the United States, where unemployment has fallen from 10.3% in 1982 to 7.8% now, the upturn did not start in 1982/83 by itself but was brought about by increasing domestic demand and consumption through a relaxation of monetary and fiscal policies. It should by now be clear that the recent North American growth will not be automatically carried over to other OECD countries and the rest of the world by the market mechanism without governments taking measures to spread and sustain it. Instead, there are rapidly growing worries over the sustainability of growth in the United States and the ability of the still high unemployment there to fall any further.
10. Economic growth so far is only a rebound from the deep recession and it is weaker than in previous upswings. Industrial production has only now reached the 1979 level. The prospects, based on present policies, are for a continuation of growth at levels between 2-3% which are too low to even start reducing unemployment. The OECD Conference on Employment Growth in the Context of Structural Change, in February, 1984, did conclude that the principal battle against unemployment must be fought at the macro-economic level. It requested that the subsequent Conference of Finance Ministers would assign a high priority to employment creation, in "ensuring virile but sustainable economic growth". Judging by all accounts, this appeal was not heard by the Finance Ministers, who did not adequately recognize that there must be sufficient domestic demand growth in all OECD countries in order to achieve a better functioning of the economy and tackle structural problems.
11. A basic constraint faced by governments, by the industry, and trade unions, is the instability and volatility of the present economic situation. The insecurity of the international economic environment cannot justify the OECD government's being

frightened into inaction or confining joint decisions to negative, deflationary measures alone. Those who no longer believe in the possibility of internationally agreed policies for recovery are fatally attracted by beggar-thy-neighbour policies. In an extremely unstable environment, even the best of national policies, based on broadest possible agreement, will face severe difficulties and may well not succeed. It is distressing that the recession has increased economic nationalism. The economic linkages between OECD countries are often seen only as constraints on national policies; in fact they offer an opportunity for joint action to overcome the recession.

12. A more secure framework will be created if all governments negotiate and adopt coordinated growth and employment policies consisting of diversified measures adapted to the specific problems in each country, and taking advantage of whatever multiplier effects can be obtained by coordination. Expansionary measures, when coordinated and targeted, will build inflation out of the system in a more lasting way than trying to squeeze it out with depressed expectations. The hitherto prevailing hesitant attitude towards spreading economic growth has to be overcome. Growth, albeit still very unbalanced, could not be sustained if monetary and fiscal policies were to be further tightened. Yet this danger is clearly implied wherever the efforts to contain and cut budget deficits concentrate mainly upon cuts in public expenditure. Nor is there evidence that a reduction of public expenditure would induce the market forces to make use of the room for growth they may thus be offered; they, too, need a clear public policy, a policy which among other things involves public expenditure.

13. The hoped-for automatic ways of achieving employment-generating growth have not worked. Unemployment has not been reduced by simply bringing inflation down, and now the benefits of lower inflation are being eroded by continued recessionary policies. The incentives to growth which have resulted from falling inflation, from a change in the proportion of income consumed or saved, from restocking and from exports to North America cannot be repeated. Investments are still unlikely to lead a

strong recovery because of high real interest rates, uncertain demand prospects and capacity which remains unutilised. Those investments which are taking place are not primarily of a job creating type.

14. More recently, there has been a growing emphasis on reducing unemployment through lower wages, greater wage differentials, cuts in social benefits, and various devices to weaken the bargaining power of trade unions. All this may have marginal effects on the profitability of enterprises, but it will have no effect on their job creation performance. The fortunes of enterprises depend on several other and usually more important elements, such as lower interest rates, reasonably balanced and regular international trade, a more stable monetary system, management expertise, technological innovation, taxation and sufficient levels of domestic demand. The magnitude of the unemployment problem in the OECD countries is such that without vigorous job-creating investments, no amount of tampering with wages/profits shares will provide a solution.

15. Governments have to work out a proper industrial and trade policy framework for economic and employment growth. New jobs will have to be created in activities which offer a sufficiently secure perspective for the future. They must be viable jobs in the sense that they contribute to an improvement of working and living conditions throughout the economy. The context in which they are created has to be one of confidence. The workers must have the confidence which can only be brought about by security of future employment and income. Employers also need a confidence in future prospects, if they are to proceed with the kind of investments which will make their labour force grow and not diminish. Investments have to be promoted by policies whose basic criterion is their employment effect. The way to achieve the necessary confidence is through discussions and negotiations involving all the parties concerned.

2. Infrastructure investments

16. Investment in physical infrastructure is a logical avenue for increasing economic activity and employ-

ment. It is needed to rehabilitate and upgrade existing facilities which have been neglected over a long period of time, and to construct new ones in areas where economic expansion and the development of new industries is to take place. The weakness of infrastructure must not become a constraint on recovery. Measures have to be taken now, as substantial investment programmes demand time for implementation, and in particular as on present policies, growth is foreseen to slacken towards the middle of 1985. In addition to the direct investment and employment advantages, such investment has a substantial multiplier effect due to backward and forward linkages throughout the economy. This helps to spread any growth that may be achieved in leading sectors of the economy towards a more broadly-based recovery.

17. This type of investment can be achieved through a combination of public and private expenditure and initiative, but the governments have a pivotal role to play. At a time when the problem for our economies is how to generate productive investments to sustain recovery and create new jobs, there needs to be a framework of policies to bring together all available resources. Public investment in the infrastructure also induces large amounts of private investment. Indeed, no sharp distinction can be drawn between "public" and "private" investment: activities such as construction for new housing, or urban renewal, or the strengthening of transport facilities, typically involve both public and private resources.

18. The financing of these investments does not have to be the problem it is often presented to be. Firstly the increase in employment, both direct and indirect, reduces the expenditures on subsidising unemployment. Secondly, the increased economic activity which such investments stimulate increases government revenues. Thirdly, innovative funding schemes which inject private capital at various stages without impairing public accountability can ensure that there is an adequate rate of return. All of these benefits will be magnified if the expenditure on infrastructure of each country are made as part of a coordinated programme which makes positive use of the interdependence of the OECD

economies. Studies by the OECD on international economic linkages show that the government budget consequences of such investments will be positive within a few years.

19. Trade unions in a number of OECD countries have made, and participated in, studies which look into the type of infrastructure investments and forms of financing which would strengthen the economy and create jobs. For example, a joint study by a high-level group of trade unionists and industry leaders in the United States has recently proposed investments in highways, bridges, urban water supply systems, and wastewater treatment facilities, involving both increased user fees and greater access to capital markets. A study by the Nordic and German trade unions has indicated how a common investment initiative by all OECD countries would have a beneficial international multiplier effect, induce private investment, and reduce unemployment. Proposals from business and industry circles for solving the present crisis also include increased investment in infrastructure such as transport and communications, with the participation of private capital.

20. Infrastructure investments are more than a starter for recovery by stimulating private investment. They also have an important role in improving the efficiency of our economies and their capability to carry out structural change. A well functioning and modern infrastructure enhances the productivity of the economies. Thus, infrastructure investments can and should be targeted to the most pressing constraints. Some areas where investments can be undertaken by governments, and where public policies to stimulate investments can be promoted, are :

- Communications and transport facilities, such as railways, roads, bridges and ports, and the information technology network which is necessary for their functioning ; due to its nature, much of this investment requires intergovernmental cooperation ;
- The renewal of both urban and rural housing and other facilities where they have fallen into decay ; in many of the urban conglomerates in the OECD countries this has to amount to an extensive rehabilitation of inner cities and/or urban areas ;

- New housing and the construction of educational, health, child and old-age facilities ;
- Waste disposal and treatment, including the possibilities for recycling and the use of waste for energy generation ;
- Investments in a more efficient use of energy and energy conservation (in households, by the community, and by industry) ; and
- Protection of the environment, for instance through sufficiently large-scale investments in equipment and facilities which reduce the threat to the environment.

21. The aim of public policy should also be improved social infrastructural services in a number of vital areas. These include the provision of health care, which is made all the more important by demographic developments. Child care facilities have to be expanded, in particular where a lack of them creates an unwarranted obstacle to the full participation of both parents in economic life. Much investment is needed in education, starting with basic education and continuing with vocational education and training, including adult and recurrent education, to cope with technological developments and structural change. Any comprehensive plan for restoring economic growth must have as an integral part an effective and well financed system of public education. These activities are far from being passive from the viewpoint of a national economy. They improve the ability of the economy to create employment and contribute to its productive potential. These are activities which by nature should be in the public field, and where the private sector is involved in them, it has to accept the necessary discipline (equal access to social services) and to maintain high standards of employment.

3. Negotiating structural change

22. The fear of change can be removed only through bona-fide discussions and negotiations with, and within, the existing institutions to ensure that the needed safeguards are in place and that all opportunities are made use of. High and rising unemployment,

insecurity over conditions of work and incomes, and the lack of meaningful vocational education and training and retraining facilities are heavy constraints to necessary adaptation ; these constraints cannot be removed without coherent and effective government policies. Negotiations on how to manage structural change have to be carried out at different levels. They call for decisions by governments on industrial, technological, investment, regional and labour market policy. Discussions between governments, trade unions and employers are essential for ensuring that the cost of change will be borne equitably and not only by those who are worst hit by it.

23. Confidence is not increased if the governments' message is that there will be more closures and dislocation of work and less social provision. Redistributive taxation, public programmes and the social wage system are partial compensations within an economy, from the groups which gain from technology and trade-induced change to those who lose out from it ; as such, they should be developed further. The provision of vocational education, training and retraining is an indispensable element ; there is much scope for cooperation between governments, trade unions and the employers in this field. Information to, and consultation with, the workers by enterprises, and particularly multinational enterprises, on future prospects and planned changes allows for a whole series of workable procedures to cope with, or offset, negative effects of restructuring decisions. In the final analysis, the effectiveness of the measures taken either by governments or enterprises to manage the effects of technology and trade depends on vigorous employment growth and the creation of new opportunities. Without this, income support or training arrangements for an unemployed worker do not amount to much more than first aid.

24. Insecurity can be substantially reduced through negotiations between trade unions and management over changes at the workplace. This will help in moving towards "industries of the future" in a manner which is socially desirable. Technology agreements (either directly between trade unions and employers or tripartite framework agreements) are designed to ensure that the process of change at the workplace is achieved in a way which is

recognized to be fair and equitable. This is particularly necessary when changes are fundamental due to a new generation of production and communications technology.

25. The increasing complexity of company structures and management systems diminishes the transparency of ownership and control of enterprises, while decentralisation assisted by new technology leads into geographical dispersion of activities and breaks up existing employment structures. It is increasingly difficult for the employees of a given entity to be aware of the way in which the company as a whole is faring. Industrial relations systems and practices must be such as to ensure that in these circumstances, too, meaningful negotiations on wages and working conditions will cover all workplaces, irrespective of their size and location. There has to be (by agreement, or by legislation if need be) information to, and consultation with, the employees on planned changes in the activities of the enterprises. This is important because restructuring on a world-wide scale can lead into substantial change for reasons which are directly attributable to the performance of a specific enterprise or the economic position of the host country.
26. Real adaptation to economic change has to take place through negotiations and agreement. It cannot be achieved by a policy based on incentives which increase inequalities between groups and individuals and which do not guarantee a place in society for all. Cuts in social expenditure, shifts towards indirect taxation, and the widening of income differentials weaken the social fabric and make it more difficult for society to adapt to economic change. The recession has undermined the workers' confidence in future access to secure incomes and thus generated fear of change. The governments have up to now offered solutions which have failed one after the other. Disinflation did not produce jobs. Cutting public expenditure has not brought forth private investment. The latest vogue panacea, "wage flexibility", could turn out to be counterproductive to real adaptation.

4. Wage and labour market flexibility

27. Flexibility of wages, and of the labour market more generally, cannot be unilaterally imposed by the governments' policies. The concept of flexibility has to be properly defined before it

can be used as a key element in the OECD's economic strategy. It must not be forgotten that wage levels and differentials have a social basis, and changes in them can only be brought in the collective bargaining process. This process does allow for real adaptation without the negative effects that fragmentation of the labour market produces. This is why it is dangerous to make political assumptions for instance on the basis of a superficial reading of trends in growth and employment creation in different parts of the OECD area.

28. Mass unemployment is by far the biggest obstacle to flexibility, especially regarding occupational mobility and the achievement of structural change. The most efficient way to achieve change is to make sure that opportunities are created and that the necessary adaptations take place through negotiations and a strengthening of confidence between all parties, and without demolishing labour legislation and social protection. In so different economies as the United States, Belgium and Japan, neither declining real wages nor higher profits have engendered employment-creating investment. Increased demand has been crucial to recent growth where it has taken place. Attempts to reduce demand by depressing over-all income levels will not solve the problem of 35 million unemployed in the OECD area; they will make it worse. Every single OECD country already has a low-wage problem, a problem of segmentation of the labour force where women are frequently locked into low-paid and involuntary part-time jobs, and most of them have a new problem of poverty.
29. A downward pressure on wages in all countries, for reasons of competition, will only serve to add to these problems, instead of promoting investment in better equipment. A high-productivity and high-employment society with decent wages will not be achieved by flexibility which entails low-paid and insecure jobs in informal sectors with insufficient social safeguards. Artificially low wages increase pressures on social security and welfare benefits which have to be provided by society. They can also become an unwarranted subsidy to ailing firms, thus prolonging their life well beyond a time when efficient measures for restructuring could and should have been taken. Finally, the remedies proposed for unemployment should in no circumstances promote a situation where groups and individuals compete with each other to have a place in the labour market.

30. Reducing social protection, in the name of flexibility, only increases the incentive to seek protection against change and not through change. Making redundancies easier without providing for new opportunities will shift costs from the private sector to the whole of society. As economies are confronted by large-scale change, the notion of flexibility must not amount to revising the foundations on which economic growth and social progress in the period following World War II have been built. Social expenditure and the existence of a social wage are by no means charity: they must continue to be a central means of achieving adaptation, transferring compensation from those who gain from change to those who lose from it. If this comprehensive system which is based on universality of access is undermined, the scope for social cohesion could irremediably be damaged. Workers will be prevented from accepting, and involving themselves in, change and adjustment if their standards of living and work are being attacked. Productivity improvements will not be seen as desirable, if they increase unemployment and inequality in the societies.
31. Free collective bargaining is by nature a flexible system which had developed, and also undergone change, in the light of changing economic and social conditions. Governments should once and for all discard the notion that certain forms of wage bargaining are inherently inflationary or hamper job creation. Differences in the ways in which wage levels are set among OECD countries do not correspond to differences in economic performance or the inflation rates. Instead of prescribing interference with collective bargaining structures and practices, governments should join in exploring the possibilities free collective bargaining offers for looking for real ways to bring about and sustain a recovery.
5. Working time
32. A variety of negotiations between trade unions and employers on the shortening of working time are going on in different countries. Growth alone - even with considerably higher rates than now forecast - will not provide work for all those who need it. Consequently, it is imperative to maximise whatever employment potential there is in a negotia-

ted shortening of working time (a 35-hours week, a shorter working year, paid educational leave, reduced life-long working time etc.). Even though the main way of implementing a shortening of working time is through negotiations between trade unions and the employers, governments can and should, both individually and collectively, promote the environment in which this take place and they should certainly not hamper this process. Legislation and administrative measures may be needed and governments are also directly involved through education, training, pension provision and other social security measures; and they are employers themselves.

33. Reduced working time should not be conceived as only "sharing unemployment". It must be recognised to be a benefit for the employees and a benefit for society as well. It should not be seen as simply a cost to the employer or the society. This "cost" is a social benefit, directly insofar as it increases per hour productivity and employment, and indirectly as it greatly improves the quality of life for people who no longer have to work long hours to earn a decent wage.
34. The reduction of working time must not be separated from the issue of overtime, or else there may be little or no effect on actual working time or employment. A worker should be able to make a living without overtime pay being a necessary supplement to an inadequate basic wage. Special corrective measures will be necessary in those industries and enterprises where strong reliance on overtime pay has become part of the wage pattern. The recession has aggravated the practice of combining compulsory overtime with short-time working. Flexible working time arrangements and overtime should not be methods for employers to keep employment levels down. All working time arrangements should be voluntary and negotiated, and not at the employers' discretion. They should not become a daily feature of working life which increases uncertainty of income.
35. Governments should recognise and deal with the distorting effects of maintaining or increasing differences in labour standards between countries which have achieved a comparable level of economic development and strength. Competitive advantages should

not be forced by a refusal to translate productivity gains into improved working and living conditions. Sustained and targeted measures should be taken to reduce and harmonise working hours, which can differ by as much as 20% between countries of similar economic development and strength, as well as to improve the standards of social security, health and safety, and the working environment between these countries. The governments have increasingly discussed the shortening of working time in the OECD. It is a forum which governments can use for international cooperation on these issues, drawing as appropriate on the specialised knowledge and facilities of the ILO and the GATT.

II - TRADE, MONETARY POLICIES AND DEVELOPMENT

1. Trade policies

36. Trade is not an engine of growth because all countries are pursuing policies which aim at increasing exports and restricting imports. No healthy industrial policy can be built upon this basis either. Successful development of export industries needs an increase in domestic activity and demand, and employment growth. Instead the search for competitive advantage has deteriorated into cut-throat competition between countries for one another's markets. Such competition can occur not only when markets are shrinking but also when they are growing at different, unbalanced rates. In looking for ways to further liberalise international trade, and "roll back" protectionism, governments should realise that policies which restrict domestic demand are themselves protectionist because they distort trade flows and increase trade conflicts.
37. For years now, the benefits of trade have been argued in terms of exports only. The assumption on the beneficial effects of imports have always presupposed the existence of full employment, a situation which does not exist today. Under present conditions, in the absence of balanced economic growth among the trading partners, trade tends to threaten entire sectors of national economies and the jobs in them, as import penetration surges destroy otherwise competitive enterprises. Since the collapse of the Bretton Woods system, trade flows have been excessively affected by erratic exchange rate movements rather than by real comparative advantage, and through the ebb and flow of capital transactions based on interest rate differentials, expectations, uncertainties and sheer speculation. Competitive trade itself is diminishing because countertrade is expanding, and because a significant and growing share of trade takes place within and through multinational enterprises. The volume and direction of intra-firm trade changes without warning, as multinational enterprises carry out their restructuring world-wide.
38. Each country needs a sufficiently diversified and solid economic structure. These structures have already been badly shaken by upheavals which the economy has been undergoing over the past decade. With extraordinarily rapid change it is in danger

of disintegrating further without the actors involved, and the decision makers, even fully realising the gravity of the process, let alone devising consistent policies to counteract it. Over-adjustment, or panic adjustment, to temporary pressures should be avoided. Moreover, the survival of a viable economic structure requires the maintenance and modernisation of essential industries and services which may not appear to be internationally competitive. There are also social pressures to maintain industries which no longer are internationally competitive and which should be assisted in returning to competitiveness or in restructuring into other product lines. These pressures can be overcome only if there is an economic and industrial policy creating new opportunities for enterprises and workers, and if there are social and employment policies which are designed to cope with trade adjustment needs.

39. Persistent instability of the trading system requires anticipatory and built-in adjustment provisions. Their scope must be broad enough to underpin any liberalisation agreements which would further expose the service sector, where most new jobs have been created, to international competition. There has to be confidence in the governments' will and capacity to manage the effects of trade, both nationally and through international cooperation. The workers' ability to adapt to change also depends on the effectiveness and coverage of social guarantees in different OECD countries, as well as on the timing, speed and methods of industrial restructuring. In particular the various forms of subsidies, which are necessary to cushion the effects of change or to promote change, must be clearly identified and subject to international agreement. Such international agreement is needed on the temporary use of these and other measures, such as voluntary export restraints. If and when trade interventions and subsidies to ailing industries are discontinued, governments must take anticipatory measures so that change is manageable and constructive rather than simply disruptive.
40. The Havana Charter of 1948, which made the link between trade and employment, recognised that low labour standards in one country can erode labour standards in its trading partners. Operative conclusions were not drawn because the projected International Trade Organisation was not established. Trade tensions and unfair trade arise out of

situations where the working population is deprived of trade union rights and, more generally, prevented from receiving its share of the benefits accruing from exports. Social clauses, such as fair labour standards clauses included in some existing commodity arrangements, should be negotiated in trade agreements, and implemented. This will remove the distortions caused by violations of internationally agreed minimum labour standards and will in no way jeopardise the economic progress of countries concerned. On the contrary, it will foster more balanced economic and social development, and it will also ensure that in countries which have achieved higher labour standards, trade adjustment is not forced by exploitation of workers elsewhere.

41. Differences in labour standards among increasingly interdependent countries at a comparable level of economic development and strength distort trade. Large differences in working time, wages, pensions, eligibility and levels of unemployment and other benefits (with consequences for non-wage labour costs) and in the level of social provision exist among the main trading groups within the OECD area. This jeopardises the open trading system in two different but complementary ways; the maintenance of such differences is a powerful, though concealed, protectionist device; at the same time, it is a hidden export subsidy because it makes workers assume a disproportionate cost of making exports competitive. The failure to translate past productivity gains into improved labour standards, enhanced social progress and higher living standards boosts unfairly the competitive position of countries. For the sake of stability in the international trading system, growth must rely upon the expansion of both export and domestic demand. A harmonisation which leads into an overall improvement of labour standards among these countries would facilitate the expansion of trade in both directions.

2. International monetary issues

42. The existing international monetary chaos constitutes one of the major obstacles to general, sustained and non-inflationary recovery and orderly structural change. The links between the value of currency and the state of the country's economy

have been largely severed, wild fluctuations have become the general rule of exchange rate behaviour, the influence of interest rates on the direction and scope of international flows of capital has become excessive, and international indebtedness has reached very dangerous proportions. The debt crisis of the past two years is far from being over, especially if monetary policies remain tight, and in the foreseeable future, even some of the major industrial countries may experience difficulties in meeting their international debt service obligations. Due to the declining inflows of money in the developing countries and to their increasing debt service, the net transfer of resources has been reversed : the developing countries are now exporting more capital to the industrial countries than they are receiving from them.

43. This chaos cannot easily be overcome : it has proved difficult even to reach agreement on the minimum objectives of necessary reform. There should at least be general recognition that it is necessary to ensure a greater stability of exchange rates; to keep the interest rates under control; to limit the amount and impact of the so-called hot money, which makes foreign currency speculation more profitable than productive investment; to counteract major overvaluations or undervaluations of single currencies which seriously affect the pattern of international trade; and to prevent speculative devaluations and other methods of exchange rate warfare from being used as strategic weapons of trade warfare. There is a tremendous need for greater stability in the exchange rate markets, and initiatives to broaden monetary stability should be pursued.
44. To cope with the disruptive effects of excessive debts, governments must both individually and collectively go well beyond mere crisis management. Governments and central banks must fully resume their responsibility for surveillance and control of international lending and cooperate among themselves, and with the International Monetary Fund, to ensure the surveillance of the exchange rates and of the conditions in the exchange rate markets. The banks, after having been rescued by the emergency measures adopted by the governments and the IMF to keep the global financial system afloat, must be brought to go beyond the rescheduling process which increases the interest payments of the

countries in difficulty and merely increases the burden of repayment in the future. Rather than getting increased profits out of the publicly financed rescue measures, banks must accept reasonable losses in the years to come, and thus recycle to the debtor countries part of the profits drawn from irresponsible lending.

45. The conditions attached to IMF assistance should be based in each specific case on a comprehensive analysis of the economy and social realities of the country in difficulty, to define the constructive policy changes which could help to develop viable economic and social structures. The tendency of the IMF to prescribe drastic remedies for balance of payments and budgetary deficits can jeopardise social development and the democratic process, and it must not be allowed to prevail. The developing countries continued access to international liquidities is clearly inadequate, pushing them to function at levels far below their optimum and to resort to the most expensive forms of private lending. OECD governments cannot afford to deny the International Development Association the resources it needs, in view of the vital role of the World Bank and the IDA in furthering the development process and in shielding the developing countries from the instability and devastating effects of private lending.
46. A major endeavour to restore the function of the international financial institutions can be initiated without waiting until agreement about a comprehensive and more orderly monetary system is reached. Governments and central banks should give greater consideration to the likely or actual effects their domestic monetary policies have on exchange rates. They should cooperate to bring about a coordinated reduction of real interest rates. Governments should also agree to discuss with the IMF, and within it, as well as with and within the OECD, the aspects of their individual economic policy choices (whether international or domestic) which have or can have an adverse impact on other countries. The dividing line between domestic and international economic issues is blurred. For instance, insufficient domestic demand in surplus countries is not a purely internal affair inasmuch as it produces strains on other economies. Actual knowledge and understanding of the interrelationships between balance of payments deficits, budgetary

policies, interest rates and exchange rates remains inadequate. Therefore, IMF action and the joint action of the member governments has to be based on discussions and agreement rather than on questionable theories.

47. Beyond the initial steps, the discussions on international monetary reform should aim at resolving a number of fundamental problems. These are, in particular, the existing asymmetry in the treatment of deficit and surplus countries, development assistance as part of the international financial system, and the respective roles of the IMF, the World Bank, the Bank for International Settlements and the OECD in handling the balance of payments crises.
48. Although the IMF has the authority to make its assistance to countries in balance of payments deficit conditional on their accepting certain policy recommendations, the Bretton Woods system failed to provide any mechanism whereby countries in persistent surplus would be induced to bring their balance of payments into, or closer to, librium. This paralyzing asymmetry has contributed a great deal to the stringency of the IMF conditionality.
49. Development assistance has arisen only after the adoption of the Bretton Woods agreements, and it has never been fully integrated in the international monetary and financial system. Consequently, its size and modalities are largely exempt from generally accepted and binding rules. Development assistance provided by single donor countries is measured solely on the basis of a uniform target set in terms of the GNP and has so far been treated mainly as a matter of generosity. Additional incentives for governments to ensure the regular flow of resources to developing countries are needed. For example, the external position (balance of payments, balance of trade etc.) of a country exerts a considerable influence on the ability to provide assistance, especially where the surplus is of a persistent nature. Furthermore, development assistance creates export markets for the industrial countries' manufactures (especially investment goods), yet the assistance performance of single donor countries is not being assessed in relation to the balance of their trade in manufactures with developing countries.

50. It is necessary to review and to redefine the relationships between the World Bank's, the IMF's and the OECD's respective activities and their relative weight in international monetary policies. Short-term measures can be fully effective only if they do not undermine longer term development prospects. Therefore, the World Bank should efficiently participate in devising the policy recommendations to the countries seeking international assistance to overcome their balance of payments difficulties. Since the recommendations go far beyond strictly financial issues, and indeed pertain to the whole range of economic policies, the OECD should have its share of responsibility in their formulation. The policy advice given, and measures introduced, by these institutions have far-reaching economic and social consequences. Therefore, when policies are formulated and implemented there should be a full discussion with trade unions and employers, in order to arrive at workable and socially acceptable measures.

3. Development cooperation

51. Even a full-fledged recovery in the industrialised part of the world will not by itself solve the fundamental problems facing the developing countries, and low growth prospects make their solution immeasurably more difficult. It is futile to claim that economic trends which increase inequalities and imbalances in the OECD area can somehow have a beneficial "trickle-down" effect on the developing countries, if only the market mechanism is set free. Private capital flows go only to some sectors and some countries. They seldom aim at improving the economic and social structure, and more often than not remain insulated within the recipient countries' economies. In the absence of other measures, they are quite likely to increase the inequalities within and between countries. A broad range of essential investments in the developing countries will only take place through official assistance channels. The key issue is the improvement of the position of the developing countries through a development of their socio-economic infrastructure. Self-sustaining development cannot be achieved in countries where the social structure is obsolete and rapidly disintegrating.

52. The situation of some countries has become so bad that it is imperative for the OECD countries to immediately step up food and other emergency aid. People in a growing number of the least developed countries, especially in Africa, are facing starvation. An immediate increase in basic aid is a concrete matter on which the OECD's Ministerial Council and the London Summit should agree upon. Emergency measures should be followed up by assistance to develop the rural sector, in order to reverse the trend which has made many previously self-sufficient producers into net food importers. This sector must be helped so that it can be revived and properly organised, to decisively improve its productivity.
53. The economic interdependence of today's world has meant unprecedented hardships for the non-oil producing developing countries which have been hard hit by escalation of energy prices to levels which are prohibitive to them, and by the continuation of deflationary policies in the OECD area. Continuing high interest rates and energy prices, and stagnating credits, loans, assistance and direct investment have forced developing countries to restrict their imports and put their development efforts into reverse. Commodity prices, though rising, are still depressed, and the markets for most other exports of these countries remain largely stagnant. Growth in the industrialised countries is indispensable for the future of the developing countries. But the concomitant expansion of markets has to be accompanied by policies which ensure that the benefits will fuel genuine development. In particular, the benefits must be shared by the entire population of the developing countries instead of being reserved to the privileged few who have been faring well throughout the recession while poverty has been growing.
54. There can be no real economic progress on the global scale unless it goes hand in hand with the improvement of the social conditions of the working people everywhere. The poverty of hundreds of millions of people in the developing countries can, and must, be attacked by policies which at the same time help to reduce unemployment in the industrialised world. The long-term economic and employment problems in the industrialised countries can

only be solved if the issues of underdevelopment and poverty in the world are tackled. The interdependence is illustrated for instance by a recent study carried out by the Nordic and German trade unions, showing that the coordinated fulfilment of the United Nations' target of 0.7 per cent of GNP for development assistance would create a considerable number of new jobs in the OECD countries within a few years.

55. Private investment is no substitute to Official Development Assistance. Official Development Assistance must be considerably increased, and much better targeted and monitored than in the past. This assistance is vital for the development of a sound economic structure and a viable society (which includes the existence of wage structures, orderly industrial relations, social security, health and safety regulations, unemployment benefits, pensions schemes and so on). Indeed, an improvement in the economic and social structure of the developing countries will also facilitate private investment flows, and minimise their often disruptive side-effects. Any encouragement of private investment flows to developing countries should go hand in hand with greater compliance with the ILO Declaration on Multinational Enterprises and Social Policy, in which the special responsibilities of these enterprises for employment and job security have been recognised.
56. While the development process requires a much bigger quantity and variety of imports by the developing countries they have been forced, especially by the IMF austerity programmes, to drastically limit them, even imports of goods which are essential for their basic needs and their export industries. This IMF-administered cure has led into a further drop in living standards, higher food prices, power shortages, disruptions in public transport, and the postponement of development projects. Austerity programmes, quickly and rigidly imposed upon a debtor countries by the IMF, even undermine the necessary structural adjustment, and are thus self-defeating. The suspension of financial flows delays new investments, and when austerity programmes are imposed on many debtor countries at the same time, there is a cumulative downward effect on markets for goods exported by both industrialised and other developing countries.

Some of the countries facing rigid austerity programmes may have come late to the IMF, but this only demonstrates the gap between long-term development policies and the short-term need to survive. It also illustrates the speed with which the recession in the industrialised countries spread its effects to the developing part of the world and the inadequacy of the existing financial arrangements and institutions. Given that major rescue operations cannot be undertaken unconditionally, the conditions involved must be constructive. They must not put a stop to growth. It is wrong to call for cost-cutting and for the concentration of the limited resources available on one or two export sectors only; considerably more emphasis must be put on agriculture, energy, an efficient public sector, sanitation and health, tax reform, basic and adult education, and vocational education and training. It is evident that there is now a strong case for reviewing the conditionality framework of the IMF.

Ref.A084/1526

MR COLES

London Economic Summit: Thematic Paper

At this weekend's meeting Personal Representatives considered the draft Thematic Paper and, with various amendments, agreed it for submission to Heads of State or Government. Each Personal Representative will now submit it to his own Head of State or Government.

2. I submit the Prime Minister's copy herewith. There are a number of minor drafting changes, of no great significance. Significant changes include:

- an additional sub-paragraph on the provision of overseas development assistance to developing countries, with special reference to the poorest (14.7);
- a new version of the sub-paragraph on a new GATT round, reflecting the outcome of the OECD Ministerial meeting last week (14.9);
- the Prime Minister's initiative on the environment (14.10);
- an invitation to Heads of State or Government to consider what to say about the North-South dialogue (15);
- a reference to a forthcoming conference in Munich on the environment (20).

3. I am sending copies of this minute and the Thematic Paper to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Secretary of State for Transport and the Secretary of State for the Environment.



ROBERT ARMSTRONG

22 May 1984

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LONDON ECONOMIC SUMMIT
7-9 JUNE 1984

THEMATIC PAPER

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Chevening, Kent
21 May 1984

Introduction and Background

1. Through successive recent Summits, governments have worked to bring down levels of inflation, nationally and internationally, to promote soundly-based growth in their own countries and to spread the benefits more widely, and to promote greater stability in international monetary and exchange conditions. Over the past two years, inflation has fallen and output has begun to recover, particularly strongly in the United States but also in other industrialised countries.

2. The main concerns are now: to reinforce the basis for enduring growth, without provoking a resurgence of inflation, and to continue to spread its benefits; to make sure that the industrial economies develop flexibly and in response to market needs and technological change; to create conditions conducive to lower interest rates; to encourage flexible labour policies; by these and other means to create conditions for a sustained improvement in employment, especially for the young; to promote improvement of the functioning of the international monetary system; to strengthen and liberalise the international trading system and capital markets; to continue to manage international debt problems in ways which both meet the needs of the debtor countries and protect the viability of the international financial system; to promote and encourage conditions for adequate financial flows to non-industrialised countries; and to co-operate with those countries in their efforts to place their economies on a more secure and self-reliant basis.

3. In many respects, the recovery in the industrialised nations is more soundly-based than in some previous cycles, founded as it is upon real and often painful structural changes against a background of firm efforts in most countries to reduce underlying fiscal deficits and control monetary growth. But its continuation cannot be taken for granted; it requires unremitting efforts. In the industrialised countries, failure to sustain policies to reduce inflation and damp down inflationary expectations could put recovery at risk. Many other countries, including relatively advanced economies with substantial debt burdens as well as persistently low income countries, are still encountering severe difficulties.

4. The main developments over the past year have been -

- 4.1 - economic growth - strong in North America, fairly strong in Japan, somewhat less in certain European countries. This variation has helped to avoid some of the pressures seen in earlier, more rapid, recoveries;
- 4.2 - improvements in productivity, meaning that recovery has so far had only a limited impact on employment. Experience on job creation has varied widely in the Summit countries, with a particularly strong rise in employment in the United States (only partly the result of the strong recovery there);
- 4.3 - significant reductions in inflation, although it remains high in some countries;
- 4.4 - a tendency to increasing budget deficits in certain Summit countries but reductions in others;
- 4.5 - a revival in world trade, with a marked rise in the imports of some Summit countries, especially the United States, helping to spread the benefits of the recovery;
- 4.6 - high interest rates, currently rising particularly in the United States;
- 4.7 - continuing strength of the dollar and continuing volatility of certain exchange rates;
- 4.8 - a reduced rate of growth of monetary aggregates;
- 4.9 - substantial imbalances in current account between Summit countries: the United States deficit has increased considerably, the Japanese surplus has been rising, and the Summit countries as a whole have moved in to deficit with the rest of the world. Reductions in current account deficits elsewhere;
- 4.10 - many debtor countries still face substantial debt servicing costs.

5. The situation of the poorest countries, especially in sub-Saharan Africa, remains daunting. Official aid from most of the Summit countries has increased, but its rise is constrained by budgetary pressures. The outcome of negotiations to replenish the International Development Association (IDA) has so far disappointed

many governments.

6. The flexible strategy on debt evolved during the last few years has worked well so far. World economic recovery has been helping the debtor countries but its benefits will be impaired if interest rates continue to rise. An increasing number of debtor countries have accepted the need to adjust their economic policies, and are seeing the benefits. A key role has been played by the IMF, whose resources have been strengthened. But there is still a long way to go.

7. Some progress has been made in implementing the commitments to resist and reverse protectionism made last year at the OECD Ministerial meeting and at Williamsburg. All Summit governments have agreed to accelerate implementation of the Tokyo Round and to ease restrictions on imports from the poorest countries. Nevertheless, there has been no general easing of protectionist pressures and demands for new protectionist measures persist. Little has been done either in the industrialised countries or in the newly industrialised countries to dismantle trade barriers or to reduce internal constraints on competition.

8. Oil prices have remained relatively stable during the year but the market balance is fragile because of current political factors. Other commodity prices have risen modestly.

Prospects

9. Most forecasters expect that on present policies the recovery in the Summit countries should continue, at least for the foreseeable future. Output in North America may rise more slowly after the rapid recent increases, reflecting a return to more sustainable growth; activity in Japan and the European economies should strengthen. Unemployment seems likely to fall further in the United States, but elsewhere the recovery may in the short term bring little or no reduction, particularly where market rigidities persist or where there is short run unemployment caused by structural adjustments. In this situation, and given prudent monetary policies, it should be possible to avoid an early resurgence of

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Inflation. Recovery combined with present fiscal policies should help to limit budget deficits in most countries; in the United States the Administration, with its "down payment" measures, has taken an important step in the process of reducing the budget deficit.

10. Prospects for interest rates are uncertain but disquieting. Interest rates have recently been rising, particularly strongly in the United States. Among the factors to which this is attributed are : inflationary expectations, inappropriate monetary policies, rapidly expanding growth, availability of higher rates of return than those on fixed interest assets, and the budgetary deficit. Elsewhere, further progress in curbing inflation and budget deficits may ease interest rate pressures.

11. Exchange rate prospects are also uncertain. The influence on the United States dollar of the level of the current United States balance of payments deficit could be offset by the high rate of return on assets in the United States. Japan's growing surplus and strong macroeconomic performance could lead to upward pressure on the yen, especially in view of recent and pending liberalisation of its capital markets. The maintenance of a high degree of stability of exchange rates in the EMS, brought about by a greater degree of convergence in policies, will depend on the continuing success of the countries concerned in bringing their inflation rates together at a low level.

12. Current account imbalances among Summit countries could increase. Rising exports and higher commodity prices will go some way to help many of the non-oil developing countries to service their debts and reduce their current account deficits. The prospect that the increase in energy demand will be only modest should help towards achieving stable oil prices, leaving aside political factors.

Medium Term Objectives and Policies

13. We have the opportunity to move to a period of sustained growth. If this is to be achieved, Summit countries need to set themselves a common range of medium-term objectives, and to take account of the impact of their policies on each other and on the rest of the world. Other countries and groups of countries have already expressed their concern in this respect. The objectives are

- 13.1 - to continue to pursue, and where necessary to strengthen, appropriate monetary policies, supported by strict control of public expenditure and fiscal deficits, aiming at still lower rates of inflation. Especially firm action will be needed in countries where inflation remains relatively high;
- 13.2 - to create the conditions for lower nominal and real interest rates. It will be important to reduce inflationary expectations. Structural budget deficits need to be reduced;
- 13.3 - to ensure that, as demand expands, the unemployed are drawn into productive employment; this will also reduce the strains on public expenditure from social insurance provisions, which seem likely otherwise to rise to insupportable levels in many industrialised countries. A major objective will be to reduce obstacles to higher employment by encouraging industrial adaptation, job training and flexibility in the use of labour and in wage structures, discouraging measures to prop up declining industries, and reducing or phasing out subsidies and other assistance which distorts markets;
- 13.4 - to promote conditions for the development of new technologies, in traditional as well as in new industries, and to encourage international technical co-operation and trade in the products of high technology and a more rapid and widespread acceptance of technological change;
- 13.5 - to promote conditions which favour productive investment and private enterprise, including in innovative small businesses;

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- 13.6 - to make renewed efforts to liberalise and expand trade, in services as well as in manufactures and commodities;
- 13.7 - to maintain and wherever possible increase flows of resources, including official development assistance, to the developing countries, especially to the poorest countries; and to encourage practical measures to conserve resources and enhance indigenous food and energy production;
- 13.8 - to find ways of increasing the flow of private investment, through the progressive removal of impediments to capital flows and by encouraging a climate of confidence for investment;
- 13.9 - to adapt and improve the operation of the international financial system. This entails creating a more stable medium term financial environment by prudent and convergent policies and performance among the major countries, providing an adequate flow of funding to the international financial institutions and removing restrictions on and improving international access to capital markets in industrialised countries;
- 13.10 - to assist debtor countries in making the necessary economic and financial adjustments, taking due account of political and social difficulties; for them as for the industrialised countries, success will depend on sustained world recovery and adequate but not excessive world liquidity;
- 13.11 - to pursue policies which will avoid, wherever possible, sudden and de-stabilising movements in either direction in international oil markets;
- 13.12 - to recognise the international dimension of environmental problems and the role of environmental factors in economic development; to promote research into the causes, effects and means of limiting pollution; and, particularly in the light of such research, to make greater national and international efforts to reduce, as far as practicable, the pollution of air, water and ground.

Immediate Measures

14. In order to attain these objectives within a framework of sustained growth and promotion of employment, Summit countries can agree on the following measures -

- 14.1 - to make further progress on prudent fiscal and monetary policies, so as to achieve lower inflation and interest rates and greater exchange rate stability; and in particular to carry forward and develop as appropriate the agreed procedures for multilateral monitoring and surveillance of national economic and financial policies;
- 14.2 - to support and strengthen work in the appropriate international organisations, notably the OECD, on policies to improve economic efficiency, incentives and flexibility and to consider how understanding of the sources and patterns of economic change can be improved;
- 14.3 - to reduce obstacles to growth, in particular by encouraging productive investment, harmonising international standards, creating a climate for and stimulating innovation and adaptation, encouraging job training, facilitating the mobility of labour and capital and flexibility in wage structures, and increasing public understanding and acceptance of the need for technological development;
- 14.4 - to invite Finance Ministers to carry forward, as a matter of urgency, their current work on ways to improve the operation of the international monetary system, including exchange rates, surveillance, the creation, control and distribution of international liquidity and the role of the IMF; and by early 1985 to complete the present phase of their work and to make recommendations for next steps, including further international discussion;

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- 14.5 - to confirm the strategy on debt and to continue to implement it flexibly, welcoming the progress made by many debtor countries and the extensive international co-operation which has supported them, and recognising that continued recovery, lower interest rates and trade liberalisation will be important for further progress;
- 14.6 - to develop arrangements which could foster renewed economic progress by debtor countries and strengthen their credit standing. These include the encouragement of private direct investment and continuing flexibility in commercial bank lending; closer co-operation between the IMF and the IBRD; IBRD operations which can help to attract long-term capital investment; and improvements where necessary in the official supervision of lending by commercial banks;
- 14.7 - to provide adequate flows of official development assistance, including that channelled through the IDA, with special attention to the needs of the poorest countries, particularly those in Sub-Saharan Africa;
- 14.8 - to urge all trading countries to resist continuing protectionist pressures and to reduce barriers to trade;
- 14.9 - to accelerate the completion of current trade liberalisation programmes, in cooperation with other trading partners; to press forward with the work on trade in services in the international fora; and to explore with other GATT partners as quickly as possible the objectives for, the participation in and the timing of a new negotiating round;
- 14.10 - to invite the Working Group in Technology, Growth and Employment, to :
- consider what has been done so far and identify special areas for research on the causes, effects and means of limiting environmental pollution where existing knowledge is inadequate;
 - identify possible projects for industrial cooperation to develop cost-effective techniques to reduce environmental damage;
- and to report by 31 December 1984.

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North/South Relations

15. In the light of the foregoing, Heads of State or Government may wish to consider what position the London Summit should take in relation to proposals for pursuing the so-called North-South dialogue.

East/West Economic Relations

16. The Summit countries note, with approval, the continuing consensus on the security and other implications of economic relations with Eastern countries, and on the need to pursue the continuing work on this subject in the appropriate organisations.

Science, Technology and the Environment

17. The Summit countries welcome the report of the Working Group on Technology, Growth and Employment created by the Versailles Summit, and the progress made in the 18 areas of co-operation launched following that Summit. They invite the Group to pursue further work on technology and the environment, education and employment, adaptation to technological change, trade in technology and the products of technology, and the sharing of major scientific facilities, and to report to Personal Representatives in time for the next Economic Summit.

18. The Summit countries thank Prime Minister Nakasone for his report on the Hakone Conference on Life Sciences and Mankind, organised by the Japan Foundation in March 1984, and welcome the intention of the French Government to host a follow-up Conference in 1985.

19. They welcome the invitation from the United States Administration to other Summit countries to participate in the development of an international manned space station. They note that a space station would be an example of the kind of programme that provides a stimulus for technological development leading to

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strengthened economies and improved quality of life. They agree that other Summit countries will actively examine the possibility of accepting the invitation, having regard to their own space programmes. They welcome the intention of the United States Administration to report at the next Summit on international participation in the programme.

20. The Summit countries also welcome the invitation from the Government of the Federal Republic of Germany to other Summit countries to a multilateral conference on the environment in Munich on 24-27 June 1984.

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Ref. A084/1530

MR COLES

London Economic Summit: Economic Declaration

Your minute of 21 May conveyed the Prime Minister's approval of the draft Economic Declaration attached to my minute of 18 May.

2. We have now revised the draft in the light of the weekend's discussion by Personal Representatives of the Thematic Paper. The changes are not major, but I should draw attention to the following:

- in paragraph 6, the inclusion of a reference to flexibility in the use and the remuneration of labour (to reflect a general feeling among Personal Representatives that there was a need to loosen and open up wage structures);
- in paragraph 8(2), a reference to job training;
- a recasting of paragraph 8(4) and of paragraph 8(10) to reflect changes in the Thematic Paper agreed at the weekend;
- in paragraph 11, a reference to the Munich conference on the environment;
- in paragraph 13, some additional American words about the virtues of the international manned space station.

3. I am sending copies of this minute and of the revised draft to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Secretary of State for Transport and the Home Secretary.

Rf
Approved by
ROBERT ARMSTRONG

and signed in his absence.

22 May 1984

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(Draft of 22 May 1984)

THE LONDON ECONOMIC DECLARATION

We, the Heads of State or Government of seven major industrialised countries and the President of the Commission of the European Communities, have gathered in London from 7 to 9 June 1984 at the invitation of the Rt Hon Margaret Thatcher FRS MP, the Prime Minister of the United Kingdom, for the tenth annual Economic Summit.

2. The primary purpose of these meetings is to enable Heads of State or Government to come together to discuss economic problems, prospects and opportunities for our countries and for the world. We have been able to achieve not only closer understanding of each other's positions and views but also a large measure of agreement on our objectives and on the policies to be followed in pursuing them.

3. At our last meeting, in Williamsburg in 1983, we were already able to detect clear signs of recovery from world recession. That recovery can now be seen to be established in many of the industrialised countries. It is the reward for the firm efforts made in the Summit countries and elsewhere over recent years to reduce levels of inflation and of interest rates, to control and where possible bring down fiscal deficits, and to control monetary growth.

4. But its continuation cannot be taken for granted; it requires unremitting efforts. We have to make the most of the opportunities with which we are now presented to reinforce the basis for enduring growth. We need to spread its benefits widely, both within our own countries and also to other countries, including the poorer countries who stand to gain as much as any from a sustainable growth of the world economy. Failure to reduce inflation further and damp down inflationary expectations could put recovery at risk. Prudent monetary and budgetary policies of the kind that have brought us so far will have to be sustained and where necessary strengthened. We reaffirm the commitment of our Governments to those objectives and policies. We welcome the "down payment" measures of the United States Government as an important step in the process of reducing the budget deficit of the United States.

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5. Not the least of our concerns is the growing strain on public expenditure from social insurance provisions in many of the industrialised countries. Those provisions have to be kept within the limits of what our national economies can afford. We welcome the increasing attention being given to these problems by national governments and in international fora such as the Organisation for Economic Co-operation and Development (OECD).

6. To achieve sustained growth, we must make sure that the industrial economies adapt and develop in response to market needs and technological change. We must encourage flexibility in the use and remuneration of labour, and bring about the conditions in which more new jobs will be created on a lasting basis, especially for the young. We need to foster and expand the international trading system and liberalise capital markets.

7. At Williamsburg we defined a strategy for dealing with the debt burdens of many developing countries. In the pursuit of this strategy a key role has been played by the International Monetary Fund, whose resources have been strengthened for the purpose. Debtor countries have been increasingly ready to accept the need to adjust their economic policies. In a climate of world recovery and growing world trade, this strategy should continue to enable the international financial system to manage the problems that may still arise. But a significant rise in levels of international interest rates would both exacerbate the problems of the debtor countries and make it more difficult to sustain the strategy. This underlines the importance of continuing to follow policies which will be conducive to lower interest rates and which take account of the impact of our policies upon other countries.

8. We have therefore agreed -

(1) to continue with and where necessary strengthen policies to reduce inflation and interest rates, and to control budgetary deficits and monetary growth;

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(2) to seek to reduce obstacles to the creation of new jobs:

- by encouraging the efficient working of the market;
- by encouraging industrial development in response to market needs and technological change, including in innovative small businesses;
- by encouraging the improvement and extension of job training;
- by discouraging measures to prop up declining industries;
- and by reducing or phasing out subsidies and other assistance which distorts markets;

(3) to study with the appropriate international organisations policies to improve economic efficiency and promote growth, in particular by harmonising standards, encouraging innovation and working for a more widespread acceptance of technological change, and facilitating the mobility of labour and capital;

(4) to invite Finance Ministers to carry forward, as a matter of urgency, their current work on ways to improve the operation of the international monetary system, including exchange rates, surveillance, the creation, control and distribution of international liquidity and the role of the IMF; and by early 1985 to complete the present phase of their work and to make recommendations for next steps, including further international discussion;

(5) to carry forward the procedures agreed at Versailles and at Williamsburg for multilateral monitoring and surveillance;

(6) to seek to improve the operation and stability of the international financial system, by means of prudent and convergent policies among the major countries, by providing an adequate flow of funding to the international financial institutions, and by improving international access to capital markets in industrialised countries;

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(7) to confirm the strategy on debt and to continue to implement it flexibly, helping debtor countries to make the necessary economic and financial policy changes, taking due account of political and social difficulties;

(8) to maintain and wherever possible increase flows of resources, including official development assistance, to the developing countries, to find ways of increasing the flow of private investment, and to encourage practical measures in those countries to conserve resources and enhance indigenous food and energy production;

(9) to urge all trading countries to resist continuing protectionist pressures and to reduce barriers to trade and to make renewed efforts to liberalise and expand international trade in services (including shipping) as well as in manufactures and commodities;

(10) to accelerate the completion of current trade liberalisation programmes, in co-operation with other trading partners; to press forward with the work on trade in services in the international fora; and to explore with other GATT partners as quickly as possible the objectives for, the participation in and the timing of a new negotiating round.

9. We note with approval the continuing consensus on the security and other implications of economic relations with Eastern countries, and on the need to continue work on this subject in the appropriate organisations.

10. We welcome the second report of the Working Group on Technology Growth and Employment created by the Versailles Economic Summit, and the progress made in the eighteen areas of co-operation, and invite the Group to pursue further work on technology and the environment, education and employment, adaptation to technological change, trade in technology and the products of technology, and the sharing of major scientific facilities, and to report to Personal Representatives in time for the next Economic Summit.

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11. We recognise the international dimension of environmental problems and the role of environmental factors in economic development. We have therefore decided to invite the Working Group on Technology, Growth and Employment to consider what has been done so far and to identify specific areas for research on the causes, effects and means of limiting environmental pollution of air, water and ground where existing knowledge is inadequate, and to identify possible projects for industrial co-operation to develop cost-effective techniques to reduce environmental damage. The Group is invited to report by 31 December 1984 on these matters. We also welcome the invitation from the Government of the Federal Republic of Germany to other Summit countries to a multilateral conference on the environment in Munich on 24-27 June 1984.

12. We thank the Prime Minister of Japan for his report on the Hakone Conference of Life Sciences and Mankind, organised by the Japan Foundation in March 1984, and welcome the intention of the French Government to sponsor a second Conference in 1985.

13. We welcome the invitation from the United States Administration to other Summit countries to participate in the development of an international manned space station, noting that a space station would be an example of the kind of programme that provides a stimulus for technological development leading to strengthened economies and improved quality of life. Other Summit countries will actively examine the possibility of accepting the invitation, having regard to their own space programmes. We welcome the intention of the United States Administration to report at the next Summit on international participation in the programme.

[14. We have agreed to meet again next year and have accepted the Federal Chancellor's invitation to meet in the Federal Republic of Germany.]

London

9 June 1984

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Ref. A084/1531

MR COLES

London Economic Summit: Statement on Democratic Values

I attach a revised version of the "London Charter", taking account of amendments proposed in discussion at the weekend meeting of Personal Representatives.

2. The main changes are:

- in paragraph 2, a specific reference to human rights;
- in paragraph 4, the inclusion of references to certain social objectives;
- in paragraph 5, a sentence about the moral obligations of prosperity (reflecting American suggestions);
- in paragraph 6, a recasting of the second sentence to reflect the position both of those participants who are NATO allies and of those who have purely national defence obligations.

3. The earlier draft contained in paragraph 6 a sentence which said:

"We reaffirm the statement made at Williamsburg in May 1984 on defence and disarmament".

The French Personal Representative objected to any reference to this statement, and I have excluded it from the revised draft. If it was felt to be important to retain some reference to the statement, I judge that the French Representative would accept a reference which did not seek to describe the contents of the statement: some such sentence as:

"We reaffirm the statement made at Williamsburg in May 1983".

4. I am sending copies of this minute and of the revised draft "London Charter" to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

R
Approved by
ROBERT ARMSTRONG

and signed in his absence

22 May 1984

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D

STATEMENT ON DEMOCRATIC VALUES

REVISED DRAFT

THE LONDON CHARTER

We, the Heads of State and Government of Seven major industrial countries with the President of the Commission of the European Communities, assembled in London for the Tenth Economic Summit meeting, affirm our commitment to the values which sustain and bring together our societies.

2. We believe in a rule of law which respects and protects without fear or favour the human and civil rights and liberties of every citizen, and provides the setting in which the human spirit can develop in freedom and diversity.

3. We believe in a system of democracy which ensures genuine choice in elections freely held, free expression of opinion with full respect for dissent, and capacity to respond and adapt to change in all its aspects.

4. We believe in economic systems which provide the best possible conditions for enterprise to promote sustained economic growth, social progress, full employment and education in a healthy environment and in which the fruits of innovation, imagination and scientific discovery can best be applied to the benefit of all.

*cc. choice.
sound finance.
wider standards
of living.*

5. We believe in close partnership with each other in the conviction that this will reinforce political and economic stability in the world as a whole. We look for co-operation with all countries on the basis of respect for their independence and territorial integrity, regardless of differences between political, economic and social systems. We acknowledge the moral responsibilities that go with economic success, and reaffirm our keen concern about the problems of hunger and poverty in the world and our determination to help those who most need it.

6. We believe in the overriding need for peace between the peoples of the world. Each of us rejects the use of force as a means of settling disputes: each of us will maintain only the military strength necessary to deter aggression and to meet our national and international obligations for effective defence. Our dedication to the rule of law, democracy and individual freedom is a guarantee of our commitment to closer and more open international relationships.

7. Strong in these beliefs, our countries are endowed with unrivalled diversity and creative vigour. With such a heritage we look forward to the future with confidence.

CONFIDENTIAL



Ref. A084/1532

MR COLES

London Economic Summit: Prime Minister's
Keynote Speech

I attach a revised draft of the Prime Minister's Keynote Speech, taking account of comments made since my minute of 15 May.

2. The only change from the previous draft is an amendment of paragraph 12 to incorporate a reference to the Prime Minister's initiative on the environment.

3. I am sending copies of this minute and of the revised draft of the Keynote Speech to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Secretary of State for the Environment and the Secretary of State for Transport.

RA
Approved by
ROBERT ARMSTRONG

and signed in his absence.

22 May 1984

CONFIDENTIAL

PRIME MINISTER

ECONOMIC SUMMIT: MINISTERIAL MEETING

I suggest that you take the issues in the following order:

Thematic Paper

The text is at Flag A. It has been agreed by Personal Representatives who will now submit it to their Heads of Government. You need not spend time on it at this meeting. But you could ask Sir Robert Armstrong to draw attention to the changes from the previous version.

Draft Economic Declaration

The text is at Flag B. Sir Robert Armstrong is to circulate a revised version to Personal Representatives by the end of this week. Again, you could ask him to describe the changes.

List of Political Subjects

This is at Flag C. Decisions are needed on the following points:

- (a) Which items will you wish to discuss with your colleagues, and which will you leave to Foreign Ministers?
- (b) Do you agree to discuss East/West relations and arms control on the Thursday evening - leaving democratic values and terrorism until the Friday morning?

Draft Declaration on Democratic Values

A slightly revised text is at Flag D. Sir Robert Armstrong could describe the changes made by Personal Representatives.

/ Draft

Draft Declaration on Terrorism

This has run into trouble - see paragraphs 9-14 of Sir Robert Armstrong's minute attached. The French and Italians do not want a declaration. The suggestion is that we should draft the text of a statement which you might read to the press at the end of the first day's meetings.

Keynote Speech

The draft - which you have not seen before - is at Flag E. You may want to have a discussion of it at the meeting. But essentially we shall need to work with you on it between now and the Summit.

Security

Please see Sir Robert Armstrong's minute at Flag F. The CND are mounting a large demonstration on Saturday, 9 June which complicates movement from Lancaster House to the Guildhall (for the Press Conference). I do not think we can usefully discuss this at the meeting because the Home Secretary is unable to be present. If you agree, we shall arrange a separate discussion.

A.J.C.

22 May 1984

Ref. A084/1525

MR COLES

London Economic Summit

This minute reports the state of play on preparations for the London Economic Summit, in the light of developments at the weekend meeting of Personal Representatives at Chevening.

Thematic Paper

2. Much of the time at the meeting was spent considering and amending the draft Thematic Paper. By the end of the meeting we had an agreed final version, which all Personal Representatives will now submit to their Heads of State or Government as a basis for discussion at the Summit. I have submitted the Prime Minister's copy of the Thematic Paper separately.

Draft Economic Declaration

3. I circulated the latest draft Economic Declaration to Personal Representatives halfway through the meeting, making it clear that I was not intending to discuss it in detail - that process would have to take place in London on 8 June, after the plenary session - but that I should welcome their comments on the general form and content. Personal Representatives seemed to be in general content with it, though a number of them pointed out that it would need to be slightly revised to take account of agreed changes in the Thematic Paper. It was agreed that I would circulate a revised version to Personal Representatives by the end of this week. That revised draft would be for their personal use only, and would not be shown to Heads of State or Government: if it was shown to Heads of State or Government before the Summit itself, Heads of State or Government would tend to focus their discussion on the words in the draft rather than on the issues. It was accepted, however, that it would be useful to have a draft available as a basis for the final drafting on the night of 8 June.

List of Political Subjects

4. Sir Julian Bullard circulated a list of political subjects (copy attached) which political representatives had identified for possible discussion at the London Economic Summit. Personal Representatives were content with the list, but thought that it would be useful if we could give advance indication of which issues we expected to see discussed by Heads of State or Government and on which occasions at the Summit. Speaking personally, I said that I thought that the Prime Minister would certainly expect to discuss with her colleagues items 1, 2, 3 and 4 on the list, and no doubt Iran/Iraq. I thought that she might well wish to discuss items 3 and 4 (East/West Relations, and Arms Control and Disarmament) on the evening of Thursday 7 June, and she might wish to leave items 1 and 2 (Common Democratic Values, and Terrorism) over until the morning session on Friday 8 June. I hope that the Prime Minister will be able to give instructions on this at her meeting tomorrow.

Draft Declaration on Democratic Values

5. There was general agreement that it would be useful to issue a Declaration on the lines of this draft from the London Economic Summit, coming as it did the day after the commemoration of the Anglo-American landing in Normandy. Some Personal Representatives wondered whether the connection should be explicitly made, but the general feeling was that it should not be made in the document itself: the press would be well aware of the occasion, and, if the Prime Minister wanted, she could perhaps do so in a few impromptu words before reading the Declaration out.

6. There was general agreement that the right time for issuing the Declaration would be at the final ceremony in Guildhall on the afternoon of Saturday 9 June, before the Economic Declaration. Such a Declaration needed a formal occasion, and Guildhall would provide an eminently appropriate setting. One Personal Representative suggested that the Declaration should be shortened and issued as a preamble to the Economic Declaration; others, however, thought that, while it should be read before the Economic Declaration, it should be kept separate from it in view of the reasons for having it.

7. We agreed that, if the Declaration was not to be issued until the afternoon of Saturday 9 June, it should not be discussed by Heads of State or Government until the morning of that day: if it was discussed the previous day, it would be difficult to hold it until the afternoon of 9 June.

8. A number of suggestions were made in the course of discussing the draft Declaration. We promised to revise the draft in the light of the comments, and circulate a revised version by the end of this week. That draft will be shown to Heads of State or Government before the Summit itself. The French Personal Representative insisted that final discussion of the draft should be undertaken at the Summit by Personal Representatives, before the document went for discussion by Heads of State or Government.

Draft Declaration on Terrorism

9. I also circulated this draft halfway through the meeting. When we came to consider it, the French and Italian Personal Representatives made it clear that their Heads of State or Government could not be parties to such a Declaration and did not wish to see any joint Declaration on the subject of state terrorism. The fact is that both Governments have their own reasons for not wanting to be too beastly to the Libyans. The United States Personal Representative indicated that his Government could go along with a Declaration of the kind proposed; others did not take a position.

10. On the other hand, everybody recognised that Heads of State or Government, and probably also Foreign Ministers, would wish to discuss the threat of international terrorism; and, following the St James's Square episode, the Prime Minister would want to be able to tell the media that it had been discussed. All Personal Representatives were prepared to agree that the Prime Minister should tell the media at the end of the first day that terrorism had been discussed.

11. The French Personal Representative suggested that the Prime Minister could say that of course the subject of international terrorism had been discussed, and Heads of State or Government had considered a number of aspects relating to exchange of information and operational response of a kind for which obviously she would not be able to give details to the press. I said that the Prime Minister would certainly wish to be able to say something which indicated that Heads of State or Government had addressed the particular problems of states-sponsored terrorism, perhaps in the form of an indication that there had been agreement to look carefully at the application of the Vienna Convention. A number of Personal Representatives made it clear that their Heads of State or Government would not wish anything to be said which suggested that the Vienna Convention itself was to be modified.

12. My judgment at the end of the discussion was that there was no possibility of getting agreement to a draft joint Declaration on terrorism, of the kind we had circulated. It seemed to me that, if it became more widely known that an attempt had been made to agree upon such a draft but had failed, that would be the worst of all worlds. I therefore recalled all the copies of the draft Declaration which we had circulated, and said that I should wish to report the discussion to the Prime Minister and consider where we went from here.

13. My recommendation is that we should seek to draft, as a matter of urgency, the text of a statement which the Prime Minister might read to the press at the end of the first day's meetings. The statement should indicate that the subject of international terrorism had been discussed by Heads of State or Government, who had noted with great concern the rising trend in international terrorism. They had discussed the ways in which existing international co-ordination of the response to threats of international terrorism, both among Summit countries and between them and other countries, could be increased and improved; and they had also

discussed how the application of the Vienna Convention should be affected. They were determined to respond with firmness and vigour to the threat of international terrorism, wherever and in whatever form it appeared.

14. It would be useful if we could be given instructions as to how to proceed with this at the Prime Minister's meeting tomorrow.

15. Revised versions of the draft Economic Declaration and of the draft Declaration on Democratic Values are being circulated separately to those attending the Prime Minister's meeting tomorrow.

16. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

REA

ROBERT ARMSTRONG

22 May 1984

PART 15 ends:-

AJC to RTA 21.5.84

PART 16 begins:-

RTA to AJC (A084/1525) 22.5.84

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